# COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended June 2015

OFFICE

RETAIL

INDUSTRIAL

TEXTON

PROPERTY FUND

# Texton Property Fund Limited

Annual financial statements

for the year ended 30 June 2015

Prepared by: A Stapelberg ACCA

# Texton Property Fund Limited
(Registration number: 2005/019302/06)

## Annual Financial Statements
*for the year ended 30 June 2015*



The annual financial statements were published on 19 October 2015 and were audited in compliance with the requirements of Section 30 of the Companies Act of South Africa.

# Texton Property Fund Limited

## Directors' responsibilities and approval

The directors are responsible for the preparation and fair presentation of the annual financial statements of Texton Property Fund Limited, comprising the statement of financial position at 30 June 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, the notes to the financial statements which include a summary of significant accounting policies in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

**Approval of the annual financial statements**

The annual financial statements of Texton Property Fund Limited, as identified in the first paragraph, were approved by the board of directors on 14 October 2015 and signed by:

AN de Rauville
Chief Executive Officer

## Independent auditor's report

**To the shareholders of Texton Property Fund Limited**

We have audited the financial statements of Texton Property Fund Limited, which comprise the statement of financial position at 30 June 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes set out on pages 5 to 68.

*Directors' responsibility for the financial statements*
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, these financial statements present fairly, in all material respects, the financial position of Texton Property Fund Limited at 30 June 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

*Other reports required by the Companies Act*
As part of our audit of the financial statements for the year ended 30 June 2015, we have read the directors' report, for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the respective preparers. Based on reading this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on this report.

**KPMG Inc.**

Per DD Thompson
Chartered Accountant (SA)
Registered Auditor
Director
14 October 2015

KPMG Crescent
85 Empire Road
Parktown
Johannesburg
2193

# Texton Property Fund Limited

## Statement of financial position

*at 30 June 2015*

| | Note | 2015 R'000 | 2014 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **2 582 283** | 1 313 200 |
| Investment property | *5* | **2 029 817** | 1 306 526 |
| Property, plant and equipment | *6* | **2 175** | 2 445 |
| Other non-current assets | *7* | **3 675** | 474 |
| Investments in subsidiaries | *8* | **546 616** | – |
| Deferred tax | *9* | **–** | 3 755 |
| **Current assets** | | **1 125 377** | 683 394 |
| Trade and other receivables | *10* | **53 840** | 15 499 |
| Investment property classified as held for sale | *11* | **24 000** | 24 000 |
| Income tax receivable | | **1 228** | 1 228 |
| Loan to group entity | *12* | **514 372** | 579 272 |
| Loans to subsidiaries | *12* | **405 217** | – |
| Cash and cash equivalents | *13* | **126 720** | 63 395 |
| | | **3 707 660** | 1 996 594 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Stated capital | *14* | **2 137 921** | 1 031 496 |
| Retained earnings | | **368 015** | 247 940 |
| Share base payment reserve | *16* | **1 074** | – |
| **Shareholders' interest** | | **2 507 010** | 1 279 436 |
| **Liabilities** | | | |
| **Non-current liabilities** | | **1 100 505** | 360 066 |
| Other financial liabilities | *17* | **1 096 890** | 360 066 |
| Deferred tax | *9* | **3 615** | – |
| **Current liabilities** | | **100 145** | 357 092 |
| Current portion of other financial liabilities | *17* | **2 524** | 337 277 |
| Loan from subsidiaries | *12* | **72 584** | – |
| Trade and other payables | *18* | **25 037** | 19 815 |
| **Total liabilities** | | **1 200 650** | 717 158 |
| **Total equity and liabilities** | | **3 707 660** | 1 996 594 |

# Texton Property Fund Limited

## Statement of comprehensive income

*for the year ended 30 June 2015*

| | *Note* | **2015 R'000** | 2014 R'000 |
|---|---|---|---|
| Investment property income | *19* | **222 447** | 115 166 |
| Straight-line rental adjustment | *5* | **10 779** | 7 155 |
| **Revenue** | | **233 226** | 122 321 |
| Property expenses | *20* | **(61 590)** | (29 718) |
| **Net property income** | | **171 636** | 92 603 |
| Other income | *21* | **2 850** | 3 518 |
| Other operating expenses | | **(16 445)** | (4 441) |
| Asset management fees | | **(14 062)** | (9 588) |
| **Operating profit** | *22* | **143 979** | 82 092 |
| Finance income | *23* | **105 142** | 109 220 |
| Finance costs | *24* | **(67 644)** | (40 545) |
| Fair value adjustments | *25* | **116 832** | 93 893 |
| Capital items | *26* | **(114)** | (9) |
| **Profit before debenture interest** | | **298 195** | 244 651 |
| Debenture interest | *27* | **–** | (67 649) |
| **Profit before amortisation of debenture premium** | | **298 195** | 177 002 |
| Amortisation of debenture premium | | **–** | 2 159 |
| **Profit before income tax** | | **298 195** | 179 161 |
| Income tax | *28* | **(8 063)** | (921) |
| **Profit for the year** | | **290 132** | 178 240 |
| **Total comprehensive income for the year** | | **290 132** | 178 240 |

# Texton Property Fund Limited

## Statement of changes in equity

*for the year ended 30 June 2015*

| | Ordinary share capital R'000 | Stated capital R'000 | Non-distributable reserve R'000 | Share based payment reserve R'000 | (Accumulated loss)/retained earnings R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **Balance at 30 June 2013** | 301 | – | 82 158 | – | (12 458) | 70 001 |
| *Transactions with owners of the company recognised directly in equity* | | | | | | |
| – issue of shares | 121 | – | – | – | – | 121 |
| – transfer from non-distributable reserve | – | – | (82 158) | – | 82 158 | – |
| – conversion of debentures to shares with no par value | (422) | 1 031 496 | – | – | – | 1 031 074 |
| *Total comprehensive income for the year* | | | | | | |
| – profit for the year | – | – | – | – | 178 240 | 178 240 |
| **Balance at 30 June 2014** | – | 1 031 496 | – | – | 247 940 | 1 279 436 |
| *Transactions with owners of the company recognised directly in equity* | | | | | | |
| – issue of shares | **–** | **1 106 425** | **–** | **–** | **–** | **1 106 425** |
| – dividend paid | **–** | **–** | **–** | **–** | **(170 057)** | **(170 057)** |
| – share base payment transaction | **–** | **–** | **–** | **1 074** | **–** | **1 074** |
| *Total comprehensive income for the year* | | | | | | |
| – profit for the year | **–** | **–** | **–** | **–** | **290 132** | **290 132** |
| **Balance at 30 June 2015** | – | **2 137 921** | – | **1 074** | **368 015** | **2 507 010** |

# Texton Property Fund Limited

## Statement of cash flows

*for the year ended 30 June 2015*

| | *Note* | **2015** **R'000** | 2014 R'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by operations | | **112 258** | 89 534 |
| Finance income received | | **–** | 5 801 |
| Finance costs paid | | **(60 784)** | (40 324) |
| Debenture interest paid | | **–** | (114 988) |
| Dividends paid | | **(170 057)** | – |
| Income tax paid | | **(692)** | (89) |
| **Net cash outflow from operating activities** | | **(119 275)** | (60 066) |
| **Cash flow from investing activities** | | | |
| Additions to property, plant and equipment | | **(1 217)** | (1 676) |
| Additions to investment property | | **(11 747)** | (1 471) |
| Additions to other non-current assets | | **(3 488)** | (397) |
| Acquisition of businesses | | **(172 505)** | (330 848) |
| Acquisitions through business combinations transferred from subsidiary acquired | | **(115 500)** | (214 720) |
| Subsidiaries acquired | | **(343 919)** | (26 301) |
| Loans repaid by subsidiaries | | **42 916** | 228 757 |
| Loans advanced to subsidiaries | | **(439 046)** | (186 383) |
| Loan repaid by group entity | | **160 955** | – |
| Loan advanced to group entity | | **–** | (1 041) |
| **Net cash outflow from investing activities** | | **(883 551)** | (534 080) |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of shares | | **641 975** | 446 325 |
| Loan from subsidiary | | **72 584** | – |
| Advance of other financial liabilities | | **729 650** | 205 695 |
| Repayment of other financial liabilities | | **(378 058)** | – |
| **Net cash inflow from financing activities** | | **1 066 151** | 652 020 |
| **Net increase in cash and cash equivalents** | | **63 325** | 57 874 |
| Cash and cash equivalents at the beginning of the year | | **63 395** | 5 521 |
| **Cash and cash equivalents at the end of the year** | | **126 720** | 63 395 |

# Texton Property Fund Limited

## Notes to the financial statements
*for the year ended 30 June 2015*

**1. Basis of preparation**

1.1 Reporting company

Texton Property Fund Limited is a company listed on the Johannesburg Stock Exchange and is domiciled in the Republic of South Africa. The financial statements are the financial statements of Texton Property Fund Limited ("Texton" or "the company"). Separate financial statements have been prepared for the group.

1.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in terms of interpretations adopted by the International Accounting Standards Board, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa. The annual financial statements were authorised for issue by the board of directors on 14 October 2015.

1.3 Basis of measurement

The financial statements are prepared on the historical cost basis, unless otherwise stated, and the accounting policies set out below have been applied consistently to all periods presented in these financial statements except for changes below. The financial statements are prepared on the basis that the company is a going concern.

The company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2014:

- IAS 32 Amendments – Offsetting Financial Assets and Financial Liabilities. The amendments clarified that an entity had a legal enforceable right to set-off financial assets and financial liabilities if that right was:
  - not contingent on a future event; and
  - enforceable both in the normal cause of business and in the event of default, insolvency or bankruptcy of the entity and all counter parties.

The amendments did not result in the company offsetting financial assets and financial liabilities.

- IAS 36 Amendments – Recoverable Amounts Disclosure for Non-Financial Assets. The amendments reversed the unintended requirement in IFRS13 – Fair Value Measurement to disclose the recoverable amount of each cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss had been recognised or reversed. The company has not impaired significant goodwill and therefore the amendments had no impact on the accounting policy.

1.4 Functional and presentation currency

These financial statements are presented in South African Rand which is the company's functional currency, rounded to the nearest thousand unless stated otherwise.

**1. Basis of preparation** *(continued)*

1.5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:
Note 5 – valuation of investment property.
Note 10 – impairment losses on trade receivables

2. Accounting policies

2.1 Financial instruments

Financial instruments are contracts that give rise to financial assets in one company and a financial liability or equity instrument in another company.

*Non-derivative financial assets*
The company initially recognises loans and receivables and deposits on the date that they are originated when the company becomes party to the contractual provisions of the instrument. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset.

The company's non-derivative financial assets comprise loans and receivables.

*Loans and receivables*
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Loans and receivables comprise trade and other receivables, cash and cash equivalents and loans to a group entity and subsidiaries.

**2. Accounting policies** *(continued)*

2.1 Financial instruments *(continued)*

*Loans and receivables (continued)*

Subsequent to initial recognition the instruments are measured as follows:

Cash and cash equivalents
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of change in value. Cash and cash equivalents are measured at amortised cost. Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

Cash and cash equivalents comprise cash balances.

Trade and other receivables
Trade and other receivables are carried at amortised cost less any accumulated impairments. An estimate is made for credit losses based on a review of all outstanding amounts at year-end. Doubtful debts are provided for in the year in which they are identified, with such movement taken to profit or loss for the period. Short-term receivables are measured at original invoice amount when the effect of discounting is immaterial. Refer to note 10 for composition of trade and other receivables

Loans to a group entity and subsidiaries
Loans to a group entity and subsidiaries are carried at amortised cost using the effective interest method, less any impairment. Interest earned is recognised on an accrual basis using the effective interest method. Refer to note 12 for loans to group entity and subsidiaries.

*Non-derivative financial liabilities*
The company initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Subsequent to initial recognition these financial liabilities, are measured as follows:

Trade and other payables
Trade and other payables are measured at amortised cost. Short-term payables are measured at the original invoice amount when the effect of discounting is immaterial.

**2. Accounting policies** *(continued)*

2.1 Financial instruments *(continued)*

*Non-derivative financial liabilities*

Loans from subsidiaries
Loans from subsidiaries are carried at amortised cost. Interest payable is recognised on an accrual basis using the effective interest method.

Other financial liabilities
Non-derivative financial liabilities comprising long-term interest-bearing loans, other than debentures, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings, is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

Debentures
Debentures are designated as financial liabilities measured at amortised cost. The debenture premium is amortised over the period over which the debentures will be repaid. The portion recorded in profit and loss for the amortisation of debentures is removed for distribution purposes.

Refer to note 15 for the composition of debentures, note 17 for other financial liabilities and note 18 for trade and other payables.

*Stated capital*
*Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Derivative financial instruments*
The company utilises derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. The company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value. The gain or loss on measurement to fair value is recognised immediately in profit or loss.

*Offset*
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

**2. Accounting policies** *(continued)*

2.2 Investment property

Investment property is property (land and buildings) held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

On initial recognition, the investment property is measured at cost. The cost of investment property comprises the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when it is probable that it will result in future economic benefits which are probable and such expenditure can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

After initial recognition, investment property is measured at fair value. Fair values are determined annually by external independent registered valuers on the open market value basis. The valuers use either the discounted cash flow method or the capitalisation of net income method or a combination of both methods to determine the fair value. Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the year in which they arise.

Realised gains or losses on the disposal of investment property are recognised in profit for the year and are calculated as the difference between the sale price and the fair value of the investment property as determined at the last valuation date.

When the company begins to redevelop an existing investment property for continued future use as investment property, the property remains investment property which is measured based on the fair value model, and is not reclassified as property plant and equipment during the redevelopment.

2.3 Property, plant and equipment

*Recognition and measurement*
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent expenditure on items of property, plant and equipment is capitalised when it is probable that future economic benefits associated with that expenditure will flow to the company and such expenditure can be measured reliably. All other subsequent expenditure is recognised in profit or loss in the period in which it is incurred.

When parts of an item of property, plant and equipment have different useful lives and a cost that is significant in relation to the total cost of the item, they are accounted for as separate items (major components) of property, plant and equipment.

**2. Accounting policies** *(continued)*

2.3 Property, plant and equipment *(continued)*

*Recognition and measurement (continued)*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and are recognised net within other income in profit or loss.

*Depreciation*
Depreciation is calculated by allocating the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value on a systematic basis over the useful life of the asset.

Depreciation is recognised in profit or loss on a straight line basis over the current estimated useful lives of each significant item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Equipment | 3 – 5 years |
| Computer equipment | 3 years |
| Tenant installations | Period of the initial lease |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2.4 Impairment

*Non-derivative financial assets*
A financial asset is considered to be impaired at financial period end, if objective evidence indicates that one or more events occurred after initial recognition that have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is measured at the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Objective evidence that financial assets are impaired includes:
- Default of delinquency by a debtor;
- Restructuring of an amount due to the company on terms that the company would not otherwise consider;
- Indications that a debtor will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers
- The disappearance of an active market for a security; or
- Observable data indicating that there is a measurable decrease in expected cash flows from a company of financial assets.

Individually significant financial assets are assessed for impairment on an individual basis.

**2. Accounting policies** *(continued)*

2.4 Impairment *(continued)*

*Non-derivative financial assets (continued)*
The remaining financial assets together with individual significant assets found not to be impaired, are assessed collectively in groups that share similar credit risk characteristics. This impairment testing is performed annually at the end of each financial period.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

*Non-financial assets*
The carrying amount of the company's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds it recoverable amount. Impairment losses are recognised in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and there is an indication that the impairment loss no longer exists.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.5 Property letting commissions

Letting commissions are written off over the period of the lease. The carrying value of letting commissions are included with other non-current assets.

2.6 Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**2. Accounting policies** *(continued)*

2.7 Assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal company is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the company's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for distribution and subsequent gains and losses on re-measurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

2.8 Leases

The company is party to numerous leasing contracts as the lessor of property. All leases are operating leases, which are those leases where the company retains a significant portion of the risks and rewards of ownership. An adjustment is made to contractual rental income earned to bring to account in the current period the difference between the rental income that the company is currently entitled to and the rental for the period calculated on a smoothed, straight-line basis over the period of the lease term. This does not affect distributable earnings.

The company is party to leasing contracts as the lessee of some property and equipment. Leases are classified as operating leases, where substantially all the risks and rewards associated with ownership of the asset are not transferred from the lessor to the lessee. Operating lease rentals with fixed escalation clauses are recognised in profit or loss on a straight-line basis over the lease term. The resulting difference arising from the straight-line basis and contractual cash flows is recognised as an operating lease asset or operating lease liability.

2.9 Revenue

Revenue comprises rental income and recovery of expenses, excluding VAT. Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. The recovery of expenses is recognised when the related expenses are incurred.

2.10 Finance income and finance costs

Finance income comprises interest income on bank balances. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on bank balances and long term loans. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

**2. Accounting policies** *(continued)*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised to the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Other borrowing costs are expensed in the period in which they are incurred.

2.11 Employee benefits

*Equity-settled share-based employee remuneration*
A share incentive scheme was introduced for employees during the course of the year. The scheme was formed on the basis of a discretionary Trust that acquired shares on a 100% geared basis with financial assistance granted by the company. Shares that are awarded to employees vest over a period of 75% over four years and 25% over five years. Dividends received by the Trust service interest costs on the loan. Any surplus dividends accrue to the company and are payable to shareholders. The shares are awarded to the employees at cost price. The scheme provides a mechanism to attract and retain staff and align the interests of those responsible for performance with the company. Texton has created a scheme that attracts quality employees, retains top performers and aligns the interests of those running the company with shareholders.

The grant date fair value of equity settled share-based payment options granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the options. The amount recognised as an expense is adjusted to reflect the number of options for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of options that meet the related service and non-market performance conditions at vesting date.

2.12 Income tax

The charge for current taxation is based on the taxable income for the year using the rates enacted or substantively enacted at reporting date and any adjustment for tax payable or receivable for previous years.

Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the tax rates and tax laws that have been enacted by the reporting date, and the expected manner of realisation or settlement.

A deferred tax liability is recognised for all taxable temporary differences except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and the parent is able to control the timing of the reversal of the temporary difference; or

**2. Accounting policies** *(continued)*

2.12 Income tax *(continued)*

- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction affects neither accounting profit nor taxable profit/(tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:
- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

The effect on deferred tax of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current liabilities and assets, and they relate to taxes levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.13 Related party transactions

Related-party transactions are transactions which result in a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Related parties refer to entities in which the company directly or indirectly through one or more intermediaries controls or is controlled by or is in common control with. These include the subsidiaries and group entities. Related parties also include the directors.

2.14 Segment reporting

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the company’s other components.

All operating segments’ operating results are reviewed regularly by the company’s CEO, who is considered to be the Chief Operating Decision Maker, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, property plant and equipment, and intangible assets other than goodwill.

### 3. Risk management

The company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets, which potentially subject the company to concentrations of credit risk, consist principally of cash and cash equivalents, trade and other receivables, the loan to a group entity and loans to subsidiaries.

Trade and other receivables include other receivables and deposits less impairment losses.

Exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The widespread tenant base reduces credit risk. Management has established a credit policy under which each new tenant is analysed individually for creditworthiness before the company's standard payment terms and conditions are offered which include, in the majority of cases, the provision of a deposit of at least one month's rental. When available, the review includes external ratings.

In monitoring tenant credit risk, tenants are grouped according to their credit characteristics, including whether they are an individual or legal entity, industry, size of business and existence of previous financial difficulties.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The main component of this allowance is a specific loss component that relates to individually significant exposures.

The company deposits cash surpluses with major banks of high quality credit standing to address the related credit risk.

In the case of the loan to a group entity and loans to subsidiaries, the credit risk is limited due to the nature of the business and the fact that the entities are solvent.

**Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk by monitoring cash flows and ensuring that adequate cash is available or by maintaining or renewing borrowing facilities as appropriate.

**3. Risk management** *(continued)*

**Liquidity risk** *(continued)*

The company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Surplus cash is however utilised to reduce the other financial liabilities to optimise the borrowing costs. The facility is however an access facility and the surplus can be redrawn at any time should it be required to settle financial obligations.

**Market risk**

Market risk is the risk that changes in the market prices such as interest rates, foreign exchange rates and equity prices will affect the profit or loss or the value of the holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

The company is exposed to interest rate risk as it borrows funds at variable interest rates. The risk is managed by company policies adopted to ensure all its borrowings are at market related rates.

The Company is exposed to currency risk in terms of Pound Sterling borrowings and distributions from subsidiaries.

The Company is not exposed to equity price risk.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuation should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

**Fair values**

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Investment property*
An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**3. Risk management** *(continued)*

**Fair values** *(continued)*

*Investment property (continued)*
In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the company and the lessee; and the remaining economic life of the property.

*Trade and other receivables*
The value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. The carrying amount of short-term trade and other receivables approximates the fair value.

*Derivatives*
The fair value of interest rate swaps is based on banker quotes.

*Non-derivatives financial assets and liabilities*
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principle and interest cash flows, discounted at the market rate of interest at the reporting date.

*Interest-bearing loans*
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The interest rate used for determining fair value is the three-month JIBAR interest rate for local currency, the three-month LIBOR interest rate for foreign currency or prime interest rate adjusted by a margin as agreed with the banks, to obtain a similar loan with similar remaining periods.

*Trade and other payables*

All trade and other payables are of a short-term nature and the fair value of trade and other payables approximates the carrying value.

**3. Risk management** *(continued)*

**Capital risk management** *(continued)*

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the company consists of debt, which includes other financial liabilities, amount owing to subsidiary and trade and other payables disclosed in notes 7, 12 and 18 and equity as disclosed in the statement of financial position. The company monitors capital on the basis of the loan to value and gearing ratios.
The company considers the equity attributable to shareholders as the permanent capital of the company.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

| | **30 June 2015 R'000** | 30 June 2014 R'000 |
|---|---|---|
| Gearing ratio | | |
| Total debt | **1 197 035** | 717 158 |
| Less: cash and cash equivalents | **(126 720)** | (63 395) |
| Net debt | **1 070 315** | 653 763 |
| Equity | **2 507 010** | 1 279 436 |
| Debt to equity ratio (%) | **42.69** | 51.10 |

### 4. Standards not yet adopted

| Statement | Effective for accounting periods beginning on or after | Summary of key points | Impact on the company |
|---|---|---|---|
| IFRS 9 Financial instruments | 1 January 2018 (i.e. for the financial year ending 30 June 2019) | On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. | The impact on the company has not yet been estimated.<br><br>The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.<br>This standard will have a significant impact on the company, which will include changes in the measurement bases of the company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the company. |

**4. Standards not yet adopted** *(continued)*

| Statement | Effective for accounting periods beginning on or after | Summary of key points | Impact on the company |
|---|---|---|---|
| IFRS 15 Revenue from contracts with customers | The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. | This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter of Transactions Involving Advertising Services.<br><br>The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. | This new standard will most likely not have a significant impact on the company. The Company is currently in the process of performing a more detailed assessment of the impact of this standard on the Company and will provide more information in the year ending 30 June 2016 financial statements. The company was not able to fully assess the impact by 30 June 2015 |
| IAS 1 Amendments Disclosure Initiatives | 1 January 2016 (i.e. for the financial year ending 30 June 2017) | The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. It also clarifies presentation principles applicable to the order of notes, OCI and equity accounted investors and subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income. | The impact to the company has not been estimated. |

The following revised amendments to standards and interpretations are not applicable to the business of the company and will therefore have no impact on future financial statements:

- IFRS 10, IFRS 12 and IAS 28 Amendments – Investment entities;
- IRFS 11 Amendments – Accounting for acquisitions of interests in joint operations;
- IFRS 14 – Regulatory deferral accounts;
- IAS 16 and IAS 38 Amendments – Clarification of acceptable methods of depreciation and amortisation;
- IAS 16 and IAS 41 Amendments –Agriculture: Bearer Plants;
- IAS 28 and IFRS 10 Amendments – Sale or contribution of assets between an investor and its associates or joint venture; and
- IAS 27 Amendments – Equity method in separate financial statements.

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

### 5. Investment property

| | Cost R'000 | Cumulative fair value adjustments R'000 | Cumulative straight-line rental adjustments R'000 | Carrying value R'000 |
|---|---|---|---|---|
| **30 June 2015** | | | | |
| Investment property | **1 721 536** | **272 633** | **35 648** | **2 029 817** |
| **30 June 2014** | | | | |
| Investment property | 1 127 472 | 154 297 | 24 757 | 1 306 526 |

Reconciliation of movement in carrying amount of investment property:

| | Cost R'000 | Cumulative fair value adjustments R'000 | Cumulative straight-line rental adjustments R'000 | Carrying amount R'000 |
|---|---|---|---|---|
| **30 June 2015** | | | | |
| Opening carrying amount | **1 127 472** | **154 297** | **24 757** | **1 306 526** |
| Additions through business combinations | **434 258** | **–** | **–** | **434 258** |
| Transfer from subsidiary acquired | **148 059** | **–** | **112** | **148 171** |
| Other additions | **11 747** | **–** | **–** | **11 747** |
| Straight-line rental adjustment | | **–** | **10 779** | **10 779** |
| Fair value adjustments | **–** | **118 336** | **–** | **118 336** |
| Closing carrying amount | **1 721 536** | **272 633** | **35 648** | **2 029 817** |
| **30 June 2014** | | | | |
| Opening carrying amount | 601 582 | 68 667 | 17 664 | 687 913 |
| Additions through business combinations | 330 848 | – | – | 330 848 |
| Transferred from subsidiary acquired | 213 577 | – | – | 213 577 |
| Other additions | 1 471 | – | – | 1 471 |
| Straight-line rental adjustment | – | – | 7 155 | 7 155 |
| Fair value adjustments | – | 89 562 | – | 89 562 |
| Transfer to investment property reclassified as held for sale | (20 006) | (3 932) | (62) | (24 000) |
| Closing carrying amount | 1 127 472 | 154 297 | 24 757 | 1 306 526 |

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains non-cancellable periods of between three and ten years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. Investment properties are encumbered as set out in note 17.

**5. Investment property** *(continued)*

**Details of valuation**

The effective date of revaluations was 30 June 2015. The revaluations were performed independently by MRB Gibbons (National Diploma in Property Valuation, MIV(SA)) of Mills Fitchet Magnus Penny Proprietary Limited, who has the appropriate experience in valuing investment property in the locations where the investment property is situated. It is the company's policy to revalue all properties on an annual basis. The value of properties owned for less than a year is deemed to approximate cost. In determining the value for fair value purposes, the traditional discounted cash flow method of valuation has been used. The discount and exit capitalisation rates are determined by reference to comparable sales and appropriate surveys prepared by the Investment Property Databank and benchmarked against other comparable valuations after consultation with experienced and informed people in the property industry including other valuers, brokers and investors. The discount and capitalisation rates are dependent on a number of factors, such as location, the condition of the properties, current market conditions, the lease covenant and the risk inherent in the property. The inputs into the valuation model were as follows:

- discount rates which ranged between 12.5% and 15%;
- exit capitalisation rates which ranged between 8.75% and 10.5.%;
- estimated vacancy rates which ranged between 0% and 10%; and
- estimated lease escalation rates which default to market growth of 5.5%.

The valuation of investment properties is sensitive to changes in certain inputs to the model. These include:

- the discount rate and exist capitalisation rate;
- the vacancy profile; and
- lease escalation rates.

All the properties are categorised as level 3 in the fair value hierarchy. The movement in the carrying value of investment property is set out earlier in the note.

Investment property direct property expenses amounted to R61.6 million (2014: R29.7 million).

An increase in the yield (which includes vacancies and lease escalations) of 1% will change the value of the portfolio to R1 956 660 000 (2014 – 0.5% R1 242 525 172) and a 1% decrease, to R2 166 410 000 (2014 – 0.5% R1 372 932 128).

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

**5. Investment property** *(continued)*

**Register of investment property**

| Name of property | GLA* of property in m$^2$ | Address of property |
|---|---|---|
| **GAUTENG** | | |
| Greenstone Hill Office Park: buildings 2,4,5,6,9,10-15 and coffee shop | 19 493 | Section No. 13, 14 and 15 of Sectional Plan No SS 1149/2008, Section No. 20,21, and 22 of Sectional Plan No SS 599/2009 and SS1149/2008, Section 23, Plan No SS 0065/2011, Section No. 24, 25 and 26 of Sectional Plan No SS 618/2013, Section No. 27 and 28 of Sectional Plan No SS 620/2013 of Greenstone Hill Office Park, Ext 22, Erf 1836 and 1837 |
| Vunani Office Park | 8 621 | Erven 132, 133, 134, the remaining extent of Erf 135, Portion 1 of Erf 135, Portion 3 of Erf 184 and Portion 4 of Erf 184, Athol Extension 12 and Erf 6, Simba Township, Registration Division IR |
| Rivonia Business Centre | 4 886 | Erf 155 Edenburg |
| Wellington Road | 10 019 | Erf 566, Portion 1 of Erf 567, Remainder Erf 567, Portion 1 of Erf 568 and Remainder of Erf 568 Parktown, Registration Division I.R., Gauteng |
| Bryanston Gate Office Park | 16 652 | Erf 5086 and 680, Bryanston. |
| Toolquip, Selby | 10 419 | Erf 544 Selby extension 22, Erf 545, Selby extension 22, Portion 1 of Erf 19, Crown City extension 6 and Erf 20, Crown City extension 6. Registration Division IR, Gauteng |
| Scott Street | 4 329 | Portion 22 of Erf 13, Waverley |
| Edcon | 27 472 | Erven 28, 29, 30, 31, 32 and 33 New Centre, Johannesburg, Registration Division IR, Gauteng |
| Alrode | 16 557 | Portion 125 (a portion of portion 29) of Farm Roodekop, 135, situated at 5 Liebenberg Road, Roodekop |
| Woodmead Commercial Park | 13 196 | Erf 531, Woodmead extension 5, City of Johannesburg; and Erf 532, Woodmead extension 5, City of Johannesburg |
| Sub total | 131 644 | |

**5. Investment property** *(continued)*

**Register of investment property** *(continued)*

| **Name of property** | **GLA* of property in $m^2$** | **Address of property** |
|---|---|---|
| **EASTERN CAPE** | | |
| Lion Roars Office Park | 4 117 | Erf 11322 and 1698, Walmer, Port Elizabeth |
| Sub total | 4 117 | |
| **WESTERN CAPE** | | |
| 14 Loop Street | 2 323 | Erf 1570, 1571, 1572, 1573 and 1574, Western Cape |
| Foretrust | 26 349 | Erf 172 Roggebaai, City of Cape Town |
| St George's Mall | 1 236 | Sections 13 and 50. Exclusive use areas 322, 323, 324, 325, 326, 327, 567, 568, 569, 576, 577 and 578 and an undivided share in the company property apportioned to the above sections and six single undercover parking bays and three tandem undercover parking bays in sectional title scheme numbered SS2134/2006 and SS267/2008 known as 5 St George's Mall, Cape Town. |
| Brickfields# | 5 251 | Erf 13753, Salt River |
| Sub total | 35 159 | |
| **NORTH WEST** | | |
| Mabe Business Park | 1 642 | Erf 114 Waterval East Extension 4, Rustenburg |
| Xstrata | 3 720 | Portion 19 of Erf 1833 Rustenburg Extension 4 |
| Sub total | 5 362 | |
| **FREE STATE** | | |
| Quintiles | 3 404 | Portion 121 of Erf 13021, Bloemfontein extension 77 |
| Sub total | 3 404 | |
| **Total** | **179 686** | |

# – Classified as held-for-sale
* – Gross lettable area

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

**5. Investment property** *(continued)*

**Register of investment property** *(continued)*

| Name of property | GLA* of property in $m^2$ | Weighted average gross rental $R/m^2$ | Independent valuation as at 30 June 2015 R'000 | Valuation per square metre R | Purchase price R'000 | Effective date of acquisition |
|---|---|---|---|---|---|---|
| **GAUTENG PROVINCE** | | | | | | |
| Greenstone Hill Office Park building 9 | 1 827 | 131.51 | 29 500 | 16 147 | 18 000 | 11 August 2011 |
| Greenstone Hill Office Park: buildings 2 and 6 | 3 026 | 179.75 | 50 170 | 16 580 | 54 348 | 30 October 2013 |
| Greenstone Hill Office Park: buildings 4,5,10-15 and coffee shop | 14 640 | 149.87 | 235 101 | 16 068 | 213 577 | 01 August 2013 |
| Vunani Office Park | 8 621 | 172.86 | 128 050 | 14 853 | 104 400 | 11 August 2011 |
| Rivonia Business Centre | 4 886 | 135.29 | 90 000 | 18 420 | 64 500 | 06 November 2012 |
| Toolquip, Selby | 10 419 | 40.84 | 56 100 | 5 384 | 52 737 | 24 July 2014 |
| Scott Street | 4 329 | 224.77 | 110 000 | 25 410 | 107 805 | 18 September 2014 |
| Edcon | 27 472 | 48.76 | 161 500 | 5 879 | 153 948 | 30 October 2014 |
| Alrode | 16 557 | 30.37 | 52 100 | 3 147 | 51 138 | 10 June 2015 |
| Woodmead Commercial Park | 13 196 | 87.28 | 148 171 | 11 228 | 146 280 | 31 December 2014 |
| Wellington Road | 10 019 | 128.63 | 152 000 | 15 171 | 102 500 | 17 March 2014 |
| Bryanston Gate Office Park | 16 652 | 130.12 | 200 000 | 12 011 | 174 000 | 01 April 2014 |
| Subtotal | 131 644 | | 1 412 692 | | 1 243 233 | |
| **EASTERN CAPE** | | | | | | |
| Lion Roars Office Park | 4 117 | 133.11 | 52 500 | 12 752 | 52 100 | 06 December 2011 |
| Subtotal | 4 117 | | 52 500 | | 52 100 | |

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

**5. Investment property** *(continued)*

**Register of investment property** *(continued)*

| Name of property | GLA* of property in $m^2$ | Weighted average gross rental $R/m^2$ | Independent valuation as at 30 June 2015 R'000 | Valuation per square metre R | Purchase price R'000 | Effective date of acquisition |
|---|---|---|---|---|---|---|
| **NORTH WEST** | | | | | | |
| Mabe Business Park | 1 642 | 194.23 | 26 000 | 15 834 | 24 000 | 06 December 2011 |
| Xstrata | 3 720 | 101.08 | 38 000 | 10 215 | 28 982 | 15 December 2011 |
| Subtotal | 5 362 | | 64 000 | | 52 982 | |
| **FREE STATE** | | | | | | |
| Quintiles | 3 404 | 126.47 | 53 000 | 15 570 | 47 500 | 18 September 2014 |
| Subtotal | 3 404 | | 53 000 | | 47 500 | |
| **WESTERN CAPE** | | | | | | |
| 14 Loop Street | 2 323 | 177.43 | 41 000 | 17 650 | 37 100 | 11 August 2011 |
| Foretrust | 26 349 | 158.13 | 385 500 | 14 731 | 249 500 | 14 February 2012 |
| St George's Mall | 1 236 | 165.22 | 23 300 | 18 851 | 21 130 | 18 September 2014 |
| Brickfield# | 5 251 | 47.84 | 24 000 | 4 571 | 20 000 | 07 August 2014 |
| Subtotal | 35 159 | | 473 800 | | 327 730 | |
| **Total** | | | **2 055 992*** | | | |

*Includes property held for sale and fixtures in buildings

### 6. Property, plant and equipment

| | Cost R'000 | Accumulated depreciation R'000 | Carrying amount R'000 |
|---|---|---|---|
| **2015** | | | |
| Equipment | **2 007** | **(911)** | **1 096** |
| Tenant installation | **2 851** | **(1 772)** | **1 079** |
| | **4 858** | **(2 683)** | **2 175** |
| 2014 | | | |
| Equipment | 1 543 | (557) | 986 |
| Tenant installation | 2 098 | (639) | 1 459 |
| | 3 641 | (1 196) | 2 445 |

Reconciliation of movement in carrying amount of property, plant and equipment.

| | Opening carrying amount R'000 | Additions R'000 | Depreciation R'000 | Closing carrying amount R'000 |
|---|---|---|---|---|
| **2015** | | | | |
| Equipment | **986** | **464** | **(354)** | **1 096** |
| Tenant installation | **1 459** | **753** | **(1 133)** | **1 079** |
| | **2 445** | **1 217** | **(1 487)** | **2 175** |
| 2014 | | | | |
| Equipment | 1 139 | 141 | (294) | 986 |
| Tenant installation | 248 | 1 535 | (324) | 1 459 |
| | 1 387 | 1 676 | (618) | 2 445 |

### 7. Other non-current assets

Other non-current asset consists of commissions raised on property transactions.

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| Commission capitalised | **3 675** | 474 |
| Opening balance | **474** | 387 |
| Additions | **3 488** | 397 |
| Amortisation | **(287)** | (310) |
| Closing balance | **3 675** | 474 |

### 8. Investment in subsidiaries

| | Place of incorporation and operation | % holding 2015 | % holding 2014 | Carrying value 2015 R'000 | Carrying value 2014 R'000 |
|---|---|---|---|---|---|
| **Subsidiaries comprise:** | | | | | |
| Discus House Proprietary Limited | South Africa | **100** | – | **71 846** | – |
| Imperial Commercial Properties Proprietary Limited | South Africa | **100** | – | **67 899** | – |
| Investage 183 Proprietary Limited | South Africa | **100** | – | **59 684** | – |
| Nungu Trading 88 Proprietary Limited | South Africa | **100** | – | **48 174** | – |
| Sable Place Properties 121 Proprietary Limited | South Africa | **100** | – | **6 481** | – |
| Chevelon Investment Holdings Limited | United Kingdom | **100** | – | **15 178** | – |
| Chobe Investment Holdings Limited | United Kingdom | **100** | – | **189 700** | – |
| Gladstone Investment Holdings Limited | United Kingdom | **100** | – | **71 153** | – |
| Heddon Investment Holdings Limited | United Kingdom | **100** | – | **2 743** | – |
| Zeya Investment Holdings Limited | United Kingdom | **100** | – | **13 758** | – |
| Cedar Park Properties 31 Proprietary Limited*# | South Africa | – | 100 | – | – |
| Greenstone Hill Office Park Proprietary Limited*# | South Africa | – | 100 | – | – |
| Pacific Eagle Properties 204 Proprietary Limited*# | South Africa | – | 100 | – | – |
| | | | | **546 616** | – |

**8. Investment in subsidiaries** *(continued)*

| | Place of incorporation and operation | % holding | | Carrying value | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| | | | | **R'000** | R'000 |
| **Group entity comprises:** | | | | | |
| Vunani Property Investment Trust | South Africa | **100** | – | **–*** | |

*Investment amount below R1 000

#Application was made to deregister the companies during the 2014 financial year

**9. Deferred tax**

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| Deferred tax asset | – | 3 755 |
| Deferred tax liability | **(3 615)** | – |
| | **(3 615)** | 3 755 |
| Deferred tax asset comprises: | | |
| Income received in advance | – | 3 835 |
| Interest rate swap | – | 410 |
| Commission | – | (493) |
| Impairment allowance | – | 226 |
| Prepayments | – | (223) |
| Available tax losses | **2 603** | – |
| Investment property S13Quin building allowance | **(6 218)** | – |
| | **(3 615)** | 3 755 |
| The movement in deferred tax during the year is as follows: | | |
| Opening balance | **3 755** | 4 587 |
| Recognised in profit or loss | **(7 370)** | (832) |
| Closing balance | **(3 615)** | 3 755 |

With effect from 1 July 2013, Texton has been converted to a REIT. As such, the company will not be liable for capital gains tax. Deferred tax on investment properties, to the extent where no allowances have been claimed, and the related straight-line rental adjustment has been reduced to nil as capital gains tax will no longer apply.

Deferred tax assets in respect of available tax losses and deductible temporary differences have been recognised to the extent that the directors believe that future taxable profits will be available to enable the company to utilise available tax losses and deductible temporary differences.

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| **10. Trade and other receivables** | | |
| **Trade and other receivables comprise:** | | |
| Trade receivables | **620** | 65 |
| Prepayments | **37** | 530 |
| Deposits | **31 156** | 1 188 |
| Income accruals | **6 060** | 4 482 |
| Adjustment accounts relating to acquisition | **3 590** | 3 456 |
| Other receivables | **12 543** | 5 778 |
| Allowance for impairment | **(166)** | – |
| | **53 840** | 15 499 |
| **Reconciliation of movement in allowance for impairment** | | |
| Opening balance | – | – |
| Utilised | – | – |
| Provision created | **(166)** | – |
| Closing balance | **(166)** | – |

The individually impaired receivables relate mainly to non-national tenants which have been summonsed for non-payment of rentals, or who have vacated the premises due to difficult economic conditions. A portion of the impaired receivables is expected to be recovered. The ageing of the allowance for impairments in respect of the impaired receivables is as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Gross R'000** | **Impairment R'000** | Gross R'000 | Impairment R'000 |
| Not past due | **429** | **(87)** | 65 | – |
| Past due: 1 – 30 days | **62** | **(5)** | – | – |
| Past due: 31 – 60 days | **37** | **(1)** | – | – |
| Past due: 61 – 90 days | **9** | **–** | – | – |
| Past due: 91 – 120 days | **83** | **(73)** | – | – |
| | **620** | **(166)** | 65 | – |

At the reporting date there were no specific concentrations of credit risk.

Trade receivables that are due and that are subject to a dispute are not considered impaired until the resolution of the dispute. As of 30 June 2015 company trade receivables of R112 (2014: nil) were past due but not impaired.

These relate to a number of independent customers for whom there is no recent history of default.

### 11. Investment property classified as held for sale

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| Opening balance | **24 000** | – |
| Transferred from investment property (note 5) | **–** | 24 000 |
| Closing balance | **24 000** | 24 000 |
| The balance can be analysed as follows: | | |
| Cost | **20 006** | 20 006 |
| Cumulative fair value adjustment | **3 032** | 3 032 |
| Cumulative straight-line adjustment | **62** | 62 |
| Closing balance | **24 000** | 24 000 |

Investment property classified as held for sale comprises Brickfields, situated on Erf 13753, Salt River. The property was disposed of subsequent to year end. This is reported as part of the Western Cape Segment in the segment report. The sale was delayed due to difficulty in resolving transfer requirements with external parties.

### 12. Loan to group entity and loans to/(from) subsidiaries

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| *Loans to* | | |
| **Group entity** | | |
| Vunani Property Investment Trust | **370 204** | 579 272 |
| Interest due by Vunani Property Investment Trust | **144 168** | – |
| | **514 372** | 579 272 |
| **Subsidiaries** | | |
| Discus House Proprietary Limited | **15 791** | – |
| Investage 183 Proprietary Limited | **134 857** | – |
| Nungu Trading 88 Proprietary Limited | **322** | – |
| Sable Place Properties 121 Proprietary Limited | **35 610** | – |
| Chevelon Investment Holdings Limited* | **71 954** | – |
| Chobe Investment Holdings Limited* | **37 864** | – |
| Gladstone Investment Holdings Limited* | **70 044** | – |
| Heddon Investment Holdings Limited* | **14 251** | – |
| Zeya Investment Holdings Limited* | **24 524** | – |
| | **405 217** | – |
| *Reconciliation of loans to group entity and subsidiaries* | | |
| Opening balance | **579 272** | 492 754 |
| Interest | **96 055** | 85 477 |
| Repayments # | **(203 871)** | – |
| Loan advances | **448 133** | 1 041 |
| Closing balance | **919 589** | 579 272 |

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| **12. Loan to group entity and loans to/(from) subsidiaries** *(continued)* | | |
| *Loans from* | | |
| **Subsidiary** | | |
| Imperial Commercial Properties Proprietary Limited# | **72 584** | – |
| *Reconciliation of loans from subsidiary* | | |
| Opening balance | **–** | – |
| Loan received | **72 584** | – |
| Closing balance | **72 584** | – |

Interest on loans to/from subsidiaries is charged at the Standard Bank Prime rate and there are no fixed capital repayment terms.

* These loans in sterling and converted at the ZAR/GBP spot closing rate.

\# The loan relates to a property that was transferred from a subsidiary to Texton Property Fund Propriety Limited.

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| **13. Cash and cash equivalents** | | |
| Cash and cash equivalents comprise: | | |
| Bank balances | **112 471** | 1 913 |
| Property bank | **14 249** | 61 482 |
| | **126 720** | 63 395 |
| **14. Stated capital** | | |
| *Authorised* | | |
| 2 000 000 000 (2014 – 2 000 000 000) ordinary shares of no par value | | |
| *Issued* | | |
| 276 066 766 (2014 – 169 122 019) ordinary shares of no par value | **2 137 921** | 1 031 496 |
| *Reconciliation of no par value shares* | | |
| Balance at the beginning of the year | | |
| 169 122 019 (2014 – nil) ordinary shares of no par value | **1 031 496** | |
| Issues for cash 49 744 975 (2014 – nil) | **641 975** | |
| Issued for property purchase 57 199 772 (2014 – nil) | **464 450** | |
| Conversion of par value shares to no par value shares nil (2014 – 169 122 019) | – | 422 |
| Conversion of debenture linked unit to no par value share (2014 – 169 122 019) | – | 1 031 496 |
| | **2 137 921** | 1 031 496 |

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| **14. Stated capital** *(continued)* | | |
| *Reconciliation of par value shares* | | |
| Balance at the beginning of the year Nil (2014 – 120 618 080) | – | 301 |
| Issued for cash Nil (2014 – 48 503 939) | – | 121 |
| Conversion to no par value shares Nil (2014 – 169 122 019) | – | (422) |

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share

**15. Debenture and debenture premium**

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| Nil unsecured, unsubordinated variable rate debentures of R2.4975 each (2014: 120 618 080) | – | 301 244 |
| Debenture premium | – | 289 353 |
| Amortisation of debenture premium | – | (5 727) |
| Rights offer | – | 446 204 |
| Conversion to share capital | – | (1 031 074) |
| | – | – |

On 26 August 2013, following the successful rights offer, 48 503 939 new linked units shares were issued with a face value of 250 cents each at a subscription price of 987,33 cents per share, in the ratio of 40,21283 rights offer units for every 100 units held. The subscription price of 987,33 cents per rights offer unit comprised a clean price of 938,07 cents determined as at 4 July 2013, being the day before the declaration announcement and total prepaid distributions of 49,26 cents. The clean price of 938,07 cents per rights offer unit represented a 7% discount to the 30-day volume weighted average clean price of shares listed on the JSE at the close of business on Thursday, 4 July 2013, being the last business day prior to the release of the declaration data announcement; and 4% discount to the closing clean price of shares on the JSE on Thursday, 4 July 2013.

On 16 January 2014, Texton's shareholders approved the delinking of the debentures from its ordinary shares and the conversion of the ordinary shares of R0,0025 each to shares of no par value. As at 30 June 2014, Texton's issued share capital comprised 169 122 019 ordinary shares of no par value.

In terms of the debenture trust deed, interest on the debentures was calculated in accordance with a distributable income formula. The debenture premium was amortised over 25 years and discounted at a rate equivalent to the 25-year South African government bond (R208) as at 30 June 2013 plus an appropriate risk premium.

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **16. Share based payment reserve** | | |
| Opening balance | – | – |
| Share based payment expense charged to profit or loss | **1 074** | – |
| Closing balance | **1 074** | – |

This relates to the share-based payment cost arising on the issue of shares of the Texton Property Fund Limited Employee Incentive Scheme. The company issued a put option in favour of the Share Incentive Scheme Trust. The values of the option is determined through the Black and Scholes valuation method.

No shares have been allocated in terms of the scheme.

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **17. Other financial liabilities** | | |
| **Carried at amortised cost** | | |
| Standard Bank Limited | **540 549** | 695 878 |
| Investec Private Bank Limited | **523 225** | – |
| Lease liability | **32 670** | – |
| | **1 096 444** | 695 878 |
| **Carried at fair value through profit or loss** | | |
| Standard Bank | **2 970** | 1 465 |
| | **1 099 414** | 697 343 |
| Amounts to be settled in 12 months included in current liabilities | **2 524** | 339 277 |
| | **1 096 891** | 360 066 |

The loans are secured by a mortgage bond over land and buildings in respect of all investment properties with the exception of the following properties which are unencumbered. The value of the unencumbered properties are R76.1 million (2014 – R24 million).

- Alrode;
- Brickfields.

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| **17. Other financial liabilities** | | |
| **Standard Bank Limited** | | |
| **Carried at amortised cost** | | |
| Standard Bank Limited loan gross | **943 065** | 720 792 |
| *Less*: Redraw portion of facility | **(403 281)*** | (25 223)* |
| Standard Bank loan (net) | **539 784** | 695 569 |
| Finance costs capitalised to loan | **1 152** | 530 |
| Amortisation of finance costs | **(387)** | (221) |
| | **540 549** | 695 878 |
| **Carried at fair value through profit or loss** | | |
| Standard Bank Limited | | |
| Interest rate swap 1 | **1 058** | 1 018 |
| Interest rate swap 2 | **466** | 225 |
| Interest rate swap 3 | **462** | 222 |
| Interest rate swap 4 | **984** | – |
| | **2 970** | 1 465 |
| Total | **543 519** | 697 343 |
| Less amounts to be settled within 12 months and included in current liabilities | **–** | (337 277) |
| | **543 519** | 360 066 |

* Excess cash is paid into the facilities on a monthly basis and when required for the distribution, the cash can be accessed without penalty from the facility.

\# Standard Bank Limited loan consist of interest bearing facilities: as set out on page 40.

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

**17. Other financial liabilities** *(continued)*

| 30 June 2015 | Variable base rate | All in cost (margin, reserving and liquidity costs) % | Loan utilised R'000 | Maturity date |
|---|---|---|---|---|
| **Standard Bank Limited** | | | | |
| Facility 1 | **Prime less 1.65%** | **–** | **–*** | **31 March 2018** |
| Facility 2 | **3m JIBAR** | **1.55** | **102 551** | **30 September 2017** |
| Facility 3 | **3m JIBAR** | **1.55** | **47 510** | **30 September 2017** |
| Facility 4 | **3m JIBAR** | **1.55** | **49 336** | **30 September 2017** |
| Facility 5 | **3m JIBAR** | **1.55** | **86 120** | **31 July 2017** |
| Facility 6 | **3m JIBAR** | **2.51** | **200 866** | **31 January 2017** |
| Facility 7 | **Prime less 1.575%** | **–** | **–*** | **31 December 2016** |
| Facility 8 | **Prime less 1.575%** | **–** | **(308)*** | **31 August 2016** |
| Facility 9 | **3m JIBAR** | **1.55** | **53 504** | **31 August 2015** |
| | | | **540 949** | |

*Access facilities 1,7 and 8 are available for drawdown

**17. Other financial liabilities** *(continued)*

| 30 June 2014 | **Variable base rate** | **All in cost (margin, reserving and liquidity costs) %** | **Loan utilised R'000** | **Maturity date** |
|---|---|---|---|---|
| **Standard Bank Limited** | | | | |
| Facility 1 | 3m JIBAR | 2.34 | 200 761 | 31 January 2017 |
| Facility 2 | Prime less 1.575% | – | 156 474 | 31 August 2016 |
| Facility 3 | Prime Less 1.65% | – | 174 035 | 28 February 2015 |
| Facility 4 | 3m JIBAR | 1.55 | 102 521 | 30 September 2014 |
| Facility 5 | 3m JIBAR | 1.55 | 62 087* | 16 July 2014 |
| | | | 695 878 | |

*Access facility 5 has R25 223 available for drawdown

| **Interest rate swaps** | **Fixed Base Rate** | **Inception Date** | **Mature Date** | **Nominal amount** |
|---|---|---|---|---|
| **30 June 2015** | | | | |
| **Standard Bank Limited** | | | | |
| Interest Rate Swap 1 | **7.26** | **12 Dec 2011** | **14 Dec 2016** | **150 000** |
| Interest Rate Swap 2 | **7.12** | **23 Mar 2012** | **22 Mar 2017** | **103 000** |
| Interest Rate Swap 3 | **7.12** | **23 Mar 2012** | **22 Mar 2017** | **102 000** |
| Interest Rate Swap 4 | **7.12** | **16 Jul 2012** | **17 Jul 2017** | **200 000** |
| | | | | **555 000** |
| 30 June 2014 | | | | |
| Standard Bank Limited | | | | |
| Interest Rate Swap 1 | 7.26 | 12 Dec 2011 | 14 Dec 2016 | 150 000 |
| Interest Rate Swap 2 | 7.12 | 23 Mar 2012 | 22 Mar 2017 | 103 000 |
| Interest Rate Swap 3 | 7.12 | 23 Mar 2012 | 22 Mar 2017 | 102 000 |
| | | | | 355 000 |

The interest rate swap agreements have the effect of swapping the variable base rates with the fixed base rates as indicated above.

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **17. Other financial liabilities** *(continued)* | | |
| **Interest rate swaps** *(continued)* | | |
| **Investec Private Bank Limited** **Carried at amortised cost** | | |
| Investec Private Bank Limited | **523 225** | – |
| Amounts to be settled within 12 months included in current liabilities | **(2 524)** | – |
| | **520 701** | – |

Investec Private Bank loan consist of the following interest bearing facilities:

| 30 June 2015 | Variable base rate | All in cost (margin, reserving and liquidity costs) % | Loan utilised R'000 | Maturity date |
|---|---|---|---|---|
| **Investec Bank** | | | | |
| Facility 1 | **3m LIBOR** | **2.85** | **158 515** | **26 February 2018** |
| Facility 2 | **3m LIBOR** | **3.10** | **364 710** | **22 May 2018** |
| | | | **523 225** | |

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **Lease liability** | | |
| **Witwatersrand Estates Limited** | | |
| Lease entered over property named Erf 531 Woodmead extension 5 and Erf 532 Woodmead extension 5. The lease term is 40 years with an option to renew | **32 670** | – |
| Minimum lease payment due: | | |
| Within one year | **317** | – |
| From second to fifth year | **3 267** | – |
| After five years | **28 586** | – |
| | **32 670** | – |

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

| | | 2015<br>R'000 | 2014<br>R'000 |
|---|---|---|---|
| **18.** | **Trade and other payables** | | |
| | Trade and other payables comprise: | | |
| | Trade payables | **563** | 457 |
| | Other payables | **136** | 341 |
| | VAT payables | **2 734** | 1 925 |
| | Income received in advance | **10 047** | 6 395 |
| | Deposits received | **2 244** | 2 184 |
| | Accrued expenses | **9 313** | 8 513 |
| | | **25 037** | 19 815 |
| **19.** | **Investment property income** | | |
| | Investment property income comprises: | | |
| | Rental income | **180 032** | 93 176 |
| | Recoveries of utilities from tenants | **42 415** | 21 990 |
| | | **222 447** | 115 166 |
| **20.** | **Property expenses** | | |
| | Property expenses comprise: | | |
| | Rental paid | **184** | 190 |
| | Rates and taxes | **14 998** | 8 417 |
| | Electricity consumption | **21 316** | 9 386 |
| | Water consumption | **2 540** | 692 |
| | Other municipal charges | **2 359** | 755 |
| | Property management fees | **4 947** | 3 016 |
| | Amortisation and depreciation | **1 774** | 928 |
| | Commissions amortised | **287** | 310 |
| | Depreciation of property, plant and equipment | **1 487** | 618 |
| | Impairment allowance | **166** | – |
| | Security | **2 349** | 1 516 |
| | Cleaning | **1 475** | 700 |
| | Insurance | **690** | 412 |
| | Other property related expenses * | **8 792** | 3 706 |
| | | **61 590** | 29 718 |

* Other property related expenses includes consumables, gardening and landscaping, repairs and maintenance and valuation costs.

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **21. Other income** | | |
| **Other income comprises:** | | |
| Sundry income | **2 850** | 5 444 |
| Dividends received | – | 24 432 |
| Loss on sale of subsidiaries | – | (26 358) |
| | **2 850** | 3 518 |

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **22. Operating profit** | | |
| Operating profit is arrived at after taking into account: | | |
| Audit fees | **459** | 743 |
| Fees for professional and consulting services | **828** | 533 |
| Travel | **205** | 39 |
| Directors' emoluments (refer note 31) | **2 007** | 1 420 |
| Stationary and subscriptions | **1 719** | 694 |
| Unrealised foreign exchange loss | **9 443** | – |
| Marketing/advertising | **150** | 85 |
| Corporate Social Investment | **195** | 229 |
| Other operating costs | **1 419** | 698 |

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **23. Finance income** | | |
| Finance income comprise interest received from: | | |
| Banks | – | 15 |
| Vunani Property Investment Trust | **96 055** | 85 477 |
| Subsidiaries | **9 087** | 17 942 |
| Other | – | 5 786 |
| | **105 142** | 109 220 |

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| **24. Finance costs** | | |
| Finance costs comprise interest paid on: | | |
| Standard Bank Limited loan (variable) | **66 920** | 33 587 |
| Interest rate swap | – | 6 712 |
| Banks | **337** | 7 |
| Amortisation of finance costs | **387** | 221 |
| Tax penalties | – | 18 |
| | **67 644** | 40 545 |

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

| | | **2015** **R'000** | 2014 R'000 |
|---|---|---|---|
| **25.** | **Fair value adjustments** | | |
| | Fair value adjustments comprise: | | |
| | Interest rate swap | **(1 504)** | 4 331 |
| | Investment property | **118 336** | 89 562 |
| | | **116 832** | 93 893 |
| **26.** | **Capital items** | | |
| | Cost incurred on unsuccessful business acquisitions | **114** | 9 |
| **27.** | **Debenture interest** | | |
| | Debenture interest comprises: | | |
| | Debenture interest to: | | |
| | Linked unitholders | **–** | 67 649 |
| **28.** | **Income tax expense** | | |
| | South African normal taxation: | | |
| | Current taxation: | | |
| | Current year | **692** | 89 |
| | Deferred taxation: | **7 371** | 832 |
| | Prior year | **3 756** | – |
| | Current year | **3 615** | 832 |
| | | **8 063** | 921 |

| **Reconciliation of effective tax rate:** | **2015** % | **2015** **R'000** | 2014 % | 2014 R'000 |
|---|---|---|---|---|
| Profit before income tax | | **298 195** | | 179 161 |
| Income tax using statutory tax rate | **28,0** | **(83 495)** | 28,0 | (50 165) |
| Change in recognised deductible temporary differences | **(9,3)** | **27 766** | – | – |
| Change in estimate related to prior years | **1,3** | **(3 756)** | – | – |
| Non-deductible expenses | **–** | **–** | 14,7 | (26 420) |
| Non-taxable income | **(16,6)** | **49 511** | (41,9) | 75 040 |
| Deductible Trust expenses | **–** | **–** | (2,8) | 5 042 |
| Recognition of previously unrecognised deferred tax asset | **(0,9)** | **2 603** | – | – |
| Other | **0,2** | **(692)** | 2,5 | (4 418) |
| Income tax at effective tax rate | **2,7** | **(8 063)** | 0,5 | (921) |

**28. Income tax expense** *(continued)*

Deferred tax assets have not been recognised in respect of estimated tax losses of R45.1 million (2014: R45.1 million). These tax losses will be available for set-off against future taxable income. Deferred tax assets have not been recognised in respect of these estimated losses because it is not probable that future taxable profit will be available against which the company can utilise the benefits thereon.

The estimated tax losses will be available to the company indefinitely per the Income Tax Act as long as the company is trading. There is currently no intention to cease trading activities.

**29. Cash generated by operations**

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| Profit before income tax | **298 195** | 179 161 |
| Adjusted for: | | |
| Amortisation and depreciation | **1 774** | 928 |
| Amortisation of debenture premium | **–** | (2 159) |
| Creation of impairment allowance | **166** | – |
| Loss on sale of subsidiary | **–** | 26 358 |
| Dividends received | **–** | 24 432 |
| Dividends paid | | |
| Finance income | **(105 142)** | (109 220) |
| Straight-line rental adjustment | **(10 779)** | (7 155) |
| Finance cost amortisation | **387** | 221 |
| Finance costs | **67 257** | 40 324 |
| Debenture interest | **–** | 67 649 |
| Fair value adjustments | **(116 832)** | (93 893) |
| Share based payment expense | **1 074** | – |
| Unrealised foreign exchange loss | **9 443** | – |
| Cash generated before working capital changes | **145 543** | 77 982 |
| Changes in working capital: | | |
| Increase in trade and other receivables | **(38 507)** | (7 591) |
| Increase in trade and other payables | **5 222** | 4 181 |
| **Cash generated by operations** | **112 258** | 89 534 |

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

### 30. Commitments

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| Operating leases – as lessor (income) | | |
| Minimum lease payments due | | |
| – within one year | **210 106** | 148 747 |
| –in second to fifth year inclusive | **568 114** | 285 692 |
| – after five years | **166 191** | 37 899 |
| Contractual cash inflows | **944 411** | 472 338 |
| Straight-line rental adjustments | **(35 648)** | (24 757) |
| Future book revenue | **908 763** | 447 581 |

Operating lease income represents rentals received by the company for certain of its office properties. Leases are negotiated for an average term of four years. Rentals on the properties escalate at an average rate of 8.5% per annum.

### 31. Related parties

Related party relationships include:

**Subsidiaries**
- Vunani Property Investment Trust ("VPIT")
- Discus House Proprietary Limited ("Discus")
- Imperial Commercial Properties Proprietary Limited ("Imperial")
- Investage 183 Proprietary Limited ("Investage)
- Sable Place Properties 121 Proprietary Limited ("Sable")
- Nungu Trading 88 Proprietary Limited ("Nungu")
- Gladstone Investment Holdings Limited
- Heddon Investment Holdings Limited
- Zeya Investment Holdings Limited
- Chobe Investment Holdings Limited
- Chevelon Investment Holdings Limited
- Texton Property Fund Limited Share Incentive Scheme Share Trust

**Asset management company**
Texton Property Investments Proprietary Limited after the successful cession and assignment of the asset management agreement from Vunani Property Asset Management Proprietary Limited ("VPAM").

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

**31. Related parties** *(continued)*

**Directors**

Refer to the directors' remuneration on page 47

Related party balances comprise:

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| *Loans to:* | | |
| Discus House Proprietary Limited | **15 791** | – |
| Investage 183 Proprietary Limited | **134 857** | – |
| Nungu Trading 88 Proprietary Limited | **322** | – |
| Sable Place Properties 121 Proprietary Limited | **35 610** | – |
| Texton Property Investment Trust | **514 372** | 579 272 |
| Chevelon Investment Holdings Limited* | **71 954** | – |
| Chobe Investment Holdings Limited* | **37 864** | – |
| Gladstone Investment Holdings Limited | **70 044** | – |
| Heddon Investment Holdings Limited | **14 251** | – |
| Zeya Investment Holdings Limited* | **24 524** | – |
| | **919 589** | 579 272 |
| *Loans from:* | | |
| Imperial Commercial Properties Propriety Limited | **(72 584)** | – |

Related party transactions comprise:

| | **2015 R'000** | 2014 R'000 |
|---|---|---|
| Finance income | | |
| Interest received from: | | |
| Greenstone Hill Office Park Propriety Limited | – | 17 942 |
| Texton Property Investment Trust | **96 055** | 85 477 |
| Discus House Proprietary Limited | **487** | |
| Nungu Trading 88 Proprietary Limited | **23** | – |
| Imperial Commercial Properties Propriety Limited | **1 218** | – |
| Investage 183 Proprietary Limited | **2 555** | – |
| Sable Place Properties 121 Proprietary Limited | **1 134** | – |
| Gladstone Investment Holdings Limited | **2 069** | – |
| Heddon Investment Holdings Limited | **421** | – |
| Zeya Investment Holdings Limited | **215** | – |
| Chobe Investment Holdings Limited | **332** | – |
| Chevelon Investment Holdings Limited | **633** | – |
| | **105 142** | 103 419 |
| Asset management fees | | |
| Fees paid to: | | |
| VPAM | – | 6 848 |
| Texton Property Investments Proprietary Limited | **14 062** | 2 740 |
| | **14 062** | 9 588 |

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

**31. Related parties** *(continued)*

| 30 June 2015 | Directors' fees R'000 | Salaries R'000 | Provident fund and medical aid contributions R'000 | Bonuses R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Independent non-executive directors** | | | | | |
| PD Naidoo (Chairperson)# | **270** | – | – | – | **270** |
| VN Balfour | **196** | – | – | – | **196** |
| JR Macey | **230** | – | – | – | **230** |
| PM Tau-Sekati | **245** | – | – | – | **245** |
| KN Vundla | **195** | – | – | – | **195** |
| TS Sishuba | **195** | – | – | – | **195** |
| **Non-executive directors** | | | | | |
| JA Legh | **195** | – | – | – | **195** |
| MJ van Heerden | **230** | – | – | – | **230** |
| RB Makhubela@ | **52** | – | – | – | **52** |
| **Executive directors** | | | | | |
| AN Du Hecquet de Rauville (CEO) | **199** | – | – | – | **199** |
| RF Kane (CEO)* | – | **2 220** | **180** | – | **2 400** |
| M de Lange (FD)* | – | **1 388** | **112** | – | **1 500** |
| LB Kan ° | – | **122** | **10** | | **132** |
| | **2 007** | **3 730** | **302** | – | **6 039** |

The executive directors, whose services have been seconded from Texton Property Investments Limited in terms of the secondment agreement, will be remunerated for their services as directors of the Fund. The executive director's remuneration is paid from the asset management fee that is earned from the company.

#PF Naidoo received financial assistance from the company in the form of a put option agreement against his shares that have been pledged as security with a financial institution.
* Resigned 5 June 2015
° Appointed 5 June 2015 and Resigned 14 July 2015 but in the employ of TPI from 1 September 2014 to 7 August 2015
@ Appointed 31 March 2015

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

### 31. Related parties *(continued)*

| 30 June 2014 | Directors' fees R'000 | Salaries R'000 | Provident fund and medical aid contributions R'000 | Bonuses R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Independent non-executive directors** | | | | | |
| PD Naidoo (Chairperson)# | 245 | – | – | – | 245 |
| RR Emslie* | 141 | – | – | – | 141 |
| JR Macey | 212 | – | – | – | 212 |
| PM Tau-Sekati | 212 | – | – | – | 212 |
| KN Vundla | 180 | – | – | – | 180 |
| **Non-executive directors** | | | | | |
| AN du Hecquet de Rauville # | 60 | – | – | – | 60 |
| JA Legh# | 60 | – | – | – | 60 |
| MJ van Heerden# | 70 | – | – | – | 70 |
| CE Chimombe-Munyoro* | 120 | – | – | – | 120 |
| EG Dube* | 120 | – | – | – | 120 |
| **Executive directors** | | | | | |
| RF Kane (CEO) | – | 1 704 | 229 | – | 1 933 |
| M de Lange (FD) | – | 1 077 | 223 | 195 | 1 495 |
| PW Mackenzie* | – | 594 | 114 | – | 708 |
| | 1 420 | 3 375 | 556 | 195 | 5 556 |

*Resigned 28 February 2014
# Appointed 1 March 2014

### 32. Business combinations

During the year under review Texton made various acquisitions that presented an opportunity to acquire a sizable portfolio of quality properties in locations which are strategic and complement Texton's existing portfolio, specifically diversifying into the United Kingdom. Texton acquired 10 businesses and 10 properties which added 23 properties to the portfolio comprising 18 South African properties and 5 properties in the United Kingdom.

### 32. Business combinations *(continued)*

The acquisition details are:

On 12 September 2014 the Company acquired the entire share capital of:

- Nungu Trading 88 Proprietary Limited with a commercial property known as Babcock, situated at 1 Osborne Lane, Bedfordview, Johannesburg. The gross lettable area measures 3 865m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in cash.

On 31 December 2014 the Company acquired the entire share capital of:

- Imperial Commercial Properties Proprietary Limited with a retail property known as Woodmead Commercial Park, situated at 17 Waterval Crescent, Woodmead. The gross lettable area measures 13 196m², which is let to a multitude of tenants on medium-term leases. The purchase price was settled partly in cash and the balance in shares.
- Discus House Proprietary Limited with a retail property known as Kempstar Mall, situated at 20 Old Pretoria Road, Kempton Park. The gross lettable area measures 6 019m², which is let to a multitude of mostly national tenants on long and medium-term leases. The purchase price was settled in shares.
- Sable Place Properties 121 Proprietary Limited with six industrial mini units in Kya Sand, Johannesburg. The gross lettable area measures 12 909m² which is let to a multitude of tenants on medium-term leases. The purchase price was settled in shares.
- Investage 183 Proprietary Limited with 3 properties
  - An industrial property known as Hermanstad Industrial Park, situated on the corner of Moot Street and E'skia Mphahlele Drive, Hermanstad. The gross lettable area measures 44 029m², which is let to a multitude of mostly national tenants on medium-term leases. The purchase price was settled in shares.
  - A commercial building known as Blue Strata House, situated at 66 Wierda Road East, Wierda Valley, Johannesburg. The gross lettable area measures 1 806m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in shares.
  - A commercial building known as Bompas Road, situated at 54 Bompas Road, Dunkeld, Johannesburg. The gross lettable area measures 750m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in shares.

On 27 February 2015 the Company acquired the entire share capital of:

- Heddon Investment Holdings Limited which acquired an industrial property known as Booker Warehouse, situated in Burton-upon-Trent, England. The gross lettable area measures 3 826m², which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in cash.
- Gladstone Investment Holdings Limited with a commercial building known as Stanford House, situated in Warrington, England. The gross lettable area measures 5 090m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in cash.

**32. Business combinations** *(continued)*

On 27 May 2015 the Company acquired the entire share capital of:

- Chevelon Investment Holdings Limited with a city centre retail complex known as Bonmarche and Poundland, situated in Nottingham, England. The gross lettable area measures 2 601m², all of which is occupied by two strong tenants on long-term, triple net leases. The purchase price was settled in cash.
- Chobe Investment Holdings Limited with a high-quality commercial building known as the Tesco Building, situated in Newcastle-upon-Tyne, England. The gross lettable area measures 9 323m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in cash.
- Zeya Investment Holdings Limited with a decentralised retail centre known as Parc Pensarn Units, situated in Carmarthen, Wales. The gross lettable area measures 1 783m², all of which is occupied by three strong tenants on long-term, triple net leases. The purchase price was settled in cash.

On 24 July 2014 the Company acquired:

- An industrial and commercial building known as Selby, situated on the corner of Main Reef Road and Press Avenue, Selby. The gross lettable area measures 10 419m$^2$, all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in cash.

On 18 September 2014 the Company acquired:

- A commercial building known as Quintiles, situated at 159 Nelson Mandela Drive, Bloemfontein. The gross lettable area measures 3 404m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in cash.
- A commercial building known as Scott Street, situated in Waverley, Johannesburg. The gross lettable area measures 4 329m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in shares.
- A section of St George's Mall, situated in Cape Town. The gross lettable area measures 1 236 m² all of which is occupied by a single tenant on a medium term, triple net lease. The purchase price was settled in cash.

On 30 October 2014 the Company acquired:

- A commercial building known as Edcon Place, situated at 12 Laub Street, Johannesburg. The gross lettable area measures 27 472m², all of which is occupied by a single tenant on a long-term, triple net lease. The purchase price was settled in shares.

On 10 June 2015 the Company acquired:

- A property known as Alrode, situated at 5 Liebenberg Road, Roodekop. The gross lettable area measures 16 557m² and the purchase price was settled in cash.

### 32. Business combinations *(continued)*

| **South African entities** | **Nungu R'000** | **Discus R'000** | **Imperial R'000** | **Investage R'000** | **Sable R'000** | **Total South Africa R'000** |
|---|---|---|---|---|---|---|
| Investment in subsidiary | **48 174** | **71 846** | **67 899** | **59 684** | **6 481** | **254 084** |
| Investment property | **–** | **–** | **–** | **–** | **–** | **–** |
| | **48 174** | **71 846** | **67 899** | **59 684** | **6 481** | **254 084** |
| Settlement of cost of investment | | | | | | |
| Cash paid/(refunded) | **48 174** | **(1 384)** | **30 087** | **(19 282)** | **(6 208)** | **51 387** |
| Shares issued | **–** | **73 230** | **37 812** | **78 966** | **12 689** | **202 697** |
| | **48 174** | **71 846** | **67 899** | **59 684** | **6 481** | **254 084** |

| **United Kingdom entities** | **Gladstone R'000** | **Heddon R'000** | **Zeya R'000** | **Chobe R'000** | **Chevelon R'000** | **Total United Kingdom R'000** |
|---|---|---|---|---|---|---|
| Investment in subsidiary | **71 153** | **2 743** | **13 758** | **189 700** | **15 178** | **292 532** |
| Investment property | **–** | **–** | **–** | **–** | **–** | **–** |
| | **71 153** | **2 743** | **13 758** | **189 700** | **15 178** | **292 532** |
| Settlement of cost of investment | | | | | | |
| Cash paid | **71 153** | **2 743** | **13 758** | **189 700** | **15 178** | **292 532** |
| Shares issued | **–** | **–** | **–** | **–** | **–** | **–** |
| | **71 153** | **2 743** | **13 758** | **189 700** | **15 178** | **292 532** |

| **South African properties** | **Selby R'000** | **Quintile R'000** | **Scott Street R'000** | **St Georges Mall R'000** | **Edcon R'000** | **Alrode R'000** | **Sub total South Africa R'000** |
|---|---|---|---|---|---|---|---|
| Investment in subsidiary | – | – | – | – | – | – | – |
| Investment property | 52 737 | 47 500 | 107 805 | 21 130 | 153 948 | 51 138 | 434 258 |
| | 52 737 | 47 500 | 107 805 | 21 130 | 153 948 | 51 138 | 434 258 |
| Settlement of cost of investment | | | | | | | |
| Cash paid | 52 737 | 47 500 | – | 21 130 | – | 51 138 | 172 505 |
| Shares issued | – | – | 107 805 | – | 153 948 | – | 261 753 |
| | 52 737 | 47 500 | 107 805 | 21 130 | 153 948 | 51 138 | 434 258 |
| Revenue since acquisition | 15 127 | 4 908 | 19 242 | 1 890 | 29 132 | 937 | 71 236 |
| Revenue if held for full year | 16 502 | 6 545 | 25 656 | 2 521 | 34 958 | 6 254 | 94 436 |
| Profit/(loss) since acquisition | 13 081 | 8 815 | 18 148 | 3 260 | 28 881 | 1 683 | 73 868 |
| Profit/(loss) if held for the full year | 14 270 | 11 753 | 24 197 | 4 347 | 34 658 | 4 709 | 93 934 |

**32. Business combinations** *(continued)*

| | Total South African Entities R'000 | Total United Kingdom Entities R'000 | Total South African Properties R'000 | Total investments R'000 |
|---|---|---|---|---|
| Investment in subsidiary | **254 084** | **292 532** | **–** | **546 616** |
| Investment property | **–** | **–** | **434 258** | **434 258** |
| | **254 084** | **292 532** | **434 258** | **980 874** |
| Settlement of cost of investment | | | | |
| Cash paid | **51 387** | **292 532** | **172 505** | **516 424** |
| Shares issued | **202 697** | **–** | **261 753** | **464 450** |
| | **254 084** | **292 532** | **434 258** | **980 874** |

2013/2014

On 1 August 2013, the company acquired buildings 4, 5 and 10 – 15 in the sectional title schemes known as Greenstone Hill Office Park SS1149/2008 and SS599/2009 with associated exclusive use areas, situated at Emerald Boulevard, Greenstone Hill, with a gross lettable area measuring 14 640m$^2$ , The purchase price was settled in cash.

On 30 October 2013, the company acquired buildings 2 and 6 in the sectional title schemes known as Greenstone Hill Office SS1149/2008 with associated exclusive use areas, situated at Emerald Boulevard, Greenstone Hill Park, with a gross lettable area measuring 3 026m$^2$. The purchase price was settled in cash.

The property known as Wellington Road with a gross lettable area measuring 10 019m$^2$ was acquired on 17 March 2014 and is situated at 30 – 32 Wellington Road, Parktown. The purchase price was settled in cash.

On 1 April 2014, the property known as Bryanston Gate, situated at the corner of Main Road and Homestead Avenue, Bryanston, Sandton, with a gross lettable area measuring 16 659m$^2$, was acquired. The purchase price was settled in cash.

### 32. Business combinations *(continued)*

2013/2014 *(continued)*

The table below indicates the net assets acquired on the abovementioned business combinations:

| | Greenstone Hill Office Park (buildings 4, 5 and 10 – 15) R'000 | Greenstone Hill Office Park (buildings 2 and 6) R'000 | Wellington Road R'000 | Bryanston Gate R'000 | Total R'000 |
|---|---|---|---|---|---|
| Investment in subsidiary | **26 377** | **–** | **–** | **–** | **26 377** |
| Investment property | **–** | **54 348** | **102 500** | **174 000** | **330 848** |
| | **26 377** | **54 348** | **102 500** | **174 000** | **357 225** |
| Settlement of cost of investment | | | | | |
| Cash paid | **26 377** | **54 348** | **102 500** | **174 000** | **357 149** |
| After-tax profits since acquisitions | **1 394*** | **3 326** | **3 213** | **5 216** | **13 149** |
| Full-year after-tax profits | **1 521*** | **4 990** | **11 015** | **31 293** | **48 819** |

* These buildings represent the net income of the company's Greenstone Hill Office Park after all finance costs. The net income (excluding finance costs) for the properties only since acquisition was R16,7 million and full-year after-tax profits would be R18,2 million.

### 33. Operating segments

No segmental information applicable to the company is submitted to the company's CEO (Chief Operating Decision Maker). The information submitted to him is that of the group.

The group has eight reportable segments based on the geographic split of the country which are the group strategic business segments. For each strategic business segment, the Company's CEO reviews internal management reports on at least a monthly basis. Segments are located in South Africa and the United Kingdom.

There are no single major customers. Free State is new due to the properties acquired in that regions during this year.

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

**33. Operating segments** *(continued)*

The following summary describes the operations in each of the group's reportable segments:

| GAUTENG | GAUTENG | | | | WESTERN CAPE | | | |
|---|---|---|---|---|---|---|---|---|
| R'000 | Commercial | Retail | Industrial | Total | Commercial | Retail | Industrial | Total |
| **Extracts from the statement of comprehensive income 30 June 2014** | | | | | | | | |
| Investment property income | 243 556 | 26 855 | 21 835 | 292 246 | 66 725 | 1 073 | 2 915 | 70 713 |
| Property expenses | (77 755) | (10 260) | (10 167) | (98 182) | (19 489) | (638) | (575) | (20 702) |
| Segment results | 165 801 | 16 595 | 11 668 | 194 064 | 47 236 | 435 | 2 340 | 50 011 |
| **Extracts from the statement of financial position as at 30 June 2014** | | | | | | | | |
| Investment property | – | – | – | – | – | – | – | – |
| Opening balance | 1579102 | 20 255 | – | 1 599 357 | 399 743 | 5 126 | – | 404 869 |
| Additions through business combinations | 373 172 | 253 650 | 280 665 | 907 487 | 21 130 | – | – | 21 130 |
| Lease liability in business combination | – | – | – | – | – | – | – | – |
| Disposals | | | | | | | | |
| Other additions | 7 079 | 21 | – | 7 100 | – | 35 | – | 35 |
| Straight-line rental adjustment | 11 275 | (1 602) | 1 243 | 10 916 | 78 | (21) | – | 57 |
| Cumulative fair value adjustments | 52 988 | 12 807 | 5 193 | 70 988 | 76 383 | 290 | – | 76 673 |
| Foreign currency translation difference | – | – | – | – | – | – | – | – |
| Closing balance | 2 023 616 | 285 131 | 287 101 | 2 595 848 | 497 334 | 5 430 | – | 502 764 |

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

**33. Operating segments** *(continued)*

| **NORTH WEST EASTERN CAPE** | **NORTH WEST** | | | | **EASTERN CAPE** | | | |
|---|---|---|---|---|---|---|---|---|
| R'000 | Commercial | Retail | Industrial | Total | Commercial | Retail | Industrial | Total |
| **Extracts from the statement of comprehensive income 30 June 2014** | | | | | | | | |
| Investment property income | 8 910 | – | – | 8 910 | 6 152 | 4 800 | – | 10 952 |
| Property expenses | (1 971) | – | – | (1 971) | (2 127) | (1 157) | – | (3 284) |
| Segment results | 6 939 | – | – | 6 939 | 4 025 | 3 643 | – | 7 668 |
| **Extracts from the statement of financial position as at 30 June 2014** | | | | | | | | |
| Investment property | – | – | – | – | – | – | – | – |
| Opening balance | 62 409 | – | – | 62 409 | 54 955 | 41 311 | – | 96 266 |
| Additions through business combinations | – | – | – | – | – | – | – | – |
| Disposals | – | – | – | – | – | (41300) | – | (41 300) |
| Other additions | – | – | – | – | – | 6 | – | 6 |
| Straight-line rental adjustment | (495) | – | – | (495) | 374 | (1 848) | – | (1 474) |
| Cumulative fair value adjustments | 1 984 | – | – | 1 984 | (2874) | 7 644 | – | 4 770 |
| Foreign currency translation difference | – | – | – | – | – | – | – | – |
| Closing balance | 63 898 | – | – | 63 898 | 52 455 | 5 813 | – | 58 268 |

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

### 33. Operating segments *(continued)*

| | KWA/ZULU NATAL | | | | NORTHERN CAPE | | | |
|---|---|---|---|---|---|---|---|---|
| R'000 | Commercial | Retail | Industrial | Total | Commercial | Retail | Industrial | Total |
| **Extracts from the statement of comprehensive income 30 June 2014** | | | | | | | | |
| Investment property income | 4 016 | 330 | – | 4 346 | 1 267 | – | – | 1 267 |
| Property expenses | (1 100) | (90) | – | (1 190) | (226) | – | – | (226) |
| Segment results | 2 916 | 240 | – | 3 156 | 1 041 | – | – | 1 041 |
| **Extracts from the statement of financial position as at 30 June 2014** | | | | | | | | |
| Investment property | – | – | – | – | – | – | – | – |
| Opening balance | 27 295 | 2 331 | – | 29 626 | 9 998 | – | – | 9 998 |
| Additions through business combinations | – | – | – | – | – | – | – | – |
| Disposals | – | – | – | – | – | – | – | – |
| Other additions | 35 | 8 | – | 43 | – | – | – | – |
| Straight-line rental adjustment | 61 | 4 | – | 65 | (71) | – | – | (71) |
| Cumulative fair value adjustments | 4 403 | 340 | – | 4 743 | 1 822 | – | – | 1 822 |
| Foreign currency translation difference | – | – | – | – | – | – | – | – |
| Closing balance | 31 794 | 2 683 | – | 34 477 | 11 749 | – | – | 11 749 |

# Texton Property Fund Limited

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

### 33. Operating segments *(continued)*

| | FREE STATE | | | |
|---|---|---|---|---|
| R'000 | Commercial | Retail | Industrial | Total |
| **Extracts from the statement of comprehensive income 30 June 2014** | | | | |
| Investment property income | 4 316 | – | – | 4 316 |
| Property expenses | (882) | – | – | (882) |
| Segment results | 3 434 | – | – | 3 434 |
| **Extracts from the statement of financial position as at 30 June 2014** | | | | |
| Investment property | – | – | – | – |
| Opening balance | – | – | – | – |
| Additions through business combinations | 47 500 | – | – | 47 500 |
| Disposals | – | – | – | – |
| Other additions | – | – | – | – |
| Straight-line rental adjustment | 592 | – | – | 592 |
| Cumulative fair value adjustments | 4 768 | – | – | 4 768 |
| Foreign currency translation difference | – | – | – | – |
| Closing balance | 52 860 | – | – | 52 860 |

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

**33. Operating segments** *(continued)*

| **UNITED KINGDOM** | **UNITED KINGDOM** | | | |
|---|---|---|---|---|
| R'000 | Commercial | Retail | Industrial | Total |
| **Extracts from the statement of comprehensive income 30 June 2014** | | | | |
| Investment property income | 6 928 | 808 | 695 | 8 431 |
| Property expenses | (640) | (125) | (67) | (832) |
| Segment results | 6 288 | 683 | 628 | 7 599 |
| **Extracts from the statement of financial position as at 30 June 2014** | | | | |
| Investment property | – | – | – | – |
| Opening balance | – | – | – | – |
| Additions through business combinations | 573 805 | 186 865 | 29 160 | 789 830 |
| Disposals | – | – | – | – |
| Other additions | – | – | – | – |
| Straight-line rental adjustment | – | – | – | – |
| Cumulative fair value adjustments | – | – | – | – |
| Foreign currency translation difference | 28 317 | 6 232 | 2 142 | 36 691 |
| Closing balance | 573 805 | 186 865 | 29 160 | 789 830 |

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

### 33. Operating segments *(continued)*

| **Total** | **Total** | | | |
|---|---|---|---|---|
| R'000 | Commercial | Retail | Industrial | Total |
| **Extracts from the statement of comprehensive income 30 June 2014** | | | | |
| Investment property income | 341 870 | 33 866 | 25 445 | 401 181 |
| Property expenses | (104 190) | (12 270) | (10 809) | (127 269) |
| Segment results | 237680 | 21596 | 14636 | 273912 |
| | | | | |
| **Extracts from the statement of financial position as at 30 June 2014** | | | | |
| Investment property | – | – | – | – |
| Opening balance | 2 133 502 | 69 023 | – | 2 202 525 |
| Additions through business combinations | 1 015 607 | 440 515 | 309 825 | 1 765 947 |
| Disposals | – | (41 300) | – | (41 300) |
| Other additions | 7 114 | 70 | – | 7 184 |
| Straight-line rental adjustment | 11 814 | (3 467) | 1 243 | 9 590 |
| Cumulative fair value adjustments | 139 474 | 21 081 | 5 193 | 165 748 |
| Foreign currency translation difference | 28 317 | 6 232 | 2 142 | 36 691 |
| Closing balance | 3 335 828 | 492 154 | 318 403 | 4 146 385 |

## Notes to the financial statements

*for the year ended 30 June 2015 (continued)*

### 34. Risk management

34.1 Liquidity risk

| | Carrying amounts R'000 | Un-discounted contractual cash flows R'000 | Less than 1 year R'000 | 2 – 5 years R'000 | Greater than 5 years R'000 |
|---|---|---|---|---|---|
| **30 June 2015** | | | | | |
| *Non derivative financial liabilities* | | | | | |
| Non-interest bearing | **(12 256)** | **(12 256)** | **(12 256)** | – | – |
| Fixed interest rate instruments | **(2 970)** | **(2 970)** | **(2 970)** | – | – |
| Variable interest rate instruments | **(1 136 358)** | **(1 180 494)** | **(75 108)** | **(1 105 386)** | – |
| | **(1 151 584)** | **(1 195 720)** | **(90 334)** | **(1 105 386)** | – |
| 30 June 2014 | | | | | |
| *Non derivative financial liabilities* | | | | | |
| Non-interest bearing | (17 890) | (17 890) | (17 890) | – | – |
| Fixed interest rate instruments | (1 465) | (1 465) | (1 465) | – | – |
| Variable interest rate instruments | (695 878) | (809 630) | (223 981) | (585 649) | – |
| | (715 233) | (828 985) | (243 336) | (585 649) | – |

34.2 Market risk

34.2.1 Interest rate risk

The company is exposed to cash flow interest rate risk as it borrows funds at variable interest rates.

| Interest rate exposure is as follows: | **2015 R'000** | 2014 R'000 |
|---|---|---|
| *Fixed rate instruments* | | |
| Financial liabilities | **(2 970)** | (1 465) |
| *Variable rate instruments* | | |
| Financial assets | **1 047 309** | 642 667 |
| Financial liabilities | **(1 136 358)** | (695 878) |
| | **(89 049)** | (53 211) |

Cash flow sensitivity analysis for variable rate instruments
A change of 50 basis points in the interest rates at year end would have increased/(decreased) equity and profit or loss by amounts shown below. This analysis assumes that all other variables remain constant.

| Effect on equity and profit or loss | | |
|---|---|---|
| 50 basis points increase | **(445)** | (266) |
| 50 basis points decrease | **445** | 255 |

**34. Risk management** *(continued)*

34.2 Market risk *(continued)*

34.2.1 Interest rate risk *(continued)*

The Fund is exposed to interest rate risk and adopts a policy of ensuring that 70% to 80% of its exposure to changes in interest rates on borrowings is on a fixed basis. This is achieved by entering into fixed rate swap instruments. All such transactions are carried out within the guidelines set by the audit and risk committee. As a consequence, the Fund is exposed to fair value interest rate risk in respect of the fair value of its interest rate financial instruments, which will not have an impact on distributions. Short-term receivables and payables and investments are not directly exposed to interest rate risk.

34.2.2 Currency risk

The company has loans denominated in foreign currency hence exposure to exchange rate fluctuations arise. The currency giving rise to currency risk in which the company primarily deals is sterling (GBP).

At the reporting date, the company's exposure to foreign currency risk was as follows, based on notional amount.

| | **2015** | 2014 |
|---|---|---|
| GBP | | |
| Foreign loans payable | **27 367** | – |

The following significant exchange rates applied during the year:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Closing rate** | **Average rate** | Closing rate | Average rate |
| GBP | **19,12** | **17,99** | – | – |

*Sensitivity analysis*
A 10% strengthening of the Rand against the Pound Sterling at 30 June would have increased/(decreased) profits and equity by the amount shown below. This calculations assumes that all other variables, in particular interest rates remain constant.

| | **2015** | 2014 |
|---|---|---|
| | **R'000** | R'000 |
| GBP | **52 323** | – |

A 10% weakening of the Rand against the Pound Sterling at 30 June would have the equal but opposite effect on the currency to the amount shown above, on the basis that all other variables remain constant.

### 34. Risk management *(continued)*

34.3 Credit risk

The carrying amount of financial assets below represents the maximum credit exposure. The maximum exposure of credit risk was:

| | 2015 R'000 | 2014 R'000 |
|---|---|---|
| Trade and other receivables | **53 803** | 14 969 |
| Cash and cash equivalents | **126 720** | 63 395 |
| Loan to group entity | **514 372** | 579 272 |
| Loans to subsidiaries | **405 217** | – |
| | **1 100 112** | 657 636 |

34.4 Fair values

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying amount R'000** | **Fair value R'000** | Carrying amount R'000 | Fair value R'000 |
| Financial assets | | | | |
| Loans to subsidiaries | **405 217** | **405 217** | – | – |
| Loan to group entity | **514 372** | **514 372** | 579 272 | 579 272 |
| Trade and other receivables | **53 803** | **53 803** | 14 969 | 14 969 |
| Cash and cash equivalents | **126 720** | **126 720** | 63 395 | 63 395 |
| | **1 100 112** | **1 100 112** | 657 636 | 657 636 |
| Financial liabilities | | | | |
| Amortised cost | **(1 148 614)** | **(1 148 614)** | (713 695) | (713 695) |
| Fair value through profit or loss | **(2 970)** | **(2 970)** | (1 465) | (1 465) |
| | **(1 151 584)** | **(1 151 584)** | (715 160) | (715 160) |

The fair value of trade receivables approximate its carrying amount as it is short term in nature. The fair values of all financial instruments, interest rate swaps and fixed rate financial liabilities are substantially the same as the carrying amounts reflected on the statement of financial position.

**34. Risk management** *(continued)*

34.4 Fair values *(continued)*

**Fair value hierarchy**

The company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category also includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the company determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps that use only observable market data and require little management judgement and estimation.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values.

Investments at fair value in Level 3 represents investment properties and investment properties held for sale. A detailed reconciliation, as well as a sensitivity analysis of all major assumptions, have been included as part of the investment property note. Refer note 5. All fair value adjustments were accounted for in profit or loss.

Cash and cash equivalents are not fair valued and the carrying amounts is presumed to equal fair value. Short term receivables and short term payables are measured at amortised cost and approximate fair value due to the short term nature of these instruments. These instruments are not included in the fair value hierarchy.

## Notes to the financial statements
*for the year ended 30 June 2015 (continued)*

**34. Risk management** *(continued)*

34.4 Fair values *(continued)*

**Fair value hierarchy** *(continued)*

The table below analyses financial instruments carried at fair value, by valuation method.

| | Level 1 R'000 | Level 1 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| **30 June 2015** | | | | |
| Financial instrument | | | | |
| Interest rate swap | – | **2 970** | – | **2 970** |
| Investment properties | – | – | **2 029 817** | **2 029 817** |
| Investment property classified as held-for-sale | – | – | **24 000** | **24 000** |
| 30 June 2014 | | | | |
| Financial instrument | | | | |
| Interest rate swap | – | 1 465 | – | 1 465 |
| Investment properties | – | – | 1 306 526 | 1 306 526 |
| Investment property held-for-sale | – | – | 24 000 | 24 000 |

**35. Going concern**

The financial statements have been prepared on a going concern basis and nothing has come to the attention of the directors to indicate that the company would not remain a going concern for the foreseeable future.

The directors have reviewed the assumptions underlying the going-concern statements which are discussed at every board meeting. These assumptions include:

- Budgeting and forecasts;
- Profitability;
- Capital; and
- Solvency and liquidity

Furthermore, those requirements such as stipulated by Standard Bank (for SA properties); Investec (for UK properties); Nedbank (for the share incentive scheme); and the PIC (for BEE transaction) have been satisfied in full.

| **36. Dividends and distributions** | **2015 R'000** | 2014 R'000 |
|---|---|---|
| 45.47 cents per share (2014 – 39.25 cents) declared August 2014 | **76 909** | – |
| 44.68 cents per share (2014 – 40.00 cents) declared February 2015 | **93 148** | 67 649* |
| | **170 057** | 67 649 |

On 27 August 2015 a dividend of 50.09 cents per share in respect of the year ended 30 June 2015 (2014 – 45.47) was declared totalling R93.1 million (2014 – R76.9 million) payable 19 October 2015. These financial statements do not reflect this dividend payable.

* Distributions per linked unit

### 37. Events after the reporting date

On 2 March 2015, the Fund entered into agreements, including a joint venture agreement with Moorgarth Holdings (Luxembourg) S.a.r.l (Moorgarth), a subsidiary of JSE-listed Tradehold Limited, whereby Texton acquired 50% of a special purpose vehicle, Inception (Reading) S.a.r.l (Inception). Inception was then used as the vehicle to acquire a well-located retail shopping centre (Broad Street Mall) in Reading, England (the Property), with Texton's 50% contribution for the total purchase price. The acquisition of Broad Street Mall Property was successfully concluded on 3 July 2015.

The company completed the sale of the Brickfields Building 10 July 2015.

The details of the acquisition and disposal are as follows:

| **Details:** | **Acquisition Broad Street Mall** | **Held for sale Brickfield Building** |
|---|---|---|
| **Description of property** | Broad Street Mall, Reading, registered at the Land Registry with freehold under title numbers BK383592 and BK383593<br>Retail shopping centre including an office space in two office buildings and a car park with over 740 spaces | Erf 13753, Salt river 5-9 Brickfield Road, Salt River, gross lettable area 5 251sqm |
| **Purchase/(disposal) price** | R570 935 520 | (R28 000 000) |
| **Payment method** | Pound sterling loan facilities | Cash |
| **Region** | Reading, England | Western Cape |
| **Sector** | Retail | Commercial |
| **Vacancy** | 7,2% | Nil |
| **Tenant** | Consists of 75 retail units and six kiosks | Single |
| **Gross lettable area (GLA)** | 17 930 sqm | 5 251 sqm |

Up to date of this report and subsequent to the year under review, the following share transactions have been concluded:

On Friday, 2 October 2015 Texton closed a rights offer that was fully subscribed. It was a partially underwritten rights offer to raise up to R986 million through the issue of 100 000 000 new Texton shares (rights offer shares) in the ratio of 36,22312 for every 100 Texton shares held on Friday, 18 September 2015, being the rights offer record date (record date), at an issue price of R9,86 per rights offer share (rights offer).

## 37. Events after the reporting date *(continued)*

The company has successfully raised the R986 million from shareholder or any other person in whose favour a shareholder has renounced all or a portion of their rights pursuant to the rights offer (renounces). The results of the rights offer are set out below:

| | **Number of rights offer shares** | **% of rights offer shares** |
|---|---|---|
| Rights offer shares available for subscription | **100 000 000** | **100** |
| Total number of rights offer shares applied for by shareholders or their renounces pursuant to letters of allocation | **68 927 757** | **68,93** |
| Total applications received from shareholders wishing to acquire rights offer shares in addition to their rights entitlements (excess applications) | **193 986** | **0,19** |
| Rights offer shares allocated to shareholders or their renounces pursuant to excess applications | **193 986** | **0,19** |
| Rights offer shares allocated to Luna Group Proprietary Limited (the underwriter) | **30 878 257** | **30,88** |

Refer to director's report for allocation to directors and related parties.

TEXTON

PROPERTY FUND

www.texton.co.za