ACSION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 31 AUGUST 2019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 August 2019

	Unaudited Six months 31 August 2019 R'000	Unaudited Six months 31 August 2018 R'000	Audited Year ended 28 February 2019 R'000
ASSETS			
Non-current assets			
Investment property	**7 521 076**	6 642 073	**7 409 903**
Property, plant and equipment	**662 328**	79 348	**671 533**
Operating lease asset	**140 352**	145 295	**143 641**
Goodwill	**625 464**	625 464	**625 464**
Prepayments	**233 296**	326 429	**233 296**
Investment in associate	**1 541**	1 471	**1 541**
Other financial assets	**5 432**	5 372	**5 432**
Deferred tax	**–**	32 907	**24 352**
	9 189 489	7 858 359	**9 115 162**
Current assets			
Operating lease asset	**17 396**	6 720	**13 144**
Loans to related companies	**1 699**	899	**1 699**
Current tax receivable	**2 504**	13 661	**2 504**
Trade and other receivables	**25 795**	27 547	**72 010**
Loans to shareholders	**4 053**	4 053	**4 053**
Cash and cash equivalents	**151 844**	83 852	**74 612**
	203 291	136 732	**168 022**
Non-current assets held for sale	**–**	50 697	**–**
Total assets	**9 392 780**	8 045 788	**9 283 184**
EQUITY AND LIABILITIES			
Equity			
Share capital	**3 967 615**	3 968 078	**3 968 078**
Reserves	**30 508**	–	**22 567**
Retained income	**2 958 123**	2 047 183	**2 828 881**
Equity attributable to owners of the company	**6 956 246**	6 015 261	**6 819 526**
Non-controlling interest	**59 595**	44 516	**55 565**
Total equity	**7 015 841**	6 059 777	**6 875 091**
LIABILITIES			
Non-current liabilities			
Deferred tax	**1 392 623**	1 226 470	**1 405 014**
Other financial liabilities	**618 051**	638 970	**630 004**
Lease obligations	**220 543**	–	**209 588**
	2 231 217	1 865 440	**2 244 606**
Current liabilities			
Current tax payable	**3 633**	16 725	**4 747**
Loans from shareholders	**3 234**	–	**3 151**
Other financial liabilities	**26 693**	19 621	**23 453**
Provisions	**4 490**	3 234	**3 767**
Trade and other payables	**107 666**	80 958	**128 270**
Dividends payable	**6**	33	**99**
	145 722	120 571	**163 487**
Total liabilities	**2 376 939**	1 986 011	**2 408 093**
Total equity and liabilities	**9 392 780**	8 045 788	**9 283 184**

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 31 August 2019

	Unaudited Six months 31 August 2019 R'000	Unaudited Six months 31 August 2018 R'000	Audited Year ended 28 February 2019 R'000
Revenue	336 396	322 755	653 351
Other operating income	1 859	5 822	9 345
Other operating gains	1 717	–	–
Other operating expenses	(120 362)	(111 909)	(224 223)
Operating profit	219 610	216 668	438 473
Investment income	5 731	9 338	13 917
Finance costs	(32 666)	(30 516)	(61 654)
Profit from associate	–	–	70
Profit on sale of non-current assets held for sale	–	151	(68)
Fair value adjustments	–	–	837 877
Profit before taxation	192 675	195 641	1 228 615
Taxation	(59 402)	(53 308)	(293 439)
Profit for the period	133 273	142 333	935 176
Other comprehensive income:			
Items that may not be reclassified to profit or loss:			
Gains on property revaluation	–	–	30 347
Income tax relating to items that may not be reclassified	–	–	(6 798)
Total items that may not be reclassified to profit or loss	–	–	23 549
Other comprehensive income for the year net of taxation	–	–	23 549
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	7 941	–	–
Total comprehensive income for the period	141 214	142 333	958 725
Profit attributable to:			
Owners of the parent	129 242	138 939	920 734
Non-controlling interest	4 031	3 394	14 442
	133 273	142 333	935 176
Total comprehensive income attributable to:			
Owners of the parent	137 183	138 939	944 283
Non-controlling interest	4 031	3 394	14 442
	141 214	142 333	958 725
Basic and diluted earnings per share (cents)	32,9	35,3	233,9
Headline earnings per share (cents)	32,9	35,3	71,7
Reconciliation between earnings and headline earnings			
Basic earnings	129 242	138 939	920 734
Adjusted for:			
Fair valuation adjustment, net of taxation	–	–	(650 192)
Non-controlling interest relating to fair value adjustment	–	–	11 403
Loss on non-current assets held for sale	–	–	375
Impairment of investment property	–	–	–
Gain on non-current assets held for sale	–	(151)	–
Profit on sale of plant and equipment	–	–	–
Foreign exchange gain	–	–	–
Headline earnings	129 242	138 788	282 320
Net asset value per share (cents)	1 768,3	1 528,8	1 733,6
Net asset value per share excluding deferred taxation (cents)	2 122,4	1 832,2	2 084,5
Dividend per share (cent)	–	25,0	–

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 August 2019

	Share capital R'000	Treasury shares R'000	Total share capital R'000	Foreign currency translation reserve R'000	Revaluation reserve R'000	Total reserves R'000	Retained income R'000	Total equity attributable to the owners of the company R'000	Non-controlling interest R'000	Total equity R'000
GROUP										
Balance at 1 March 2018	3 979 956	(10 331)	3 969 625	–	–	–	2 006 548	5 976 173	41 122	6 017 295
Total comprehensive profit for period	–	–	–	–	–	–	138 939	138 939	3 394	142 333
Dividends paid	–	–	–	–	–	–	(98 304)	(98 304)	–	(98 304)
Purchase of treasury shares	–	(1 547)	(1 547)	–	–	–	–	(1 547)	–	(1 547)
Balance at 31 August 2018	3 979 956	(11 878)	3 968 078	–	–	–	2 047 183	6 015 261	44 516	6 059 777
Total comprehensive profit for period	–	–	–	–	23 549	23 549	781 795	805 344	11 048	816 392
Dividends paid	–	–	–	–	–	–	(97)	(97)	–	(97)
Foreign currency translation reserve	–	–	–	(982)	–	(982)	–	(982)	–	(982)
Balance at 28 February 2019	3 979 956	(11 878)	3 968 078	(982)	23 549	22 567	2 828 881	6 819 526	55 564	6 875 090
Total comprehensive profit for period	**–**	**–**	**–**	**–**	**–**	**–**	**129 242**	**129 242**	**4 031**	**133 273**
Purchase of treasury shares	**–**	**(181)**	**(181)**	**–**	**–**	**–**	**–**	**(181)**	**–**	**(181)**
Adjustment to treasury share costs	**–**	**(282)**	**(282)**	**–**	**–**	**–**	**–**	**(282)**	**–**	**(282)**
Foreign currency translation reserve	**–**	**–**	**–**	**7 941**	**–**	**7 941**	**–**	**7 941**	**–**	**7 941**
Balance at 31 August 2019	**3 979 956**	**(12 341)**	**3 967 615**	**6 959**	**23 549**	**30 508**	**2 958 123**	**6 956 246**	**59 595**	**7 015 841**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 August 2019

	Unaudited Six months 31 August 2019 R'000	Unaudited Six months 31 August 2018 R'000	Audited Year ended 28 February 2019 R'000
Cash flows from operating activities			
Cash generated from operations	**253 591**	229 707	**511 922**
Investment income received	**5 731**	9 338	**13 917**
Finance costs paid	**(32 666)**	(30 516)	**(61 283)**
Taxation paid	**(48 837)**	(43 786)	**(104 438)**
Net cash from operating activities	**177 819**	164 743	**360 118**
Cash flows from investing activities			
Purchase of plant and equipment	**(1 121)**	(16 728)	**(36 846)**
Proceeds on sale of plant and equipment	**–**	2 695	**–**
Development costs of investment property	**(111 173)**	(174 479)	**(353 161)**
Decrease in financial assets	**–**	1 475	**1 415**
Proceeds on sale of non-current assets held for sale	**–**	1 871	**3 265**
Net cash used in investing activities	**(112 294)**	(185 166)	**(385 327)**
Cash flows from financing activities			
Purchase of treasury shares	**(181)**	(1 547)	**(1 547)**
Decrease in other financial liabilities	**(8 713)**	(8 554)	**(13 688)**
Proceeds of loans from shareholders	**83**	–	**3 151**
Finance lease movement	**10 955**	–	**(286)**
Finance costs	**–**	–	**(372)**
Advance of loans to group associate company	**–**	–	**(800)**
Dividends paid	**(93)**	(98 304)	**(98 335)**
Net cash from/(used in) financing activities	**2 051**	(108 405)	**(111 877)**
Total cash movement for the period	**67 576**	(128 828)	**(137 086)**
Cash at the beginning of the period	**74 612**	212 680	**212 680**
Effect of exchange rate movement on cash balances	**9 656**	–	**(982)**
Total cash at end of the period	**151 844**	83 852	**74 612**

GEOGRAPHIC AND TENANT PROFILES

The existing income generating investment properties consist of nine well established, strategically located retail properties in Gauteng, Mpumalanga and Limpopo with an aggregate gross lettable area ("GLA") of 257 081 m^2 (2019H1: 256 644 m^2). The tenant profile by GLA comprises 70% national tenants (2019H1: 72%), 17% semi-national (2019H1: 18%) and 13% line and other franchises (2019H1: 10%). The tenant profile is separated into national and semi-national tenants to indicate the exposure Acsion has to direct head office leases and individual franchises. Exposure to national and semi-national tenants as a percentage of GLA is at 87% (2019H1: 90%). Line shops and other franchises are carefully vetted by Acsion's leasing division to promote maximum dwelling time and footfall in each centre, underpinning trading densities and the overall sustainability of tenants' lease terms.

	Tenant profile by GLA	Tenant profile by revenue		Sector profile by GLA	Sector profile by revenue		Geographic profile by GLA	Geographic profile by revenue
National	70%	64%	Retail – Metropolitan	61%	66%	Gauteng	69%	72%
Semi-national	17%	21%	Retail – Rural	37%	33%	Limpopo	15%	13%
Line and other franchises	13%	15%	Light – Industrial	2%	1%	Mpumalanga	16%	15%

COMMENTARY

ABOUT ACSION

Acsion Limited ("the Group" or "the Company") is a property development company listed on the Johannesburg Stock Exchange ("JSE"). Acsion differs from Real Estate Investment Trusts ("REITs") in the listed property sector as it focuses on property development and incorporates all facets of real estate, not only distribution growth and distribution. The company also manages all their property in-housing via Anaprop Property Management. Since listing in December 2014, the company has been able to deliver double digit Net Asset Value uplift to its investors. The company continues to bolster its development pipeline and enhance its existing portfolio (see commentary below).

OPERATIONAL AND DEVELOPMENT UPDATE:

DEVELOPMENT PIPELINE:

ACSIOPOLIS:

Acsiopolis (Benmore) has been designed as a twenty storey mixed use development, situated in the heart of Sandton. Acsiopolis addresses the new micro-living trend, which is developing in the commercially dense Sandton node, allowing people to live and work in close proximity, whilst taking advantage of 5-star amenities, and reducing their carbon foot print with state of the art public transport. The land site measures approximately one hectare and is well positioned on Benmore Drive upon which 141 000 m^2 of gross build area is being developed. The majority of the build area has been earmarked for short-term residential letting which is still owned by Acsion. The remaining portions of the building will provide complimentary services to enhance the service offering of the short term accommodation of the occupants, these include: 35 000 m^2 of executive suites, 26 000 m^2 longer stay apartments, 5 000 m^2 to be utilised for retail purposes and 1 000 m^2 for office use. Acsiopolis will incorporate six levels of parking equating to approximately 1 400 parking bays which is expected to further enhance convenience for shoppers and residents alike. In addition to vehicular access, Acsiopolis has been designed to take into consideration the evolving public transport systems in Sandton to accommodate the integration of pedestrian accessibility. New innovations such as solar PV and electric car charging stations, will be incorporated to bring the building in line with international design standards, and to provide residents with technology to challenge the head winds of the fourth industrial revolution. Construction of the development has been effected by the construction slowdown in South Africa and delays have been experienced. The development team have made a considerable effort to keep the development on track with the intended timeline and is expecting to deliver the final Acsiopolis offering to the market by Q4 of F2021. This development represents the largest single phase developments the Group has undertaken to date within South Africa.

METROPOLIS MALL@LARNACA

Metropolis Mall@Larnaca is the Group's first international retail development. The Group has signed a leasehold over land in Larnaca, Cyprus. The lease is a 33 year lease with two options to renew of 33 years each. The Group has started to develop a 39 000 m^2 retail centre. Final building approvals from the Ministry and all relevant bodies have been received, and earthworks have been completed. The main contractor for the retail portion of the development has been appointed and it is the intention to complete in Q4 of F2020. At 39 000 m^2 of GLA, it will be the dominant and only formal retail mall in Larnaca, catering for approximately 150 000 people. Acsion is forecasting a considerable uplift to net asset value on completion. The development will also entail geographical and currency diversification for the Acsion portfolio. From a currency prospective the group sees the development as a natural hedge once operational. During the development phase the executives will continue to monitor the exchange rate and purchase foreign currency when the exchange rate is favourable. This strategy has paid off in the current period, resulting in a Foreign Currency Translation reserve increase of R7,9 million relating to foreign operations.

EXISTING PROPERTY DEVELOPMENT AND EXPANSIONS:

Final leasing commitments for the extension of 10 000m^2 at Mall@55 (Monavoni, Gauteng) is in progress. Bulk earthworks to the platforms of Phase two of the retail development, together with the widening of the access road to the shopping centre have been completed. The intended timeline for opening of the second phase is expected to be towards the later end of 2020.

Construction of the KFC drive-thru at Mall@Moutsiya and the Burger King drive-thru at Mall@Carnival, mentioned in F2019 announcements, have been completed.

FINANCIAL RESULTS

Revenue for the Group for the six months ended 31 August 2019 was R336,4 million (2019H1: R322,8 million). The increase of 4,2% was mostly an inflationary increase relating to escalations in leases.

Other operating income supplementing rental revenue by R1,9 million (2019H1: R5,8 million). The decrease is mostly due to less early lease termination penalties in the current period. Other operating gains of R1,7 million consists of a gain on foreign exchange transaction translation (2019H1: R nil). Operating expenses have increased to R120,4 million (2019H1: R111,9 million). The 7,6% increase is mainly due to two factors:

1) Holding costs for Acsiopolis, being the subject of a legal dispute with the contractor; and
2) Capital expenses incurred to restore Mall@Emba back to its original condition after the fire in June 2018, while finalising insurance claims.

Taxation has increased from R53,3 million to R59,4 million in the current financial year due to tax benefits from solar projects and some buildings' allowances coming to an end in the previous financial year. Deferred tax assets and liabilities have been set off in the current financial year.

The group continuously seek to find alternative supportive revenue sources to bolster the traditional property rental model. Since 2015, Acsion has successfully installed roof mounted photovoltaic grid tied solar panels to all the major malls in the portfolio. The performance of these solar plants have been in line with performance guarantees and continue to provide cost recovery and sustainable energy solutions for the ever increasing electricity burden in South Africa.

The increase in net finance costs from R21,2 million in the first half of the 2019 financial year to R26,9 million during the first half of the 2020, can mainly be attributed to the ongoing development of Acsiopolis and funding of the Larnaca project. Gearing for the group remains low at 6,0% (2019H1: 8,3%) in comparison with the rest of the sector.

Despite continuous development and delays with the Acsiopolis project, debt levels remained low attesting to the strong cash flow generation ability of the group.

Headline earning per share decreased to 32,9 cents for the period under review (2019H1: 35,3 cents). The decrease can partly be attributed to the holding costs relating to the Acsiopolis development and rebuilding of part of Mall@Emba due to fire damage where there is a time delay between cash outflow and recoupments of capital expenditure from insurance. Headline earnings was also negatively impacted by the group transferring funds to its European operations when the exchange rate was favourable to do so. This resulted in less interest earned on funds and a significant profit on translating the funding in the foreign operation. Interest income forms part of headline earnings where the latter falls outside the scope of headline earnings.

The investment property portfolio (which includes elements of plant and equipment, operating lease asset and non-current assets held for sale) is carried at R8,268 billion (2019H1: R6,714 billion). Investment properties were revalued as at 28 February 2019. The hotel portion of Acsiopolis is considered to be owner occupied on a group level, and have therefore been reclassified to property, plant and equipment to the amount of R555,3 million, effective from November 2018. Total investment property under control of the Group have increased in value by a respectable 23,1% year on year.

With regards to the proposed development of the Mall@Maputo, the directors are in constant negotiations with the Mozambican government and still pursue tenants and interested parties to find a viable future for the development.

Group liquidity is considered to be adequate due to the Group's diligence in adhering to a strict and aggressive cash management policy.

NAV per share was 1 768,3 as at 31 August 2019 (2019H1: 1 528,8 cents). NAV per share (excluding deferred taxation) for the six months ended 31 August 2019 increased by 15,8% to 2 122,4 cents when compared with the NAV per share of 1 832,2 cents as at 31 August 2018.

TREASURY SHARE PURCHASE

The Group repurchased 25 000 (2019H1: 239 143) Acsion shares at an average price of 725 cents per share during the six months ended August 2019 and currently holds these as treasury shares. The decision to repurchase shares was made as the share price is trading significantly below the reported NAV of the Company. These shares were repurchased at approximately 65,8% below the reported NAV per share (excluding deferred taxation) as at 31 August 2019.

VACANCY LEVELS AND LEASE EXPIRY PROFILE

Strategic vacancies are maintained in order to accommodate potential tenant relocations and to support lease optimisation. The weighted vacancy (by GLA) for the portfolio as at August 2019 was 3,7% (2019H1: 6,3%) which is below the industry standard. The Group remains focused on reducing the vacancy rate and retaining existing tenants in the retail portfolio. The weighted average lease expiry profile by GLA for the portfolio decreased to 3,0 years (2019H1: 3,4 years). The Group is however confident that its tenants will be retained on lease renewal.

The developed investment properties as at 31 August 2019 consisted of the nine properties (valued as at 28 February 2019) detailed below:

Property name	Directors/ independent valuation (R'mil) February 2019	GLA (m^2)	Value/m^2 (excluding bulk, where applicable)	Percentage of total portfolio by value (%)
Mall@Carnival *	2 793	90 613	30 437	44,96
Mall@Reds*	1 285	54 739	23 475	20,69
Mall@Emba*	572	24 668	23 188	9,21
Mall@Lebo	518	23 534	22 017	8,34
Mall@Mfula	308	17 955	17 163	4,96
Mall@Moutsiya*	232	14 705	15 199	3,73
Mall@55*	305	15 419	18 226	4,91
Moreleta Square	152	8 555	17 744	2,44
Simarlo Rainbow	46	6 890	6 699	0,74
Total	**6 212**	**257 078**	**24 162**	**100%**

The above properties are trading at an average annualised net operating yield of approximately 7,0% (2019H1: 7,6%).

Developments under construction consisted of the following properties at 28 February 2019:

Property name	Directors/ independent valuation (R'mil) February 2019	GLA (m^2)	Value/m^2 (excluding bulk, where applicable)	Anticipated opening
Acsiopolis*	1 689	67 000	25 215	Jan-21
Trade55*	48	10 000	4 800	Negotiating
Larnaca (Valued at cost)	246	39 000	6 307	Nov-20
Total	**1 983**	**116 000**	**17 095**	

** Independently valued*

PROSPECTS

Acsion's Board remain confident that the Group will continue to prosper and grow despite the challenging economic operating environment. The Group remains focused on unlocking development profits and generating annuity income to further capital growth for its shareholders, both locally and internationally. Despite the challenging economic climate in South Africa, Acsion continue to seek local and international property acquisition and development opportunities with yield potential in line with the group's strategy.

DIVIDEND

The Company's policy as per the listing statement was not to declare any dividends for a period of five years but to reinvest all profits and return capital growth to shareholders. The board revisited this decision considering the development funding requirements in the foreseeable future as well as the impact on the liquidity and solvency position of the company. It was decided not to propose any dividend for the six months ended 31 August 2019 (2019H1: Nil).

SEGMENTAL REPORTING

Due to the current investment property portfolio exposure being heavily weighted towards retail, financial reviews by the chief decision maker are based on a single operating segment. Segment reporting as required in terms of IFRS 8: Operating segments are, therefore, not applicable to the Group.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim results are prepared in accordance with the requirements of the JSE Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa. The unaudited interim results have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), at a minimum, IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

The accounting policies applied in the preparation of these unaudited condensed consolidated interim results are consistent with those applied in the 2019 unaudited condensed consolidated interim results.

These results have been prepared using the historical cost basis, except for investment properties, which are measured at fair value, and certain financial instruments, which are measured at either fair value or amortised cost.

These unaudited condensed consolidated interim results were prepared under the supervision of Ms S le Roux CA(SA), in her capacity as Chief Financial Officer.

CHANGE IN DIRECTORS

No changes to the board have been made in the current period.

By order of the Board

D Green
(Chairman)

K Anastasiadis
(Chief Executive Officer)

Centurion, 29 October 2019

CORPORATE INFORMATION

Directors
D Green (Chairman)*, K Anastasiadis (CEO), S le Roux (CFO), PD Sekete*, T Jali*, HN Bila*, M Hlobo*

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