TEXTON

PROPERTY FUND

UNAUDITED INTERIM FINANCIAL RESULTS

for the six months ended 31 December 2019

KEY
METRICS

PORTFOLIO VALUE*
R4,238 billion ↓ 3,7%
(June 2019: R4,400 billion)

LOAN-TO-VALUE ("LTV") RATIO
44,9% ↓ 2,3%
(June 2019: 47,2%)**

NET ASSET VALUE
604,53 cents PER SHARE **↓ 0,6%**
(June 2019: 607,89 cents per share)

GROSS LETTABLE AREA ("GLA")
366 731 m² (54 PROPERTIES) **↓ 2,5%**
(June 2019: 376 054m²) (55 properties)

VACANCIES
9,0% ↓ 0,2%
(June 2019: 9,2%)

NATIONAL/LISTED/BLUE-CHIP TENANTS (BY GLA)*
66,1% ↓ 3,6%
(June 2019: 69,7%)

INVESTMENT PROPERTY INCOME
R266,8 million ↓ 7,0%
(December 2018: R286,8 million)

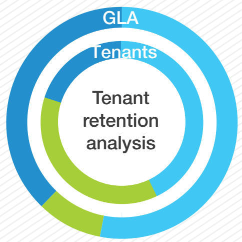
NET PROPERTY INCOME
R171,6 million ↓ 8,8%
(December 2018: R188,1 million)

DIVIDEND PER SHARE
16,09 cents ↓ 55,5%
(December 2018: 36,18 cents)

* *Includes Texton's 50% share of Broad Street Mall.*
** *Calculated according to REIT Best Practice Recommendations ("BPR") 2019 second edition guidelines.*

Sector	GLA m²	GLA %	Value R'million	Value %
Office	185 563	50,6	2 142	50,6
Retail	59 201	16,1	1 201	28,3
Industrial	121 967	33,3	895	21,1
	366 731	**100,0**	**4 238**	**100,0**

Expiring leases	GLA m²	GLA %	Number of tenants	%
Retained	27 636	42,3	35	42,7
Monthly	31 178	48,1	35	42,7
Vacated	6 306	9,6	12	14,6
	65 120	**100,0**	**82**	**100,0**



Sector	GLA m²	GLA %	Number of tenants	%
Office	14 709	53,2	15	42,9
Retail	2 500	9,1	13	37,1
Industrial	10 427	37,7	7	20,0
	27 636	**100,0**	**35**	**100,0**

Sector	GLA m²	GLA %	Number of deals	%
Office	2 569	33,4	16	61,5
Retail	1 452	18,8	4	15,4
Industrial	3 679	47,8	6	23,1
	7 700	**100,0**	**26**	**100,0**

COMMENTARY

Nature of the business

Texton Property Fund Limited ("Texton" or "the Company" or "the Fund" or "the Group") is an internally asset-managed Real Estate Investment Trust ("REIT") listed on the JSE Limited. It has a portfolio of R4,2 billion of property assets with retail, office and industrial exposure located in South Africa and the United Kingdom.

Distributable earnings and commentary on results

Distributable earnings decreased from R132,6 million or 36,18 cents per share as at 31 December 2018 to R120,9 million or 32,17 cents per share as at 31 December 2019, which is largely as a result of total portfolio revenue reducing by 7%. South African earnings remained broadly consistent, however, earnings from the UK portfolio declined as a consequence of the sale of assets. While once-off income received for early lease cancellations was included in the distributable earnings for December 2019, the amount was comparatively lower than 31 December 2018. Increases in administrative expenses relating to general annual increases and increased human resource capacity further contributed to lower distributable earnings. The share of profits from the joint venture was excluded in the 31 December 2019 distributable earnings considering this is a non-cash item. These decreases were partially offset by lower net finance costs from the reduction in debt levels. Additionally, lower taxation and favourable exchange gains contributed to the partial offset of loss in earnings.

The Board of Directors of Texton ("the Board") declares an interim dividend of 16,09 cents per share for the six-month period to 31 December 2019, a decrease from 36,18 cents per share as at 31 December 2018.

In determining the dividend per share, the Board has considered both the decrease in distributable earnings and the ongoing strategy to strengthen the capital structure of the Company. As a REIT, Texton is required to distribute at least 75% of its annual distributable earnings to shareholders, and the Board is committed to achieving this at year-end.

Property portfolio

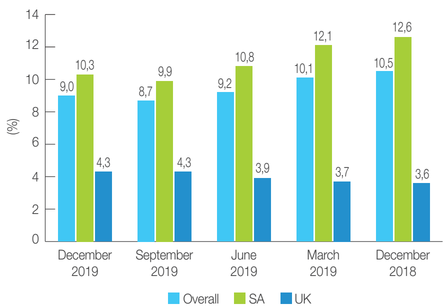
Key performance indicators

The geographic split of Texton's current portfolio by value is 60,9% (June 2019: 58,5%) in South Africa and 39,1% (June 2019: 41,5%) in the UK (including our portion of Broad Street Mall). The weak economic environment in South Africa, together with the slow growth experienced in the UK, led to a challenging first six months of the 2020 financial year.

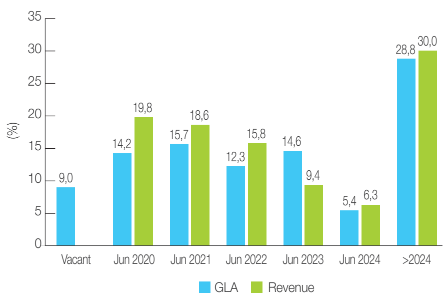
Improved relationships with tenants and brokers were a key focus to drive down vacancies and retain tenants. As at 31 December 2019, portfolio vacancies improved to 9,0% (33 121m^2) from 9,2% (34 516m^2) as at 30 June 2019.

Cost savings achieved are evidenced by property expenses increasing below inflation levels.

Vacancy profile



Overall lease expiry



While there were no acquisitions during the six months, we disposed of non-core assets in order to streamline operations as well as to make funds available to pay down debt and improve loan-to-value ("LTV") profiles. Tesco Chobe was sold and the proceeds were used to settle UK debt.

South Africa

Overview

South Africa's economy remains under extreme pressure characterised by policy uncertainty, high unemployment rates (29,1%), energy constraints and struggling state-owned entities that continue to lean on the government for funding. The potential downgrade of South Africa's investment status and the pervasive impact this will have on the economy adds to the uncertainty.

Against the backdrop of virtually no economic growth in 2019, and the impact of load shedding, the South African Reserve Bank ("SARB") revised its forecasted growth down for 2020 and 2021 to around 1,2% and 1,6%, respectively. To maintain its inflationary targets, as well as provide some stimulus into the economy, the SARB reduced the repo rate by 25 basis points in January 2020 resulting in the prime lending rate by banks decreasing to 9,75%.

Over the past years, several speculative property developments came to market in Gauteng, however, we saw a slowdown in developments towards the end of 2019. New office buildings led to an increase in the oversupply of office space driving down rentals as well as increasing vacancies. P grade buildings are currently attractive to tenants given the amount of stock available at favourable rental rates. During the final quarter of 2019, the national vacancy for offices increased to 11,0%.

In December 2019, the retail sector saw a year-on-year decline in trading sales of 0,4%, with sales volumes rising by only 0,8% in the fourth quarter of 2019 as reported by Stats SA.

The industrial sector remains the most stable with the national vacancy rate recorded at 3,4%.

Performance

Good progress was made in the South African portfolio with a continued focus on filling vacancies, retaining tenants and disposing of non-core assets.

The property industry remained soft and tenants continued to look for the best rentals. Landlords that can provide greater rental reversions and more incentives continued to have better success in concluding deals and securing tenants.

The vacancy rate improved to 10,3% (29 719m^2) from 10,8% (31 113m^2) as at 30 June 2019. Of the 29 719m^2 GLA, assets held for sale account for 11 533m^2 (38,8%). The remaining 18 186m^2 mostly relates to our office portfolio in Gauteng. The Gauteng office portfolio vacancy rate was 9,3% outperformed the South African Property Owners Association ("SAPOA") vacancy rate of 12,5% for offices in Gauteng.

We concluded 28 new leases with a total GLA of 8 422m^2, of which 26 leases representing 7 700m^2 commenced in the period under review.

During the six months ended 31 December 2019, 65 120m^2 representing 22,6% of the South African portfolio's GLA expired. We successfully renewed 27 636m^2 representing 42,4% of the expiring GLA. A further 31 178m^2 or 47,9% remains occupied on a month-to-month basis. This includes 24 087m^2 relating to the Department of Public Works' ("DPW") lease at Foretrust which was extended on a month-to-month basis for 12 months ending 30 November 2020. A longer lease is currently being finalised. The remaining 6 398m^2 monthly leases relates to tenants whose leases are being renegotiated. Significantly, DPW renewed leases at Lion Roars, and 14 Loop Street for three and five years, respectively. A total of 6 306m^2 was vacated during the period.

We are seeing smaller tenants seeking two-year leases and larger tenants requesting between two- and three-year leases. The new deals and renewals finalised in the period helped to improve the weighted average unexpired lease term ("WAULT") to 2,6 years as at 31 December 2019 from 2,1 years as at 31 December 2018.

Over the past 12 months, tenants have come under increasing pressure as a result of the challenging operating environment. As a result, arrears increased to R17,9 million as at 31 December 2019 from R12,9 million as at 31 December 2018. However, December collections have historically been impacted negatively by the holiday season, and this figure usually improves at our June financial year-end. In the 2019 calendar year, our collection rate was 98%.

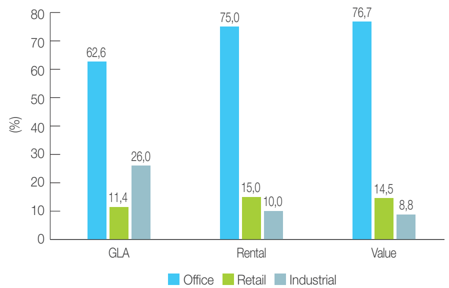
The net property cost-to-income ratio decreased to 25,7% (gross: 43,9%) from 26,4% (gross: 43,3%) for the prior interim period. Rental reversions and increased vacancies, combined with higher municipal charges, have compressed the net operating margins. The Fund's South African portfolio's municipal charges accounted for 50,7% of operating costs. In October 2019, SAPOA reported that the market average for municipal costs, as a percentage of operating costs, was 64,0% for retail, 59,4% for offices and 69,8% for industrial. Over the past few years, increases in municipal charges have outpaced inflation and other operating costs. Significant increases in rates and taxes, and challenges recovering these costs from tenants, have resulted in landlords having to carry a significant portion of the cost increases.

Municipal increases were offset partially by cost savings achieved from soft services. We completed a comprehensive review of these services in the period.

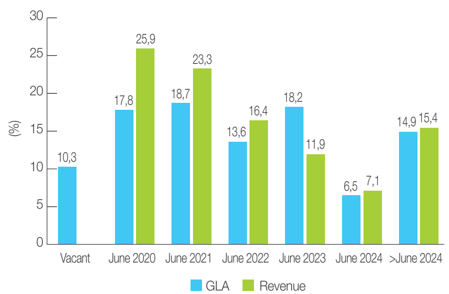
Pressure on LTV ratios and lower valuations have prompted the reduction of debt to keep the Group's gearing at an acceptable level. Texton reduced its debt facilities relating to the South African portfolio by R139 million. A further R372 million of the debt facilities will expire by 30 June 2020 and R776 million by 30 June 2021. Management has proactively engaged with the relevant debt providers and significant progress has been made to finalise a restructuring of the debt maturity profile to achieve more sustainable expiries. We expect the refinancing to be completed before the end of this financial year.

Debt maturity profile	Facility R'000	Drawn down R'000
South Africa		
June 2020	375 000	371 883
June 2021	921 647	776 434
June 2022	–	–
Total facilities	**1 296 647**	**1 148 317**

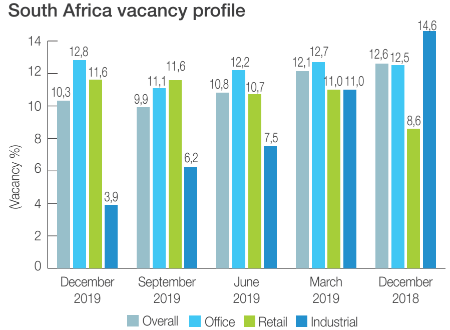
South Africa sectoral profile



South African lease expiry



South Africa vacancy profile



United Kingdom overview

Overview

A prolonged Brexit-related uncertainty weighed on UK GDP growth during 2019, a recession was avoided after a 0,3% rise in GDP during the third quarter following the 0,2% contraction in the second quarter. The softer global outlook will impact on future growth. The economy remained stagnant in the fourth quarter recording flat GDP growth and taking annual 2019 growth to 1,4%. There has been some encouraging business survey data in January although the potential spread of coronavirus remains a forward risk. The positive factors driving growth are the election majority providing Brexit momentum, a strong labour market, rising real wages and an expected fiscal boost from the new chancellor of the Bank of England.

The political and economic backdrop reduced UK commercial property investment volumes in 2019 to circa £50 billion, down from £65 billion in 2018. Volumes picked up in the second half of the year after a slow start. Volumes are not expected to materially increase again in 2020 as uncertainty relating to Brexit trade negotiations linger. The pricing of UK property relative to competing European locations, and some of the structural advantages of the UK, will continue to provide a positive backdrop to the market.

At an aggregate level, total returns in the UK property market were low in 2019. An uptick is expected this year although performance is forecast to remain in low gear until 2021. Capital Economics have forecast total returns of 1,2% for 2019 (3,3% negative capital return and 4,6% income return) and 2,9% for 2020 (1,9% negative capital return and 4,8% income return). Continuing the trend of recent years, significant variation between sectors persists and this needs to be unpacked to understand the averages. In 2019, total returns for industrial and offices sectors were 6,9% and 4,4%, respectively compared to a 6,8% negative return in the retail sector.

Performance

Excellent progress was made during 2019 in repositioning the UK portfolio to increase the overall longevity and sustainability of income. We sold one of our non-core office buildings in Newcastle, known as Tesco Chobe, which was let to Tesco Finance. The property had one of the shortest lease lengths in the portfolio, and the over-rented nature of the asset would have resulted in further capital value write-downs as the lease expiry approached.

Central to Texton's asset management approach is building and nurturing good relations with existing and future tenants. The strategy has helped us agree to terms on a three-year lease extension with Browne Jacobson at Mowbray House Nottingham and reach an agreement for a new lease with Peacock Stores at Lower Parliament Street in Nottingham. Both deals are in the legal phase and, when completed, they will further enhance the quantum, security and average unexpired lease term of the UK portfolio. The wholly-owned UK portfolio remains 100% occupied and leased with an average WAULT of 8,4 years.

Our UK portfolio is being increasingly positioned towards defensive properties with longer-term leases. Industrial properties now represent 61,4% of the wholly-owned portfolio by value with a WAULT of 10,66 years. 94% of the industrial income is subject to guaranteed uplifts based on either inflation-linked increases or stepped rents. The rent at our DHL property near Doncaster, the biggest industrial asset in the portfolio, will increase by 10,4% in December 2020 and the rent on our Caterpillar property in Peterlee will increase by 9,1% in May 2020.

A review of the UK structure was carried out in 2019, looking at ways to reduce administration costs following the changes to the CGT regime in April 2019 and the transfer of non-resident landlords into the UK corporation tax regime from April 2020.

The sale of the Newcastle asset allowed us to repay £11,3 million of debt, representing 87% of the aggregate Santander facility that matured in February 2020, thereby significantly de-risking the maturity event. Also, management made positive progress in improving the maturity profile of the UK debt. Credit approval has been received for a new five-year facility of up to £31,3 million against seven of the eight wholly-owned UK properties. The new facility represents a strong endorsement of the quality of the portfolio and establishes a solid core of income which is well placed to anchor future earnings.

TEXTON PROPERTY FUND LIMITED UNAUDITED INTERIM FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

Debt maturity profile	Facility £'000	Drawn down £'000
United Kingdom		
June 2020	1 771	1 771
June 2021	–	–
June 2022	29 952	29 952
Total facilities	**31 723**	**31 723**

Broad Street Mall

This was a busy period at Broad Street Mall, our shopping centre in Reading, which is 50% owned in a joint venture. The prominent unit at the main entrance of the centre has been let to the international brand Taco Bell on a new 10-year lease. The tenant is unique in the town and trading extremely well. Several key value-add initiatives are now very close to fruition. Management has invested in repurposing the centre and putting in place new anchor lettings. Terms are agreed on a new boutique cinema and a major serviced office letting at Quadrant House, and a modern food hall incorporating a micro-brewery, which will be a major attraction within the town. When all the deals are finalised, vacancy by floor area will reduce from 18% to 5% (1 010m^2) and net operating income will be boosted.

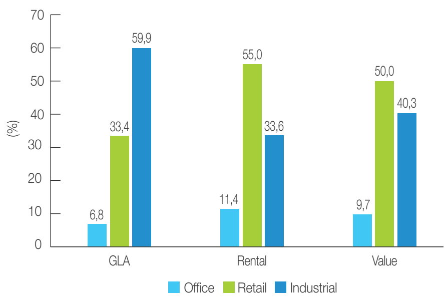
The two main development initiatives at Broad Street Mall are progressing steadily, following the signing of a 25-year lease with Premier Inn. Planning consent has been obtained and terms agreed to sell the completed development to an institutional buyer, subject to finalising the construction contract, which is at an advanced stage. The design and specification of the residential development comprising 446 flats has now been agreed with the council. A planning officer recommendation for approval is expected shortly, followed by a committee date, to consider the application.

The refinancing of the Broad Street Mall debt in May 2020 is a key focus for us. Delivery of the above initiatives will position us favourably to optimise the terms of a new facility.

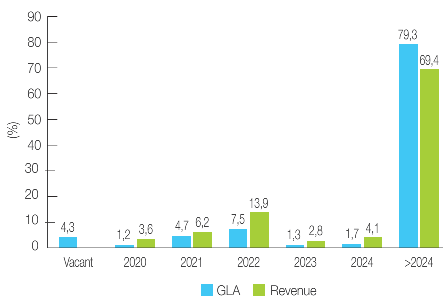
Debt maturity profile	Facility £'000	Drawn down £'000
Broad Street Mall		
May 2020*	21 487	21 487

** Represents Texton's 50% share of Broad Street Mall.*

United Kingdom sectoral profile*



United Kingdom lease expiry*



** Includes Texton's 50% share in Broad Street Mall.*

Capital management

Over the past year, the discount rate has softened along with lower rental growth and higher property expenses, putting pressure on property valuations covenants such as LTV ratios.

The Group LTV ratio as at 31 December 2019 was 44,9% (June 2019: 47,2%). The decrease was due to repayments in the loan facilities amounting to R139 million on the South African facilities and £11,3 million on the UK portfolio.

Texton's continued focus is to reduce the LTV ratios as well as to diversify its lending portfolio to reduce concentration risk. Significant focus is being placed on reducing the cost of debt and the debt quantum, improving the debt maturity profile and enhancing of treasury and cash flow management.

The Board has reaffirmed the interest rate hedging strategy in terms of which at least 80% of borrowings must be hedged against interest rate risk.

Interest rate swap maturity profile

Expiry	Nominal amount R'000	Nominal amount £'000	Fixed interest rate %
16 May 2020	225 000	–	7,27
2 November 2020	200 000	–	7,19
16 May 2021	225 000	–	7,40
30 June 2021	270 000	–	7,82
15 February 2022	200 000	–	7,31
24 May 2023	100 000	–	7,23
24 May 2023	100 000**	–	7,39
12 August 2021	–	10 200	0,50
12 August 2021	–	4 200	0,50
12 August 2021	–	5 910	0,50
16 August 2021	–	5 051	1,28
16 August 2021	–	4 458	1,28
Total excluding Broad Street Mall	**1 320 000**	**29 819**	
Broad Street Mall			
15 May 2020*	–	9 790	1,74
Total including Broad Street Mall	**1 320 000**	**39 609**	

** Texton's 50% interest.*
*** Two-year forward, effective 24 May 2021.*

Currency

The closing exchange rate on 31 December 2019 was R18,55:£1 (June 2019: R17,87:£1); and the average exchange rate for the period was R18,87:£1 (June 2019: R18,37:£1).

Stated capital and shares repurchased

The Group holds 10 428 348 (June 2019: 10 428 348) treasury shares via the Texton Property Fund Limited Share Incentive Scheme Trust. Treasury shares held by Discus House Proprietary Limited, a subsidiary of Texton, amount to 16 243 865 (June 2019: 16 243 865) shares, bringing the total treasury shares held to 26 672 213 (June 2019: 26 672 213).

There have been no share buybacks during the period.

Prospects

While the economic and political landscape in South Africa remains challenging, we are encouraged by the recent reforms initiated by the government. Inflation remains within the SARB's target, potentially signalling further rate cuts, which will provide some level of relief. We are cautiously optimistic that a decrease in rates may have a positive impact on discount and capitalisation rates.

Despite these potential green shoots, consumers will remain under pressure as disposable income will continue to be squeezed, and business and investor confidence remains subdued. South Africa could face further macro challenges if Moody's were to downgrade the country below an investment-grade credit rating. Our operating environment will remain challenging for the foreseeable future, characterised by pressure on rental incomes and an increasing cost environment. Tenants are leveraging the soft rental market to their advantage by occupying better space at lower rentals. Leases are taking longer to sign with tenants driving hard negotiations. Policy uncertainty and low levels of business confidence are resulting in tenants preferring short-duration leases. Competitiveness among landlords will persist with material lease incentives being offered to attract tenants.

In the UK, the resounding Conservative election victory cleared the path for an exit from the EU on 31 January 2020. This is expected to give business investment, which was subdued during 2019, a boost. Until a future trade deal is agreed with the EU, however, some uncertainty will remain, more twists and turns are expected during 2020 and a steeper gradient of growth is possible in 2021 if favourable trade deals can be secured.

With these challenging conditions, Texton has reaffirmed its key objectives and focus areas to retain tenants, reduce vacancies and lower the LTV ratio by selling non-core assets.

Texton remains committed to paying down debt and improving LTV ratios to more sustainable levels. We have made good progress, and expect Texton's LTV ratios to improve further as a result of the sale of non-core assets.

Cost-saving initiatives are being implemented throughout our business at both a property and head office level. The benefits of this will be reflected in future earnings.

Our UK portfolio remains defensively placed to deliver sustainable future earnings, supported by strong tenant covenants and long-dated leases. We believe the UK retail sector currently offers an interesting value disconnected with opportunities in defensive retail centres that focus on non-discretionary spend and serving their local community. In this regard, our investment in Broad Street Mall is well placed. We are optimistic that driving leasing and development initiatives at Broad Street Mall will unlock significant value in the future.

Payment of interim dividend

Notice is hereby given of the declaration of a dividend of 16,09 cents per share for the interim six-month period to 31 December 2019. The dividend was declared out of income reserves.

Changes to the Board

Wayne van der Vent was appointed as an independent Non-executive Director and Robert Franco was appointed as a Non-executive Director, effective from 21 November 2019. Inge Pick resigned as Chief Financial Officer on 4 December 2019.

Salient dates

Dividend declaration date	Tuesday, 10 March 2020
Last date to trade	Tuesday, 24 March 2020
Ex dividend date	Wednesday, 25 March 2020
Record date	Friday, 27 March 2020
Payment date	Monday, 30 March 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 25 March 2020 and Friday, 27 March 2020, both dates inclusive.

An announcement informing shareholders of the tax treatment of the dividends will be released on SENS on 10 March 2020.

Texton's income tax reference: 9353785158

Issued shares as at 10 March 2020: 376 066 766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Unaudited Six months ended 31 December 2019 R'000	Restated Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Assets			
Non-current assets	**3 612 538**	4 856 534	3 578 646
Investment property	**3 339 999**	4 554 652	3 291 916
Property, plant and equipment	**2 701**	1 368	1 911
Tenant installation	**9 038**	10 412	11 448
Investment in joint venture	**216 693**	235 587	206 094
Other non-current assets	**8 967**	8 984	9 789
Other financial assets	**35 140**	25 494	57 488
Restricted cash	**–**	20 037	–
Current assets	**555 856**	350 832	911 438
Restricted cash	**–**	19 489	12 782
Trade and other receivables	**50 411**	34 996	43 920
Non-current assets classified as held for sale	**326 800**	12 400	529 523
Other financial assets	**–**	3 403	–
Income tax receivable	**5 350**	11 239	1 228
Cash and cash equivalents	**173 295**	269 305	323 985
Total assets	**4 168 394**	5 207 366	4 490 084
Equity and liabilities			
Equity	**2 112 198**	2 884 697	2 123 952
Stated capital	**2 842 473**	2 842 473	2 842 473
Retained earnings	**(534 954)**	243 243	(504 642)
Foreign currency translation reserve	**(195 321)**	(201 019)	(213 879)
Liabilities	**2 056 196**	2 322 669	2 366 132
Non-current liabilities	**962 178**	1 846 926	545 930
Other financial liabilities	**951 584**	1 836 259	535 301
Lease liability	**3 291**	3 364	3 326
Deferred tax	**7 303**	7 303	7 303
Current liabilities	**1 094 018**	475 743	1 820 202
Other financial liabilities	**992 536**	378 060	1 720 475
Trade and other payables	**95 894**	92 340	90 318
Income tax payable	**5 588**	5 343	9 409
Total equity and liabilities	**4 168 394**	5 207 366	4 490 084

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2019

	Unaudited Six months ended 31 December 2019 R'000	Restated Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Investment property income	**266 785**	286 756	558 025
Straight-line rental adjustment	**6 624**	1 711	(2 360)
Revenue	**273 409**	288 467	555 665
Property expenses	**(101 762)**	(100 410)	(191 929)
Net property income	**171 647**	188 057	363 736
Other income	**4 041**	9 852	11 000
Administrative expenses	**(18 402)**	(14 596)	(34 223)
Profit/(loss) from joint venture	**6 820**	3 173	(1 158)
Foreign exchange losses	**(7 123)**	(8 820)	(505)
Operating profit	**156 983**	177 666	338 850
Finance income	**47 687**	42 520	90 535
Finance costs	**(87 822)**	(90 740)	(184 198)
Fair value adjustments	**(23 668)**	(19 489)	(699 524)
Loss on disposal of subsidiary	**–**	–	(9 041)
Impairment of investment in joint venture	**–**	–	(30 418)
Capital items	**–**	(14 156)	(14 350)
Profit/(loss) before tax	**93 180**	95 801	(508 146)
Taxation expense	**(540)**	(12 167)	(29 792)
Profit/(loss) for the period	**92 640**	83 634	(537 938)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	**18 558**	13 935	1 075
Total comprehensive income for the period	**111 198**	97 569	(536 863)
Profit/(loss) and total comprehensive income for the period attributable to:			
Equity holders of the Company	**111 198**	97 569	(536 863)
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share	**26,51**	23,94	(153,96)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2019

	Unaudited Six months ended 31 December 2019 R'000	Restated Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Cash flows from operating activities			
Cash generated by operations	**161 729**	178 423	334 834
Interest received	**39 738**	42 520	90 535
Interest paid	**(81 264)**	(81 032)	(167 503)
Commissions paid	**(3 662)**	(2 175)	(5 751)
Dividends paid	**(122 952)**	(144 510)	(270 921)
Taxation paid	**(8 644)**	(4 385)	(7 786)
Net cash outflow from operating activities	**(15 055)**	(11 159)	(26 592)
Cash flows from investing activities			
Additions to property, plant and equipment	**(1 219)**	–	(910)
Additions to investment property	**(1 723)**	(3 467)	(5 474)
Proceeds on disposal of investment property	**199 957**	272 156	286 398
Loans repaid	**355**	–	332
Funds advanced to joint venture	**(3 779)**	(9 231)	(18 328)
Tenant installation incurred	**(357)**	(929)	(4 754)
Net cash inflow from investing activities	**193 234**	258 529	257 264
Cash flows from financing activities			
Realisation of currency Put Option	**–**	–	5 853
Proceeds from other financial liabilities	**–**	356 729	426 361
Repayments of other financial liabilities	**(340 760)**	(440 402)	(468 961)
Settlement of lease liability	**(236)**	(236)	(474)
Net cash outflow from financing activities	**(340 996)**	(83 909)	(37 221)
Net (decrease)/increase in cash and cash equivalents for the period	**(162 817)**	163 461	193 451
Cash and cash equivalents at the beginning of the period	**323 985**	93 668	93 668
Effect of exchange rate movement on cash and cash equivalents	**(1 128)**	1 626	(220)
Release of restricted cash	**13 255**	10 550	37 086
Cash and cash equivalents at the end of the period	**173 295**	269 305	323 985

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Stated capital R'000	Foreign currency translation reserve R'000	Retained earnings R'000	Total R'000
Balance as at 30 June 2018	2 257 206	(214 954)	254 934	2 297 186
Change of accounting policy for investment in joint venture	–	–	(8 118)	(8 118)
Restated balance as at 30 June 2018	2 257 206	(214 954)	246 816	2 289 068
Extinguishment of PIC Put Option liability	642 570	–	–	642 570
Derecognition of PIC Put Option liability	(57 303)	–	57 303	–
Total comprehensive income for the period				
– Profit for the period	–	–	83 634	83 634
– Exchange differences on translation of foreign operations	–	13 935	–	13 935
Transactions with shareholders recognised directly in equity				
– Dividend paid	–	–	(144 510)	(144 510)
Balance as at 31 December 2018	2 842 473	(201 019)	243 243	2 884 697
Expected credit losses arising from IFRS 9 application	–	–	98	98
Total comprehensive loss for the period				–
– Loss for the period	–	–	(621 572)	(621 572)
– Exchange differences on translation of foreign operations	–	(12 860)	–	(12 860)
Transactions with shareholders recognised directly in equity				
– Dividend paid	–	–	(126 411)	(126 411)
Balance as at 30 June 2019	**2 842 473**	**(213 879)**	**(504 642)**	**2 123 952**
Total comprehensive income for the period				
– Profit for the period	**–**	**–**	**92 640**	**92 640**
– Exchange differences on translation of foreign operations	**–**	**18 558**	**–**	**18 558**
Transactions with shareholders recognised directly in equity				
– Dividend paid	**–**	**–**	**(122 952)**	**(122 952)**
Balance as at 31 December 2019	**2 842 473**	**(195 321)**	**(534 954)**	**2 112 198**

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed unaudited consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements, the requirements of the Companies Act of South Africa, the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*. These do not include all of the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the consolidated financial statements for the year ended 30 June 2019.

The accounting policies applied in the preparation of the condensed unaudited consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the previous audited consolidated annual financial statements except for where it has been stated otherwise. None of the new standards, interpretations and amendments effective as of 1 July 2019 have had a material impact on the condensed unaudited consolidated interim financial statements.

These condensed unaudited consolidated interim financial statements have been prepared on a going concern basis. All monetary information is presented in the functional currency of the Company, being South African Rand and is rounded to the nearest thousand (R'000).

The Directors take full responsibility for the preparation of these condensed unaudited consolidated interim financial statements. These condensed unaudited consolidated financial statements were prepared under the supervision of the acting Chief Financial Officer, Mr P Welleman CA(SA).

2. Significant judgements

When preparing these condensed unaudited consolidated interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the condensed unaudited consolidated interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2019.

3. Adoption of new standard

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16: *Leases*

IFRS 16: *Leases* replaces IAS 17: *Leases* along with three Interpretations (IFRIC 4: Determining whether an Arrangement contains a Lease, SIC 15: *Operating Leases-Incentives* and SIC 27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment (if any) to the opening balance of retained earnings for the current period. Prior periods have not been restated.

Operating leases as lessor

The Group is primarily a lessor, and leases out investment properties under operating leases (see Note 4).

4. Significant accounting policies

The condensed unaudited consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent consolidated annual financial statements for the year ended 30 June 2019 except for the effects of IFRS 16.

Leases

As described in note 3, the Group has applied IFRS 16 using the modified approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17.

The Group as a lessor

The Group is a party to numerous leasing contracts. The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor, the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers all the risks and rewards incidental to ownership of the underlying asset substantially and is classified as an operating lease if it does not. Texton classifies all leases as operating leases as the Group retains a significant portion of the risks and rewards of ownership. Texton will, therefore, continue to reflect the underlying assets subject to the lease arrangements on the balance sheet for leases classified as operating.

5. Investment property

	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Reconciliation of movement in investment property for the period:			
Balance at the beginning of the period	**3 291 916**	4 534 810	4 534 810
Additions	**1 723**	3 246	5 491
Straight-line rental adjustment	**6 624**	1 711	(2 360)
Fair value adjustments	**–**	(3 885)	(690 671)
Transfer to investment property reclassified as held for sale	**–**	(12 400)	(529 523)
Disposals	**–**	–	(12 400)
Foreign currency translation reserve	**39 736**	31 170	(13 431)
Balance at the end of the period	**3 339 999**	4 554 652	3 291 916

In terms of IAS 40: *Investment Property* and IFRS 13: *Fair Value Measurement*, investment properties are measured at fair value and are categorised as level three investments. In determining the fair value, the traditional discounted cash flow method of valuation has been used. At year-end, all property valuations were performed by independent valuers to determine the fair value. In the preparation of the condensed unaudited interim financial statements, prepared in accordance with IAS 34, the valuations are reviewed for any significant changes.

The revaluation of investment property requires judgement in the determination of future cash flows from leases and an appropriate capitalisation rate.

The inputs into the valuation model were as follows:

- Discount rates which ranged between 14,5% and 16,75%;
- Exit capitalisation rates which ranged between 9,25% and 12,0%;
- Estimated vacancy rates which ranged between 0,2% and 10,0%; and
- Estimated market rental growth of between 4,0% and 6,0%.

Changes in the capitalisation rate attributable to changes in market conditions can have a significant impact on property valuations.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS continued

6. Investment in joint venture

	Unaudited Six months ended 31 December 2019 R'000	Restated* Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Balance at the beginning of the period	206 094	223 184	223 184
Current period profit/(loss) from joint venture	6 820	3 173	(1 158)
Advances to joint venture	3 779	9 230	18 328
Foreign exchange movements	–	–	(3 842)
Impairment of interest in joint venture	–	–	(30 418)
Balance at the end of the period	216 693	235 587	206 094

** Refer to note 14 for restatements.*

7. Other financial liabilities

	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Balance at the beginning of the period	2 255 776	2 272 730	2 272 730
– non-current	535 301	374 289	374 289
– current	1 720 475	1 898 441	1 898 441
Advances during the period	–	356 729	426 361
Repayments during the period	(340 760)	(440 402)	(468 961)
Foreign currency translation reserve movements	8 543	15 764	(9 386)
Unrealised foreign exchange movements	7 008	(732)	(2 259)
Fair value on interest rate swaps	(64)	–	21 709
Structuring fees amortised during the period	1 818	2 482	4 091
Interest accrual	11 799	7 021	12 199
Reclassification of share appreciation rights liability	–	–	(708)
Fair value of share appreciation rights	–	727	–
Closing balance at the end of the period	1 944 120	2 214 319	2 255 776
– non-current	951 584	1 836 259	535 301
– current	992 536	378 060	1 720 475

Significant movements during the year included the following:

- The sale of Chobe Tesco resulted in a large portion of the Santander facility, amounting to R201 million, being repaid; and
- A repayment of R139 million was settled against the Standard Bank access facility.

8. Non-current assets classified as held for sale

	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Balance at the beginning of the period	529 523	272 156	272 156
Transferred from investment property	–	12 400	529 523
Disposals	(199 957)	(272 156)	(272 156)
Foreign currency translation reserve	(2 766)	–	–
Balance at the end of the period	326 800	12 400	529 523

9. Financial instruments

	At amortised cost			Fair value through profit or loss – held for trading		
	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Financial assets						
Other non-current assets	309	625	664	–	–	–
Other financial assets	–	–	–	35 140	25 494	57 488
Restricted cash	–	39 526	12 782	–	–	–
Trade and other receivables	40 723	26 794	36 030	–	–	–
Cash	173 295	269 305	323 985	–	–	–
Financial assets	214 327	336 250	373 461	35 140	25 494	57 488
Financial liabilities						
Other financial liabilities	1 929 340	2 211 262	2 241 211	14 781	3 057	14 565
Trade and other payables	54 663	59 579	59 086	–	–	–
Financial liabilities	1 984 003	2 270 841	2 300 297	14 781	3 057	14 565

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 consolidated statement of financial position.

In terms of IFRS 9, the Group's currency and interest rate derivatives are measured at fair value through profit or loss and are categorised as level 2 investments.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS continued

The fair value of the currency derivatives included in Other financial assets was an asset of R35,1 million (June 2019: R57,5 million) and the fair value of the interest rate derivative net liability included in Other financial liabilities was R14,7 million (June 2019: R14,5 million). These fair values were determined using valuation techniques that present value the net cash flows. These cash flows are based on observable market data.

There were no transfers between levels 1, 2 and 3 during the year. The valuation methods applied are consistent with those applied in preparing the consolidated annual financial statements for the year ended 30 June 2019.

10. Events after the reporting date

On 28 February 2020, the Board declared an interim dividend of 16,09 cents per share resulting in a total dividend declaration of R60,5 million.

11. Dividend paid

	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Dividend paid	122 952	144 510	270 921

Dividends are from income reserves.

12. Cash generated from operations

	Unaudited Six months ended 31 December 2019 R'000	Restated Unaudited Six months ended 31 December 2018* R'000	Audited Year ended 30 June 2019 R'000
Cash generated by operations			
Profit/(loss) before tax	93 180	95 801	(508 146)
Adjusted for:			
Amortisation and depreciation	7 325	5 188	10 345
Impairment allowance	3 526	2 734	(1 505)
(Profit)/loss from joint venture	(6 820)	(3 173)	1 499
Finance income	(47 687)	(42 520)	(90 535)
Straight-line adjustment	(6 624)	(1 711)	2 360
Finance costs	87 822	90 740	184 198
Fair value adjustments	20 956	19 489	698 544
Leave pay provision	164	–	980
Unrealised foreign exchange loss	9 553	6 813	2 924
Assets scrapped	–	153	176
Forfeiture of equities deposit	–	10 128	10 543
Impairment of joint venture	–	–	30 077
Cash generated before working capital changes	161 395	183 642	341 460
Changes in working capital:			
– (Increase)/decrease in trade and other receivables	(7 201)	8 524	6 336
– Increase/(decrease) in trade and other payables	7 535	(13 743)	(12 962)
Cash generated by operations	161 729	178 423	334 834

* *Refer to note 14 for restatements.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS continued

13. Segmental reporting

The Group has two reportable segments based on the geographic split which are the Group's strategic business segments. These two geographic segments are then split between office, retail and industrial sectors within these regions. Segments are located in South Africa and the UK.

During the six month period ended 31 December 2019, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

	South Africa			United Kingdom			Total		
	Unaudited Six months ended 31 December 2019 R'000	Restated* Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000	Unaudited Six months ended 31 December 2019 R'000	Restated* Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000	Unaudited Six months ended 31 December 2019 R'000	Restated* Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Segmental revenue – rental revenue									
Office	**174 918**	171 298	334 203	**11 318**	26 994	44 893	**186 236**	198 292	379 096
Retail	**34 529**	35 707	67 536	**12 775**	13 142	26 793	**47 304**	48 849	94 329
Industrial	**21 790**	22 051	39 870	**18 079**	19 275	42 370	**39 869**	41 326	82 240
	231 237	229 056	441 609	**42 172**	59 411	114 056	**273 409**	288 467	555 665
Profit before tax									
Office	**105 285**	112 325	(233 853)	**1 677**	13 043	(44 062)	**106 962**	125 368	(277 915)
Retail	**17 742**	17 931	(87 651)	**14 763**	5 077	(84 028)	**32 505**	23 008	(171 679)
Industrial	**11 886**	10 347	(34 454)	**12 399**	13 587	25 624	**24 285**	23 934	(8 830)
Corporate	**(61 214)**	(62 125)	(22 805)	**(9 358)**	(14 384)	(26 917)	**(70 572)**	(76 509)	(49 722)
	73 699	78 478	(378 763)	**19 481**	17 323	(129 383)	**93 180**	95 801	(508 146)
Total assets									
Office	**2 053 117**	2 505 554	2 026 031	**308 217**	589 437	399 111	**2 361 334**	3 094 991	2 425 142
Retail	**383 883**	474 253	382 976	**482 285**	594 226	491 248	**866 168**	1 068 479	874 224
Industrial	**242 461**	292 112	237 932	**558 598**	634 806	621 719	**801 059**	926 918	859 651
Corporate	**136 384**	115 463	328 857	**3 449**	1 515	2 210	**139 833**	116 978	331 067
	2 815 845	3 387 382	2 975 796	**1 352 549**	1 819 984	1 514 288	**4 168 394**	5 207 366	4 490 084

** Refer to note 14 for restatements.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS continued

14. Change in accounting policy

	Previously reported Six months ended 31 December 2018 R'000	Adjustment R'000	Restated Six months ended 31 December 2018 R'000
Statement of financial position			
Investment in joint venture	239 632	(4 045)	235 587
Impact on assets	239 632	(4 045)	235 587
Retained earnings	247 288	(4 045)	243 243
Impact on equity	247 288	(4 045)	243 243
Statement of comprehensive income			
(Loss)/profit from joint venture	(7 452)	10 625	3 173
Foreign exchange (losses)/gains	(12 337)	3 517	(8 820)
Finance income	52 589	(10 069)	42 520
Profit before tax	91 728	4 073	95 801
Profit for the period	79 561	4 073	83 634
Other comprehensive income:			
Total comprehensive income for the period	93 496	4 073	97 569
Impact on earnings per share			
Basic and diluted earnings per share	22,77	1,17	23,94
Headline and diluted headline earnings per share	24,46	1,37	25,83

* *Restatement is in line with the change in accounting policy done at 30 June 2019.*

15. Headline earnings per share

	Unaudited Six months ended 31 December 2019 R'000	Restated* Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Headline earnings attributable to shareholders			
Profit/(loss) attributable to shareholders	92 640	83 634	(537 938)
Gross revaluation of investment property	–	4 618	690 671
Gross revaluation of investment property recognised in equity accounted joint venture	–	2 011	11 166
Impairment of investment in joint venture	–	–	30 418
Headline earnings attributable to shareholders	92 640	90 263	194 317
Weighted average number of shares in issue	349 395	349 395	349 395
Profit/(loss) per share			
Basic and diluted profit/(loss) per share (cents)	26,51	23,94	(153,96)
Headline and diluted headline earnings per share	26,51	25,83	55,62

* *Refer to note 14 for restatements.*

DISTRIBUTABLE EARNINGS

	Unaudited Six months ended 31 December 2019 R'000	Restated Unaudited Six months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Revenue	**266 785**	286 756	558 025
Property expenses	**(101 762)**	(100 410)	(191 929)
Profit/(loss) from joint venture	**6 820**	3 173	(1 158)
Non-cash items included in loss from joint venture	**(6 820)**	1 455	11 166
Other income	**4 041**	9 852	11 000
Administrative expenses	**(18 402)**	(14 596)	(34 223)
Net finance cost	**(40 135)**	(48 220)	(93 663)
– Finance income	**47 687**	42 520	90 535
– Finance cost	**(87 822)**	(90 740)	(184 198)
Taxation	**(540)**	(12 167)	(18 131)
Capital gains tax on disposal from non-REIT group entity	**–**	2 560	–
Distribution of realised foreign exchange gain	**2 430**	(2 007)	8 272
Distributable earnings on treasury shares	**8 582**	9 650	19 036
Total distributable earnings	**120 999**	136 046	268 395
Less: Distribution to shareholders (interim)	**–**	–	(136 061)
Distributable earnings	**120 999**	136 046	132 334

SUMMARY OF FINANCIAL PERFORMANCE

	Unaudited Six months ended 31 December 2019	Audited Year ended 30 June 2019	Restated Unaudited Six months ended 31 December 2018
Shares in issue and used for dividend calculation ('000)	**376 067**	376 067	376 067
Shares in issue excluding treasury shares	**349 395**	349 395	349 395
Weighted average number of shares in issue ('000)	**376 067**	376 067	376 067
Net asset value per share (cents)*	**604,53**	607,89	825,63
Net tangible asset value less deferred tax per share (cents)*	**606,62**	609,99	769,01
Basic and diluted earnings/(loss) per share (cents)	**26,51**	(153,96)	23,94
Headline and diluted earnings/(loss) per share (cents)	**26,51**	55,62	25,83
Dividend per share (cents)	**16,09**	71,37	36,18
Share price (cents)	**275,00**	390,00	479,00
Loan-to-value ratio** (%)	**44,9**	47,2	39,8
Cost-to-income ratios			
Gross property cost-to-income ratio (%)	**38,1**	34,4	35,0
Net property cost-to-income ratio (%)	**21,6**	20,4	20,4
Gross total cost-to-income ratio (%)	**44,4**	39,9	38,8
Net total cost-to-income ratio (%)	**30,3**	28,2	26,7

* *Excludes treasury shares.*
** *Calculated in line with BPR 2019 second edition.*

CORPORATE **INFORMATION**

Texton Property Fund Limited

Incorporated in the Republic of South Africa
Registration number: 2005/019302/06
A Real Estate Investment Trust, listed on the JSE Limited
JSE share code: TEX
ISIN: ZAE000190542

Physical and registered address

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PO Box 653129, Benmore 2010

Board of Directors

M Golding *(Non-executive Chairman)*
MH Muller* *(Chief Executive Officer)*
IF Pick** *(Chief Financial Officer)*
A Hannington^ *(Independent Non-executive)*
JR Macey *(Lead Independent Non-executive)*
S Thomas *(Independent Non-executive)*
R Franco*** *(Non-executive)*
W van der Vent*** *(Independent Non-executive)*

* *Executive Director.*
** *Resigned as Chief Financial Officer on 4 December 2019.*
*** *Appointed 21 November 2019.*

Company Secretary

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