



TEXTON

PROPERTY FUND

INTEGRATED
ANNUAL REPORT
2020

REPORTING SCOPE AND BOUNDARY

This 2020 integrated annual report ("report") shares financial and non-financial information of Texton Property Fund Limited ("Texton", "the company" or "the group") and aims to provide a holistic value creation story of our performance.

This report provides an overview of the operations and performance of Texton for the financial year ended 30 June 2020 ("the year"). The boundary of the report includes the group's operations, properties, subsidiaries, joint ventures and controlled entities in South Africa ("SA") and the United Kingdom ("UK").

REPORTING APPROACH REGARDING MATERIALITY

Texton applied the principle of materiality in determining the content of this report. In the board's opinion, matters that could substantially affect Texton's ability to create value in the short, medium and long term were considered, to illustrate our strategic responses to material risks and opportunities in the operating environment.

FORWARD-LOOKING STATEMENTS

Certain statements in this report are considered forward-looking as they involve inherent risks and uncertainties. Should one or more of these risks materialise or the underlying assumptions prove incorrect, actual results may be different from those anticipated.

Forward-looking statements only apply from the date they are made. Texton has no obligation to update or revise them, whether as a result of new information, future events or otherwise.

BOARD RESPONSIBILITY

The board of directors ("board") recognises that it is ultimately responsible for overseeing the integrity and completeness of the report. The board believes the report materially aligns with the International Integrated Reporting Council's ("IIRC's") Integrated Reporting Framework and provides a true and material account of the group's performance and strategic direction. The board confirms it has collectively reviewed and approved the report's contents.

Marcel Golding
Chairman

Pinchas Hack
Chief financial officer ("CFO")

John Macey
Lead independent non-executive director

30 October 2020

ABOUT THIS REPORT

HOW TO NAVIGATE OUR REPORT



This icon denotes information that can be found on our website:
www.texton.co.za.



This icon accompanies page number references elsewhere in this integrated annual report.

REQUEST FOR FEEDBACK

Your feedback on the contents and presentation of this report is welcome and will assist us in improving the quality and relevance of future reports. Stakeholders are encouraged to contact admin@texton.co.za.

REPORTING STRUCTURE

CONTENTS AND CONNECTIVITY OF INFORMATION

Integrated annual report

- Organisational overview including business model, strategy and extent of operations
- Material risks, mitigation and links to the six capitals
- Corporate governance report

Annual financial statements

- Independent auditor's report
- Full consolidated and separate annual financial statements
- Directors' report

FRAMEWORKS AND GUIDELINES APPLIED

Integrated annual report

- IIRC Integrated Reporting Framework
- King IV Report on Corporate Governance for South Africa 2016™* ("King IV")

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Annual financial statements

- International Financial Reporting Standards ("IFRS")
- Companies Act of South Africa (Act 71 of 2008), as amended ("Companies Act")
- JSE Limited Listings Requirements ("JSE Listings Requirements")
- King IV
- South African Institute of Chartered Accountant's ("SAICA") Financial Reporting Guides
- Financial Reporting Standards as issued by the Financial Reporting Standards Council
- SA REIT Best Practice Recommendations ("BPR")

ASSURANCE

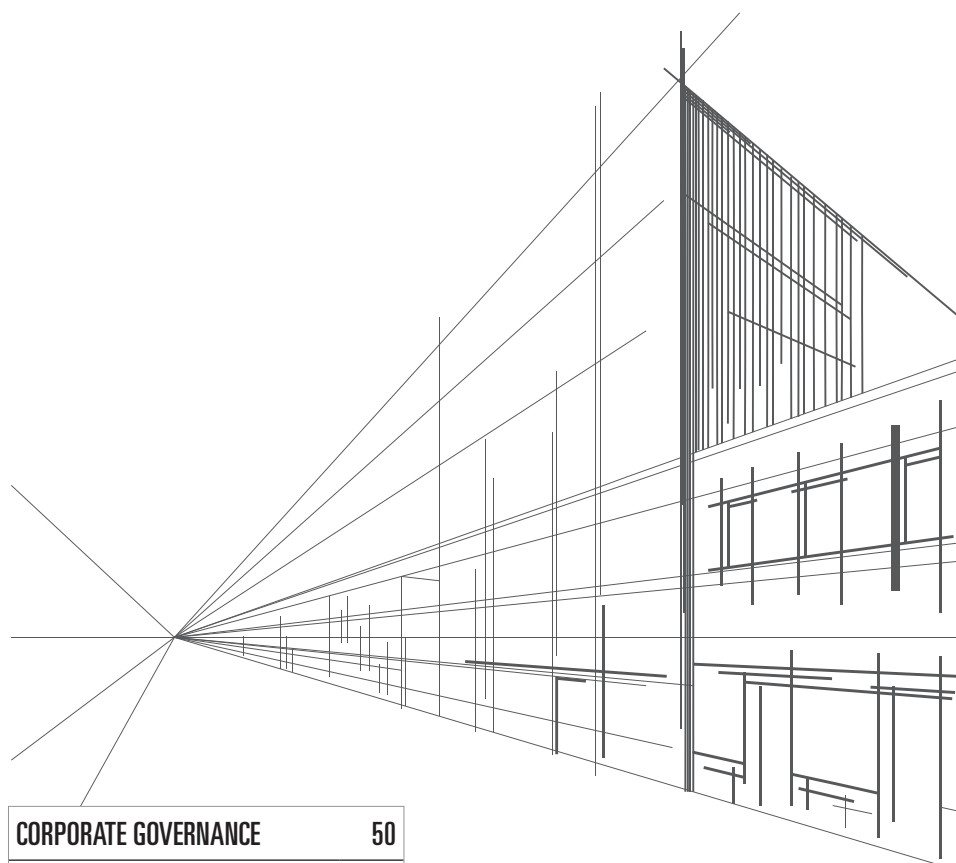
Integrated annual report

- Executive management oversight
- Audit and risk committee oversight
- Board oversight and approval

Annual financial statements

- Independent external audit
- Internal controls
- Management oversight and approval

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Texton is committed to compliance with King IV. King IV sets out the philosophy, principles, practices and outcomes that serve as the benchmark for corporate governance in SA, to ensure relevant and continued sound corporate governance.

We used a combined assurance model to ensure the integrity, relevance and accuracy of our report. The combined assurance model employs a combination of assurance obtained from management and our external auditor.

KEY METRICS

PORTFOLIO VALUE¹

R4,470 billion

↑
1,7%

(2019: R4,400 billion)

GROSS LETTABLE AREA ("GLA")

364 356m²

↓
(3,1%)

(53 PROPERTIES)²

(2019: 376 054m²) (55 properties)

NET ASSET VALUE ("NAV")[#]

**584,27 cents
per share**

↓
(4,8%)

(2019: 614,05 cents per share)

LOAN-TO-VALUE ("LTV") RATIO

46,2%

↑
1,0%

(2019: 47,2%)

INVESTMENT PROPERTY INCOME

R521,9 million

↓
(6,5%)

(2019: R558,0 million)

COLLECTIONS

IN SA OVER **90,0%** COLLECTIONS DURING
THE COVID-19 PERIOD AND **97,0%** IN THE UK

VACANCIES

11,0%

↓
(1,8%)

(2019: 9,2%)

NATIONAL/LISTED/BLUE-CHIP TENANTS (BY GLA)²

54,1%

↓
(22,4%)

(2019: 69,7%)

GROUP INTEREST COVER RATIO

2,8 times

↓
(26,3%)

(2019: 3,8 times)

NET PROPERTY INCOME

R307,8 million

↓
(15,4%)

(2019: R363,7 million)

¹ Two properties were disposed of during the year.

² Including Texton's 50% share of Broad Street Mall.

[#] Restated 2019 according to SA REIT BPR 2019 second addition guidelines.

STRATEGIC MILESTONES

NEW LEASING DEALS

Texton's asset management team successfully concluded new leases over 11 104m² (2019: 28 600m²). This is discussed in the performance overview on [page 38](#). The letting of vacant space continues to be a priority for management.

REPAYMENT OF DEBT

The LTV ratio improved to 46,2% and R400 million of debt was repaid during the year. Texton focused on balance sheet optimisation.

RETENTION OF TENANTS

Texton successfully retained 90% (2019: 83,6%) of tenants, as set out on [page 38](#). Significant focus and effort will remain on retaining tenants in the coming year.

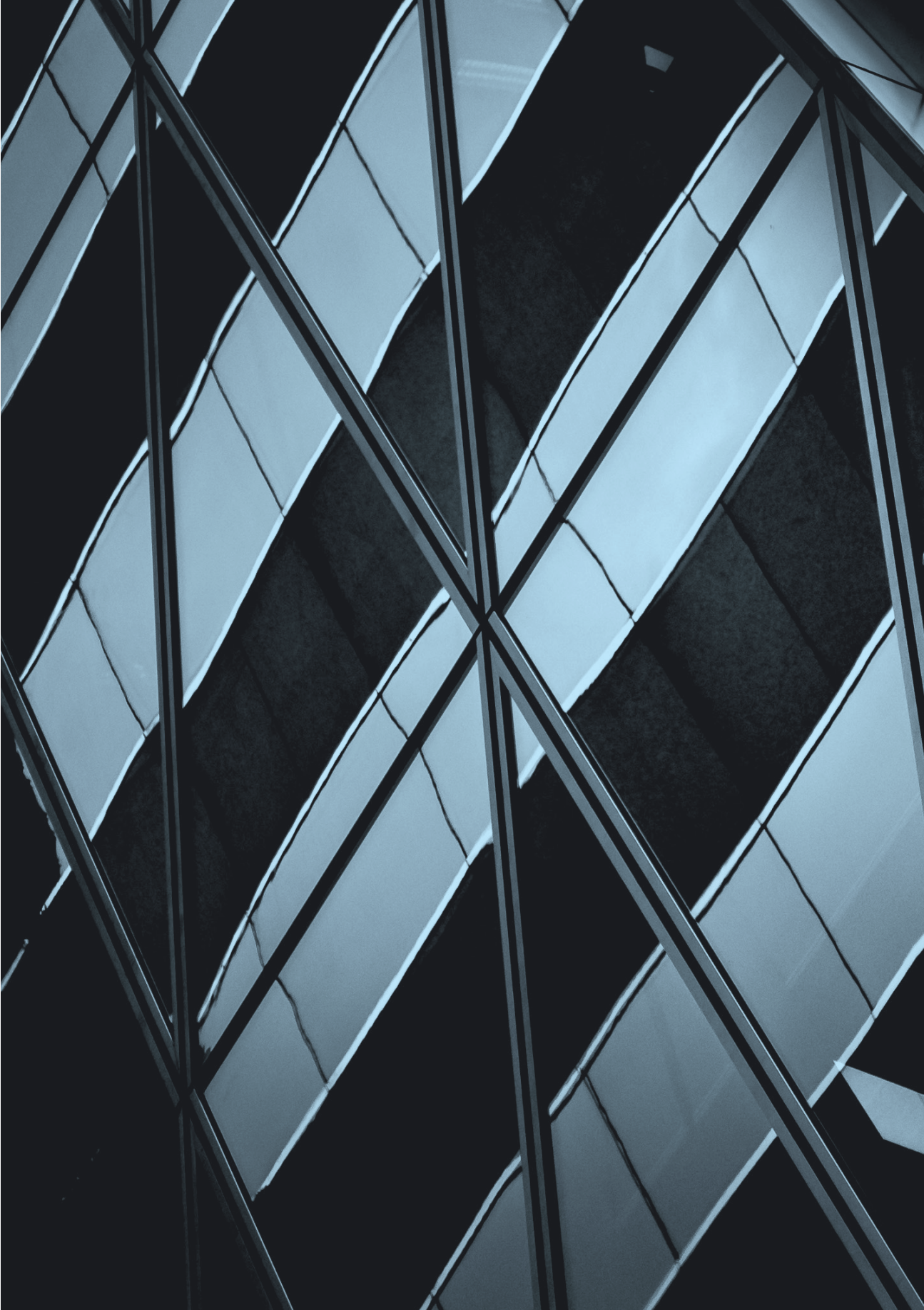
SALE OF PROPERTIES

Nine properties were sold, however, closures of deeds offices, the inability to obtain municipal clearances and a poorly functioning debt market delayed transfers. The disposal strategy is discussed in the chairman and CEO's report on [page 26](#).

IMPROVEMENT IN WEIGHTED AVERAGE LEASE TERMS

The weighted average lease terms in both our geographies improved during the year, as set out in the leadership reports on [page 24](#).

4-23 TEXTON'S STRATEGIC OVERVIEW



WE CREATE VALUE

Texton strives to improve the quality of the core property portfolio in line with its investment strategy.

ABOUT TEXTON

Texton is a diversified property investment fund with property in SA and the UK.

OUR VALUES



Communication

Consistent and transparent information flow to stakeholders.



Ownership

Taking responsibility for business performance and growth.



Accountability

Holding ourselves accountable to stakeholders, governing bodies and the investment community.



Trust

Earning stakeholders' trust through integrity and credible business practice.



Support

Supporting our stakeholders in achieving their objectives by being great at what we do.

OUR VISION

To be a listed property investment vehicle of choice with a commitment to sustainable growth for stakeholders.



OUR MISSION



- Conduct our business with integrity
- Deliver on results to stakeholders
- Respect our tenants as our most valuable assets
- Be a responsible corporate citizen
- Provide a transparent, sustainable investment vehicle/opportunity.

The way we do things is what sets us apart.
We are experienced asset managers with keen
market insight that allows us to create value for
our communities and stakeholders.

THE TEXTON WAY

We are determined and resolute

As an SA and UK business, we are determined to create value for stakeholders while contributing to nation building and wealth creation.

We do it for good

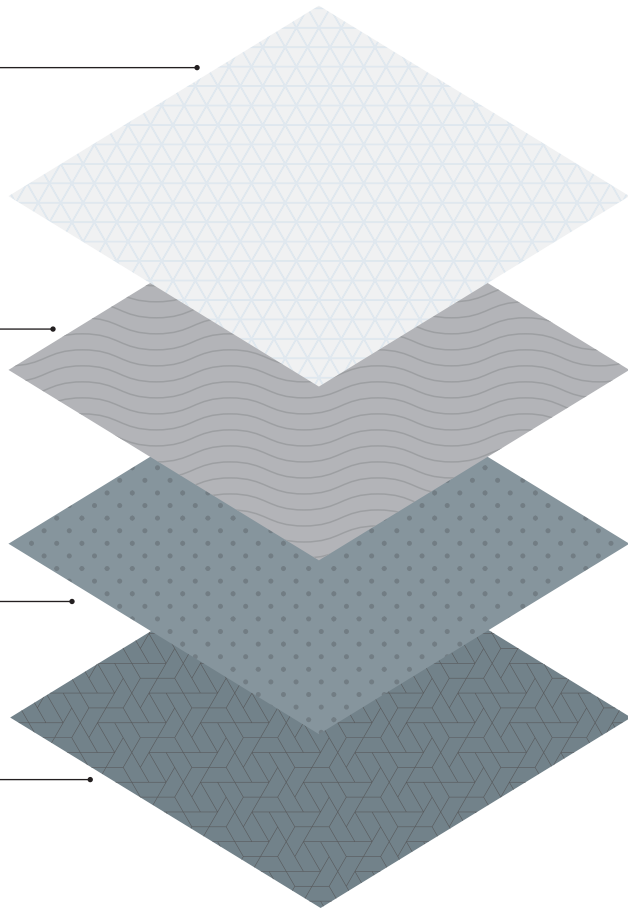
We upskill property professionals for the sector and support entrepreneurs in growing their businesses through the provision of quality workspaces.

We are solid and sensible

Since 2006, we have demonstrated that we are committed to building a solid yet nimble business.

We stick to what we know

We operate in areas where we have expertise and can maximise opportunities.



OUR SOUTH AFRICAN PORTFOLIO

TOTAL GLA m²

285 307m²

(2019: 287 743m²)

↓
0,9%

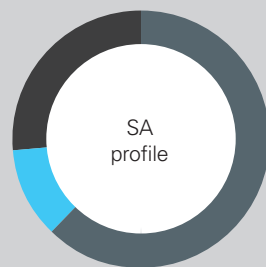
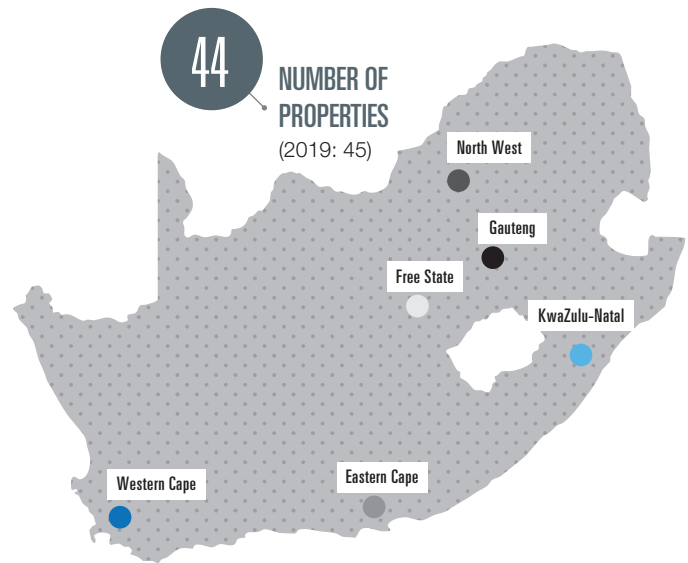
TOTAL VALUE OF PROPERTIES

R2 495 992

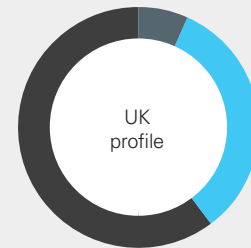
(2019: R2 574 500)

↓
3,0%

	2020	2019
● Western Cape	4	4
● Eastern Cape	1	1
● North West	1	1
● Free State	1	1
● Gauteng	34	34
● KwaZulu-Natal	3	4



■ Office
■ Retail
■ Industrial



OUR UNITED KINGDOM PORTFOLIO

TOTAL GLA m²

79 049m²

(2019: 88 311m²)

↓
11,1%

TOTAL VALUE OF PROPERTIES

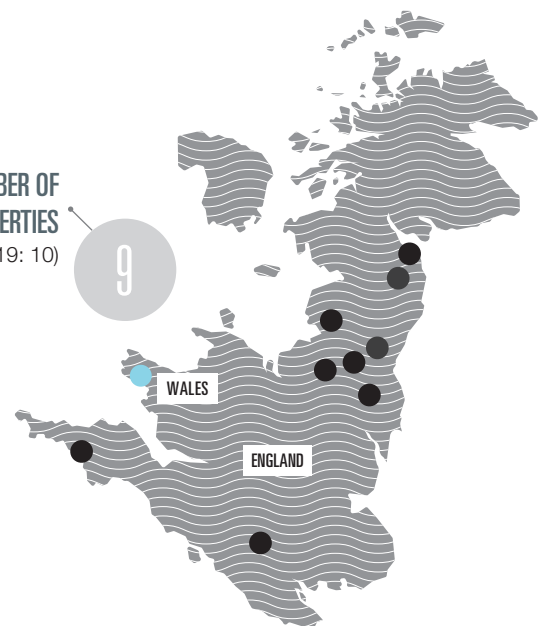
R1 974 223

(2019: R1 825 730)

↑
8,1%

	2020	2019
● England	8	9
● Wales	1	1

9
NUMBER OF PROPERTIES
(2019: 10)



OPERATIONAL FOOTPRINT AND PROPERTY PORTFOLIO

Texton's investment property portfolio is valued at R4,5 billion as at 30 June 2020. Assets include commercial office space and industrial, logistics and retail properties, as well as Texton's 50% portion of Broad Street Mall. We remain focused on centralised nodes in both geographies.

Texton strives to improve the quality of the core property portfolio in line with its investment strategy. We are focused on reducing the non-core portfolio by disposing of properties that no longer meet Texton's investment criteria. In the UK, two properties were identified as held for sale. In SA, 14 properties were identified as held for sale.

Leasing profiles in SA and the UK vary significantly. SA leases feature annual escalations and are generally between three and five years in tenure depending on the sector, property and tenant. UK leases have longer tenures of between 10 and 20 years. Their rent reviews are at set dates (generally every fifth anniversary of lease commencement) and an assessment of market rent is required. Texton engages a rent review surveyor to provide an independent opinion. All of Texton's UK assets are subject to rent reviews which contain increase-only clauses.

PROPERTIES

53

(2019: 55)

TOTAL GLA m²

364 356m²

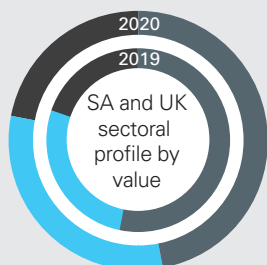
(2019: 376 054m²)

PORTFOLIO VALUE

R4 470 billion

(2019: R4 400 billion)

OPERATIONAL FOOTPRINT AND PROPERTY PORTFOLIO CONTINUED



- Office
- Retail
- Industrial



- Office
- Retail
- Industrial

CONSOLIDATED SA AND UK SECTORAL PROFILE (BY VALUE)

	Consolidated		South Africa		United Kingdom	
	Value R'000	%	Value R'000	%	Value R'000	%
30 June 2020						
Office	2 103 116	47,0	1 914 392	76,7	188 724	9,6
Retail	1 388 657	31,1	365 800	14,7	1 022 857	51,8
Industrial	978 442	21,9	215 800	8,6	762 642	38,6
	4 470 215	100,0	2 495 992	100,0	1 974 223	100,0
30 June 2019						
Office	2 334 520	53,1	1 976 000	76,8	358 520	19,6
Retail	1 197 497	27,2	371 700	14,4	825 797	45,2
Industrial	868 213	19,7	226 800	8,8	641 413	35,2
	4 400 230	100,0	2 574 500	100,0	1 825 730	100,0

CONSOLIDATED SA AND UK SECTORAL PROFILE (BY GLA)

	Consolidated		South Africa		United Kingdom	
	GLA m ²	%	GLA m ²	%	GLA m ²	%
30 June 2020						
Office*	183 437	50,3	178 077	62,4	5 360	6,8
Retail*	58 952	16,2	32 546	8,4	26 406	33,4
Industrial	121 967	33,5	74 684	26,2	47 283	59,8
	364 356	100,0	285 307	100,0	79 049	100,0
30 June 2019						
Office*	198 380	52,8	180 203	62,6	18 177	20,6
Retail*	55 707	14,8	32 856	11,4	22 851	25,9
Industrial	121 967	32,4	74 684	26,0	47 283	53,5
	376 054	100,0	287 743	100,0	88 311	100,0

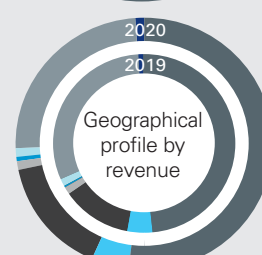
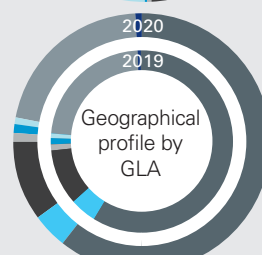
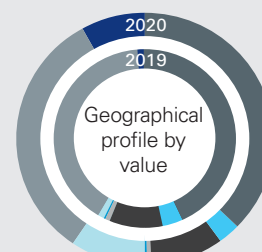
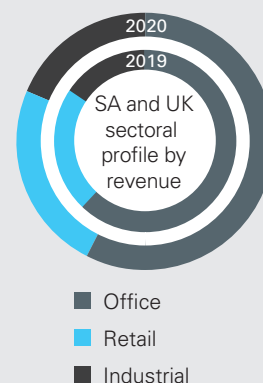
* The Broad Street Mall GLA is split between office (3 494m²) and retail (14 860m²).

CONSOLIDATED SA AND UK SECTORAL PROFILE (BY REVENUE PER MONTH)

	Consolidated		South Africa		United Kingdom	
	GLA m ²	%	GLA m ²	%	GLA m ²	%
30 June 2020						
Office	19 306	57,5	18 972	75,8	334	3,9
Retail	8 072	24,0	3 862	15,4	4 210	49,2
Industrial	6 207	18,5	2 198	8,8	4 009	46,9
	33 585	100,0	25 032	100,0	8 553	100,0
30 June 2019						
Office	23 619	62,1	19 636	75,4	3 982	33,3
Retail	8 605	22,6	3 933	15,1	4 672	39,1
Industrial	5 789	15,3	2 488	9,5	3 301	27,6
	38 013	100,0	26 057	100,0	11 955	100,0

GEOGRAPHICAL PROFILE (BY VALUE, GLA AND REVENUE)

	Value R'000		GLA m ²		Revenue R'000	
	%		%		%	
30 June 2020						
Gauteng	1 814 600	40,6	221 298	60,7	17 498	52,1
KwaZulu-Natal	149 300	3,3	15 671	4,3	1 556	4,7
Western Cape	439 692	9,8	37 189	10,2	5 067	15,1
Eastern Cape	37 700	0,8	4 027	1,1	370	1,1
North West	9 200	0,2	3 720	1,0	143	0,4
Free State	45 500	10,2	3 404	0,9	399	1,2
England	1 582 573	35,4	77 258	21,2	8 168	24,3
Wales	391 650	8,7	1 789	0,6	384	1,1
	4 470 215	100,0	364 356	100,0	33 585	100,0
30 June 2019						
Gauteng	1 895 400	43,1	221 298	58,8	18 413	48,4
KwaZulu-Natal	163 900	3,7	17 973	4,8	1 673	4,4
Western Cape	412 700	9,4	37 321	9,9	4 832	12,7
Eastern Cape	43 500	1,0	4 027	1,1	485	1,3
North West	10 900	0,2	3 720	1,0	138	0,4
Free State	48 100	1,1	3 404	0,9	517	1,4
England	1 782 403	40,5	86 522	23,0	11 632	30,6
Wales	43 327	1,0	1 789	0,5	323	0,8
	4 400 230	100,0	376 054	100,0	38 013	100,0



- Gauteng
- KwaZulu-Natal
- Western Cape
- Eastern Cape
- North West
- Free State
- England
- Wales

OUR BUSINESS MODEL

We use our capital inputs to carry out our business activities.

INPUTS What we are using



Financial capital

- Increase in return on investment
- Organic and accretive fund growth
- Dividend yield and dividend growth
- Reduce gearing and LTV ratio to optimal levels (LTV ratio and loan covenants)
- Minimise write-offs and bad debt provisions
- Active treasury management.



Manufactured capital

- Maximise value of asset base in selected sectors and geographical locations
- Reduce exposure to non-core assets through disposal
- Operational investment and enhancement
- Improve operational efficiencies.



Intellectual capital

- Intelligent investment in improving existing assets
- Hands-on management and opportunistic investment
- Active portfolio diversification geographically, at sector and tenant profile levels.



Human capital

- Hands-on active management
- Investment in professional and personal development for our employees for retention and succession and minimising impact on the environment.



Natural capital

- Alternative power and water-saving initiatives to enhance our natural capital.



Social and relationship capital

- Sustainable and relevant corporate social investment ("CSI")
- Broad-based black economic empowerment ("B-BBEE")
- Improve overall experience for tenants

BUSINESS ACTIVITIES What we do and how

Managing

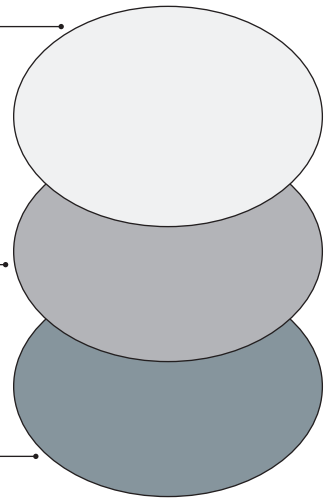
Our proactive asset management team and our property managers foster long-term relationships with our tenants and ensure our properties perform optimally.

Enhancing

We actively asset manage our portfolio to improve returns and capital value through refurbishment, redevelopment and pursuing value enhancing initiatives.

Disposing

We responsibly dispose of properties that no longer meet our strategic objectives.



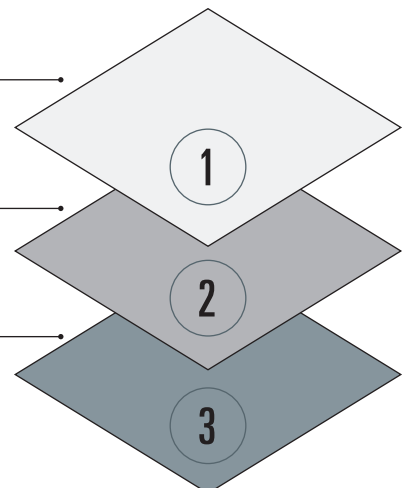
STRATEGIC PILLARS What drives our activities

We are driven by creating value for our stakeholders while building a choice investment vehicle with a quality asset portfolio.

Retain tenants

Let vacant space

Reduce LTV ratio



GROWTH DRIVERS

How we create revenue

Tenants

We have a broad tenant spread, with no domination by any one class of tenant.

Geographical

We achieve improved returns and capital value across our portfolio through our asset management and value enhancing initiatives.

Sectoral

We aim to reduce our exposure to the office sector through responsible disposal of non-core properties.

OUTCOMES

How we create value



Financial capital

- Diversification of funding sources with the lending portfolio split across three banks
- Efficient capital management to match SA debt with SA assets and UK debt with UK assets
- Management of funding costs through the hedging of interest rate exposure. Texton was 88% hedged as at 30 June 2020 (2019: 93,5%).



Manufactured capital

- Greening activities at various properties to improve tenant experience and retention.



Intellectual capital

- Collaboration of our team across continents results in innovation to improve occupancy ratios and properties.



Human capital

- Strong financial skills added in 2020
- The Texton team is a diverse mix of gender, race and culture.



Natural capital

- The roll-out of greening initiatives attracts and retains tenants, adds value to our properties and helps us reduce our carbon footprint.



Social and relationship capital

- Property managers negotiated new performance contracts with key deliverables, key performance indicators ("KPIs") and feedback, to assist in building the Texton brand
- B-BBEE assessment in progress.

Value created by capital

- Distributable profit for the year and cash generated from operations
- Net property income excluding the impact of straight-lining of R310,5 million (2019: R366,1 million).

- 11,0% vacancy on the total portfolio (2019: 9,2%)
- Capital expenditure of R1,8 million (2019: R5,5 million) spent on improving our properties.

- Geographical diversification by value achieved with 55,9% (2019: 58,5%) of our properties in SA and 44,1% (2019: 41,5%) in the UK. This diversification mitigates the impact of the economic uncertainty as well as the devaluation of the Rand.

- 11 employees across SA and the UK (2019: 11)
- R0,08 million in training spent which equates to 0,57% of our salary expense (2019: R0,15 million in training spent which equates to 1,4% of our salary expense).

- Water and energy footprints baseline established in 2019, however, continued greening initiatives were halted due to COVID-19.

- Texton is working with a BEE consultant to deliver on a comprehensive transformation plan.

OUTPUTS

The products and services we deliver

We deliver quality spaces to our tenants and attractive returns to our shareholders and investors.

OUR STAKEHOLDERS

Stakeholder engagement is key to our value system and the Texton way. In responding to issues raised by stakeholders, Texton ensures inclusivity, long-term sustainable value creation and compliance with the requirements of King IV.

Texton's key stakeholders, how we engage with them and material issues during the year are detailed alongside:



INVESTORS AND SHAREHOLDERS

How we engage: Executive management meets with our institutional investors and large individual shareholders on a regular basis to discuss issues and share insights. Other engagement occurs on the Stock Exchange News Service ("SENS") through interim and year-end reporting, and at the annual general meeting ("AGM") and investor presentations where detailed performance is discussed and key issues are highlighted.

Material issues: The COVID-19 pandemic resulted in increased transparency with investors and shareholders on how the business was managing the crisis. Further information can be found in the chairman and CEO's report on [page 26](#).



EMPLOYEES

How we engage: Due to the nature and size of the business, we hold weekly management meetings with all employees. Aside from weekly meetings, there is open and constant engagement with all staff. For off-site staff, we have a monthly conference call to engage and discuss issues.

We have strategy sessions with all staff before strategies are presented to the board for consideration and approval. We also hold various team building sessions. Insights, input and buy-in from all team members are crucial in determining Texton's path.

Material issues: Change in leadership and the impact of COVID-19 resulted in increased communication with our employees. Further information can be found in the chairman and CEO's report on [page 26](#).



TENANTS

How we engage: Tenants raise issues directly with Texton through our asset managers or property managers. Asset managers also meet with tenants on a regular basis.

Our property managers have a formal process whereby tenants log queries with either the creditors controller, facilities administrator or property manager. Queries are logged onto the Nicor system and must be resolved within specific timelines.

Material issues: The impact of COVID-19 resulted in increased communication with our tenants. Further information can be found in the chairman and CEO's report on page 26.



LENDERS/FINANCIERS AND PROVIDERS OF CAPITAL

How we engage: Executive Management meets lenders and financiers regularly to review and discuss Texton's lending requirements, refinancing and covenant levels, as well as any potential impacts of the changing risk environment.

Material issues: Texton refinanced the majority of its SA debt in SA and the UK. Further information can be found in the chairman and CEO's report on page 26 and the CFO's report on page 29.



GOVERNMENT/MUNICIPALITIES AND REGULATORS

How we engage: We regularly engage with municipalities on zoning issues. We also engage with the South African Revenue Service ("SARS") on taxation matters as and when required.

Material issues: The COVID-19 pandemic significantly impacted business cash flows. As such, the decision around the payment of dividends was deferred. Further information can be found in the CFO's report on page 29.



SUPPLIERS

How we engage: Texton holds monthly review and engagement sessions with our property management company to review KPIs, monitor property performance, and deal with tenant and property-related matters timeously. Texton also participates in conferences and industry events. Texton is a REIT member and contributes to the greater REIT community.

Material issues: The impact of COVID-19 resulted in increased communication with our suppliers. Further information can be found in the chairman and CEO's report on page 26.



COMMUNITIES

How we engage: Limited engagement is conducted with communities as they are not a direct material stakeholder to the group. The majority of Texton's assets are offices, which have a smaller impact and require less community interaction than retail assets.

As Texton further embarks on our sustainability journey, we will focus on enhanced stakeholder engagement, with expanded material issues identification, responses to stakeholders and reporting improvements.

BUSINESS STRATEGY

As we move forward, our priorities are clear. By focusing on the fundamentals, we are reinforcing Texton's solid foundations and strengthening our portfolio and balance sheet.

Our strategy encourages diversity for a sustainable portfolio and equity growth. The board meets annually to reconsider and update the Texton strategy and ensure it is moving towards meeting stakeholder requirements. In line with the strategy, we focused on retaining our tenants and letting vacancies.

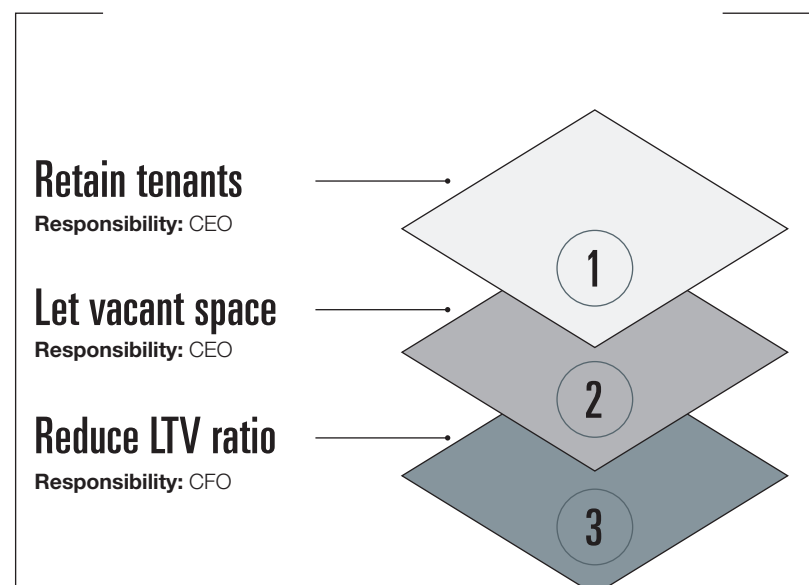
We are motivated by our imperatives of stakeholder value creation and building a choice investment vehicle with a quality asset portfolio. Texton's strategy leads us to achieving our growth and quality objectives for the portfolio.

Each property in the Texton portfolio is reviewed on an ongoing basis for strategic alignment and the potential to implement further value-add asset management initiatives.

Texton aims to secure long-term triple net leases where possible, which will allow us to securely forecast consistent cash flows. The ongoing drive to reduce vacancies and retain tenants will continue.

Risk factors such as nodal deterioration and tenant risk profiles continue to be focus areas. These are drivers to implement strategic initiatives such as selling non-core assets or repositioning affected properties in the form of redevelopment and/or refurbishment.

The three pillars driving Texton in the current environment are:





RETAIN TENANTS

Texton maintains a well-positioned and defensive portfolio underpinned by good property fundamentals and strong covenants. Tenant retention remains a strategic focus due to the weaker economic conditions in both SA and the UK as well as increasing competition from larger landlords offering leasing incentives. Texton's geographic dispersion of the current portfolio by value is 55,9% (2019: 58,5%) located in SA and 44,1% (2019: 41,5%) located in the UK.

Strategic drivers

- Active asset management across all properties in both geographies. This includes identifying ways to retain existing tenants, attract new tenants and maintain rental levels. When leases come up for expiry, management reassess the tenant, the best possible use of the property and how value can be maximised for the group
- Alignment with SA REIT best practice
- Focused tenant retention strategies
- Fostering relationships with existing tenants through asset managers meeting with tenants, without property managers present.

Primary KPIs and 2020 progress

We measure performance against this strategic pillar by:

- Ensuring that unexpired lease terms are extended year-on-year
- The absolute number of leases renewed is not less than 90%
- New leases are concluded relative to budget.

In the 12 months from July 2019 to June 2020, 54 leases were renewed, amounting to 62 538m², which is proof of the success of our focused and proactive approach to tenant retention in a challenging market. Of the leases expiring during the year, 90% were renewed. In the SA portfolio, several key leases due to expire at future dates were proactively and defensively renewed.

This process, while retaining tenants and protecting rental income streams, resulted in an improved net property income for the year. The combined net property income decreased by R55,9 million (2019: R6,5 million) as a result of the sale of Tesco Chobe. The average unexpired lease term, however, for each of these tenants was extended in SA to 3,2 years and in the UK to 9,23 years.

As previously reported, all long-term leases with the Department of Public Works ("DPW") have been concluded. The total GLA renewed with the DPW amounted to 25 646m² on five-year lease terms. This was a major strategic step in derisking our largest asset in SA.

Overall lease expiry	GLA %	Rental %
Vacant	11,0	
June 2020	17,4	19,0
June 2021	9,2	12,4
June 2022	15,6	11,1
June 2023	6,7	8,0
June 2024	6,7	6,4
>June 2024	33,4	43,1
	100,0	100,0

Outlook

South Africa	United Kingdom
Texton remains focused on continued and early tenant engagement to ensure we retain tenants in our portfolio.	Texton has much of its portfolio on long-term leases with expiry dates well into the future, most of which fall due in June 2024.

Risks

- Continued weakness in SA and UK economies
- Tenants are leveraging the soft rental market to their advantage by occupying better space at lower rentals
- Leases are taking longer to sign
- Increased competition among landlords to attract and retain tenants.

BUSINESS STRATEGY CONTINUED

2

LET VACANT SPACE

Texton has a diversified portfolio consisting of office, retail and industrial properties. Leasing vacant space remains a strategic focus.

Strategic drivers

- Active asset management across all properties in both geographies
- Growing relationships with broker networks to find new tenants
- Provide flexible, innovative solutions-oriented assistance to tenants requiring new space.

Primary KPIs and 2020 progress

Texton's progress in leasing vacant space is measured by the reduction of vacancies for the total portfolio as well as per geography and sector. In the 12 months from July 2019 to June 2020, Texton successfully concluded 36 new leases with a combined GLA of 11 104m².

The standing portfolio performed behind our expectations but ahead of market in most instances.

Total portfolio vacancies deteriorated to 11% compared to 9,2% in 2019.

With challenging market conditions and oversupply in certain categories, vacancies in the SA portfolio increased to 12,7% (36 246m²) as at 30 June 2020 compared to 10,8% (31 113m²) in 2019.

The industrial vacancy rate deteriorated to 13,2% (2019: 7,5%). This was primarily as a result of unbudgeted vacancy due to a tenant vacating their premises early.

Texton's office vacancies are at 12,5% (2019: 12,2%). The office properties have performed well despite the oversupplied and competitive market.

The retail vacancy rate increased to 12,9% (2019: 10,7%), mainly as a result of the closure of line stores due to the COVID-19 pandemic.

Occupancy profile of the SA portfolio is set out alongside. The wholly-owned UK portfolio remains fully let.

Sector	SA GLA m ²	SA vacancy GLA m ²	SA vacancy %
Office	178 077	22 170	12,5
Retail	32 546	4 226	12,9
Industrial	74 684	9 850	13,2
	285 307	36 246	12,7

Outlook

South Africa

Texton remains focused on managing vacancies in the current portfolio but the outlook is challenging.

We continue to focus on reducing our vacancies, specifically in the office sector where we have several long-standing vacancies at properties including St George's Mall, Greenstone Office Park, Bryanston Gate Office Park and Wale Street Chambers.

United Kingdom

All of Texton's wholly-owned UK assets remain fully let and income producing, contributing strong income returns to the company.

Our 50% interest in Broad Street Mall comprises a material asset within the overall UK portfolio. Broad Street Mall experienced substantial letting activity and asset management initiatives. These are discussed in further detail on [page 46](#).

Risks

Property vacancy risk is ranked in Texton's material risks for 2020. See the risk report on [page 21](#) for additional details.

3

REDUCE LTV RATIO

Texton's focus is to reduce the LTV ratio below 40% and strengthen our relationships with our banking partners.

Strategic drivers

- Constant monitoring of borrowing and covenant levels and identification of methods to best manage these
- Continuous engagement with lenders.

Primary KPIs and 2020 progress

Texton was able to refinance all debt that expired in the current financial year on favourable terms and tenures. This process showed that we have funders that support our business and the improved tenures provide Texton will a solid foundation from which to grow.

Total debt as at 30 June 2020 amounted to R2,0 billion made up as follows:

	ZAR facilities Rm	GBP facilities £m	Total facilities Rm
Total debt facilities	1 132,9	40,2	1 997,4
Total debt drawn	1 132,9	40,2	1 997,4
Net debt*	1 051,3	37,5	1 857,8
Subject to fix rates	995,0	29,8	1 636,7
Hedged on net debt (%)	94,6	79,4	88,1
Effective interest rate (%)	9,4	2,9	6,6
Weighted average expiry	2,2	4,2	3,1

* Debt less cash and cash equivalents.

Texton refinanced R932 million of Standard Bank debt in the current year. The new debt was split into four different tranches:

	Rate	Term
Standard Bank Tranche A	JIBAR + 1,95%	12 months
Standard Bank Tranche B (RCF)	Prime - 60bps	18 months
Standard Bank Tranche C	JIBAR + 235bps	30 months
Standard Bank Tranche D	JIBAR + 245bps	36 months

In the UK, Texton refinanced £1,7 million of debt expiring with Santander with a new five-year facility with HSBC. At the same time, Texton refinanced all its debt with HSBC totalling £32 million on a five-year facility with HSBC at a margin of 2,25% above the London Interbank Offered Rate ("LIBOR"). The margin decreases to 2,10% when the LTV on the portfolio reduces to 55%, which is expected to be completed by December 2020. The increased maturity and improved covenants will further improve the sustainability of our UK portfolio.

Our loan and swap profile as at 30 June 2020 is as follows:

ZAR debt (Rm)	2021	2022	2023	2024	2025	Total
Loan expiry profile	282	149	702	–	–	1 133
Hedging profile	695	200	100	–	–	995

GPB debt (£m)	2021	2022	2023	2024	2025	Total
Loan expiry profile	7,5	–	–	–	32,7	40,2
Hedging profile	–	29,8	–	–	–	29,8

Group (Rm)	2021	2022	2023	2024	2025	Total
Loan expiry profile	446	149	702	–	703	1 997
Hedging profile	695	842	200	–	–	1 637

Texton maintains a significant hedged position, with 88% (2019: 93,5%) of its interest rate exposure hedged through interest rate swaps. While this mitigates interest rate volatility, we are unable to take advantage of the low interest rates on offer in the current environment. We are investigating ways to benefit from these lower interest rates.

As at 30 June 2020, Texton had R96,0 million of property unencumbered (2019: R131,1 million).

Outlook

Enhancement of treasury management practices, extension of the maturity profile, diversification of funding sources and management of the cost of debt remain a significant focus.

Risks

In 2020, the ability to sell properties and reduce our LTV ratio represented the most material strategic risk for Texton. See details presented in the risk management section on page 21.

RISK MANAGEMENT

Texton defines risk as a probable event which could have a positive or negative impact on the group. The board appreciates the importance of risk management and has ultimate responsibility for the risk management process and systems of internal control.

A new risk and opportunity register outlining a detailed mitigation process has been put in place. Texton's internal controls focus on critical risk areas identified by the finance and asset management teams and confirmed by executive management. Controls are designed to provide reasonable assurance of the integrity and reliability of the annual financial statements. Such controls safeguard, verify and maintain accountability of Texton's assets, and detect fraud, potential liability, loss and material misstatement, while complying with applicable laws and regulations. An enterprise risk management framework and policy are receiving management attention, with identified shortcomings to be addressed in the new financial year.

Management is accountable for the design, implementation and monitoring of the risk management plan. Risk management is an ongoing process and includes planning, identification, analysis, monitoring and control. The objective is to decrease the probability and impact of adverse events and to exploit any positive impact. Risk management is integrated into Texton's strategy and is considered an intrinsic part of doing business. To ensure risk assessment is continually performed, the risk register is monitored by the board on a quarterly basis.

The strategic intent of our risk management process is to create an environment in which risk management is applied at a consistently high level across the group, enabling the board to make informed decisions, achieve business objectives and maximise returns to stakeholders.

Risks are managed via a risk management framework, according to which risks identified by management are documented in our risk matrix.

The probability of occurrence and the potential impact of each risk is measured and documented together with potential measures to mitigate each risk on the group. The risk matrix is presented to the audit and risk committee on a quarterly basis.

The board is assisted in its responsibility by the audit and risk committee. The audit and risk committee oversees compliance with the risk management plan and reviews the adequacy of the risk management framework, relative to the risks and opportunities identified. Texton's core focus remains on the continued restructuring of the portfolio and its funding, in line with our strategy.

Refer to the audit and risk committee report on  page 77.

The key strategic risks are listed below together with appropriate mitigation strategies:

1 GLOBAL PANDEMIC – COVID-19		
Potential risk and opportunity A pandemic can lead to the increased risk of financial loss due to risk mitigation measures and practices, the direct and indirect negative impact on the economy and the risk of staff contracting the virus.	Business impact The effect of COVID-19 on the business was systemic across all facets.	
Mitigation of potential risk - Head office employees were enabled to work from home - Active asset management with tenants allowed collections to be kept at high levels, and tenants were supported throughout the period - New banking facilities were agreed and extended tenures and improved covenants were put in place.		Risk trend (impact and likelihood) Increasing 
2 FUNDING CONTINUITY AND AVAILABILITY		
Potential risk and opportunity There is the risk that Texton is unable to raise funding for capital and operational requirements, and property values will continue to decrease. This could result in possible LTV ratio covenant breaches, which puts the continued funding of the portfolio at risk. Texton could be forced to sell down properties to settle debt.	Business impact Covenant breaches may reduce creditworthiness and impact Texton's ability to access funding and increase finance costs.	
Mitigation of potential risk Disposal of non-core properties to reduce the LTV ratio in terms of our core pillar ratios and create headroom in covenants.		Risk trend (impact and likelihood) Stable 
3 PROPERTY VACANCY		
Potential risk and opportunity Approximately 20% of the leases over Texton's SA properties expire annually. Given the macro-economic environment in which Texton operates and the high vacancy rates across SA, the risk is that tenants will not renew leases, and buildings, or portions thereof, will become vacant.	Business impact Higher vacancy rates increase the risk of building obsolescence and result in the reduction of rental income and distributable earnings. Texton may enter into leases at lower rentals to offset increasing vacancy rates or make improvements to buildings to attract new tenants without recovering such improvements. This may result in Texton not meeting its rental forecasts and, by extension, the dividend guided to the market.	
Mitigation of potential risk - Focused tenant retention strategies in terms of core pillars - Asset managers engage tenants one year prior to lease expiry.		Risk trend (impact and likelihood) Increasing 

RISK MANAGEMENT CONTINUED

4 COST OF FUNDING

Potential risk and opportunity

Adverse interest rate movements could result in the cost of debt increasing. The COVID-19 pandemic resulted in an illiquid debt market which increased the cost of funding.

Business impact

The increased cost of borrowings directly impacts distributable earnings. Given Texton's high gearing levels and the length of time it will take to reduce these, the impact is likely to be substantial and continuing.

Mitigation of potential risk

- Disposal of non-core properties to reduce LTV ratios and create headroom in covenants
- Relationships with existing and new lenders.

Risk trend (impact and likelihood)

Stable



5 SOUTH AFRICAN INFRASTRUCTURE FAILURE

Potential risk and opportunity

SA is facing challenges in the continued supply of key utilities, such as the production of electricity. Our tenants not being able to operate and the impact on the SA economy pose a risk to Texton.

Business impact

Tenants' reduced operating capacity puts pressure on their businesses, resulting in lower income. Tenants are already under pressure given the high costs of occupancy with municipal costs increasing far in excess of inflation.

Mitigation of potential risk

- Texton has invested in generators at a number of properties, however, the cost of running and maintaining these is high and not always fully recoverable from tenants
- Texton is cognisant of the negative impact of these generators on the environment. Further considerations may be required for alternative water supply solutions in the future to ensure tenants can operate at all times. Other energy/water solutions will be dealt with on a cost benefit basis.

Risk trend (impact and likelihood)

Increasing



6 GEOPOLITICAL

Potential risk and opportunity

Texton is exposed to the risk of increasing inflation and currency fluctuations arising from increasing political risk across the geographies in which it operates.

Business impact

Currency fluctuations may result in earnings volatility and declining distributions. Given that Texton has £7.5 million of debt secured by SA assets, significant exchange rate movements can put pressure on the LTV ratio for this facility.

Inflation leads to the erosion of net property income and net profit. This leads to a decrease in distributable earnings, particularly in a high vacancy environment.

Political risk places pressure on the macro-economic environment, which can lead to reduced property values.

Mitigation of potential risk

- Derivative instruments such as interest rate swaps and forward exchange contracts are entered into to reduce both currency and interest rate risk. Refer to the CFO's report on page 29.

Risk trend (impact and likelihood)

Stable



7 SUPPLIER DEPENDENCY (OUTSOURCING RISK)

Potential risk and opportunity

Texton has a number of outsourced services, most notably its property management. If outsourced service functions fail to deliver expected results, Texton's operations and its relationships with tenants and stakeholders will be materially impacted.

Business impact

Breakdown of business continuity causes tenant disruption, and creates negative associations with the Texton brand and reputation.

Mitigation of potential risk

- Supplier engagement and contracting
- Tenant management through in-house asset managers
- Management through service level agreements.

Risk trend (impact and likelihood)

Stable



8 PERSONNEL ATTRACTION AND RETENTION

Potential risk and opportunity

Failure to attract or retain key executives and personnel will have a material impact on the business operations and reputation of Texton.

A lack of succession planning will put Texton's operations at risk and lead to brand damage.

Business impact

The lack of personnel attraction and retention leads to loss of knowledge, skills and leadership, and the potential of increased workload on existing staff.

Failure to implement succession planning will hinder the achievement of strategic objectives and have a reputational impact, affecting long-term growth and sustainability. It will also lead to reduced ability to react to market opportunities.

Mitigation of potential risk

- Improved remuneration policy
- Succession planning process under way
- Introduction of a Conditional Share Plan ("CSP") for staff (refer to the nominations and remuneration committee report on [page 62](#))
- Personal development plans for staff in 2021.

Risk trend (impact and likelihood)

Stable



9 CYBER

Potential risk and opportunity

The prevalence of cyberattacks has increased dramatically over the past few years, with the criminals becoming increasingly sophisticated.

Business impact

Cyberattacks cause widespread disruption to operations and can be costly to remedy. These attacks can cause significant reputational damage and potential exposure to lawsuits.

Mitigation of potential risk

- Improved firewalls
- Quarterly engagement with the information technology ("IT") service provider.

Risk trend (impact and likelihood)

Stable



10 SUSTAINABILITY

Potential risk and opportunity

The investor community is placing more emphasis on sustainability. The risk of failure to meet sustainable objectives and targets could have a significant impact on the business.

Business impact

There is reputational and brand risk for failure to meet investor expectations.

Mitigation of potential risk

- Sustainability strategy will be developed
- Improved reporting and measurement will be effected.

Risk trend (impact and likelihood)

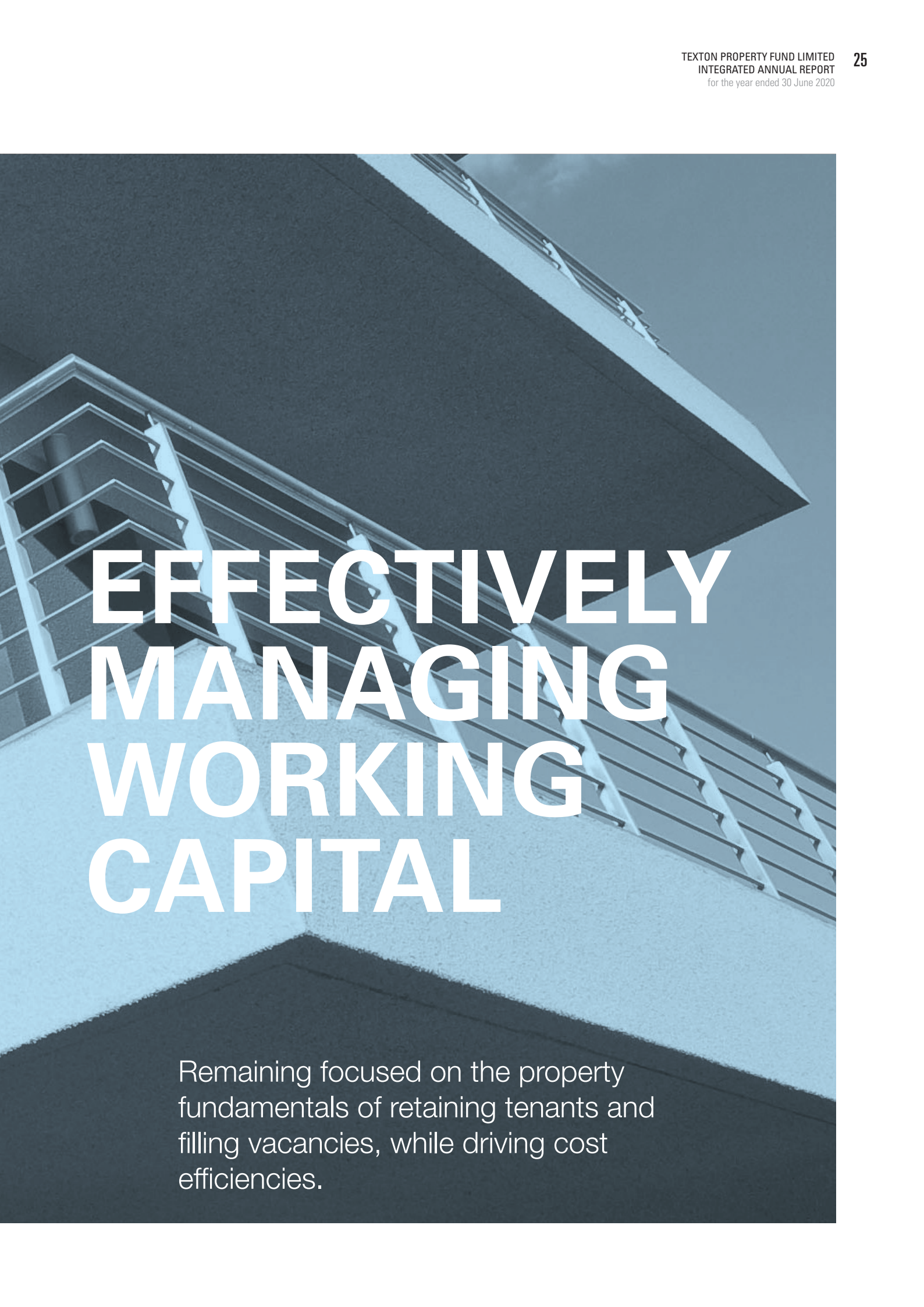
Stable



LEADERSHIP REPORTS

24-33





EFFECTIVELY MANAGING WORKING CAPITAL

Remaining focused on the property fundamentals of retaining tenants and filling vacancies, while driving cost efficiencies.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

2020 will undoubtedly be remembered for the effect the COVID-19 pandemic had on the world. It changed the way people live and do business. Fundamental shifts under way in the property industry have been accelerated and exacerbated by the pandemic.

OUR OPERATING CONTEXT

South Africa

The SA listed property sector was already under pressure before the outbreak of the COVID-19 pandemic due to weak property fundamentals. Moreover, the country's economy was in a technical recession. Business and consumer confidence are low, exacerbated by economic policy uncertainty, poor administrative delivery, unreliable electricity supply, deteriorating infrastructure and rising municipal costs.

Years of oversupply in the sector, particularly in Gauteng, are being met by low demand. Overall, this environment increased competition for tenants, placing pressure on cash flows and balance sheets.

United Kingdom

Since Britain voted to leave the European Union ("EU") in 2016, protracted Brexit negotiations dented business confidence and affected the perceived values of property in the UK.

The retail sector is under pressure, with Moody's Analytics reporting that vacancies are likely to increase as rentals fall. In response to reduced trading caused by the COVID-19 crisis, industry bodies have put immense pressure on retail property landlords to link a tenant's rent to their turnover.

The industrial and logistics property sector, however, proved to be resilient in the first half of 2020, driven by consumer demand for e-commerce. Not only is this an encouraging sign for the UK property market, but also a clear competitive advantage for Texton, as our UK portfolio is largely geared to big-box (large-scale) retail and logistics.

TEXTON'S STRATEGIC FOCUS

Texton's strategic focus is to enhance property fundamentals to reinforce our strong foundations, as we strengthen our portfolio and balance sheet. Supporting our property fundamentals is a resolute focus on capital allocation. The board oversaw the prudent allocation of capital, which was targeted at two areas:

- Capital allocation to strengthen our balance sheet by reducing debt
 - Debt repayments were made from internally generated cash and are further facilitated by our disposal strategy of non core assets. We made significant progress, with R400 million of debt repaid, reducing our LTV ratio to 46,2% (refer to the CFO's report on [page 29](#) for further detail). It is encouraging that we sourced willing buyers and found liquidity in an extremely challenging market. We are completing R174 million worth of asset sales, however, our momentum was slowed by COVID-19 lockdown measures, which hampered administrative functions
 - Capital allocation to derisk Texton's balance sheet
- Managing exchange rate exposure is a perennial problem for SA businesses with offshore operations. Texton is exposed to exchange rate movements and the volatility of the Rand. To manage this, we allocated capital to close out a cross-currency interest rate swap, thereby reducing risk on our balance sheet. More detail can be found in the CFO's report on [page 29](#).

The balance sheet was further derisked by refinancing R932 million of SA debt and £32,7 million of UK debt, thereby extending the weighted average expiry profile of the group to 3,1 years (SA: 2,2 years; UK: 4,2 years) as at 30 June 2020. Debt associated with our joint venture investment was also extended for a further 12 months as our financier supported the execution of the business plan. These successful renegotiations in the current environment further signal the strength of our underlying portfolio.

OUR OPERATIONAL PERFORMANCE

Revenue is under pressure, largely due to increased reversions and vacancies, and exacerbated by higher operating costs, particularly municipal rates and electricity. This is another fundamental change in the property sector, which was historically defensive in nature with favourable annual escalations in excess of operating cost increases. This shifting revenue to cost imbalance impacts how property companies do business.

In response, Texton refocused our portfolio in the previous financial year, which was beneficial as the operating context has intensified further.

A highlight is Texton's ability to retain tenants in a competitive market. We made a concerted effort to engage and support tenants. This comes with a trade-off as we have seen some reversion on renewals, driven by oversupply and low demand. Retaining tenants at lower market value, however, is preferable to the punitive cost of vacancies and securing new tenants.

Rent collections since the start of the pandemic were one of the best indicators of the relative health of the portfolio. Overall, we were pleased by collections in our operating geographies. Texton's management team engages daily with tenants on an individual basis. As a result of these efforts, cash collections across the portfolio remained at 90% during Q4. Cash collections for the financial year were 94,4%.

Our UK portfolio remains defensively placed with mainly triple net leases with strong covenants and long expiry date profiles.

To stimulate the economy, central reserve banks significantly decreased global interest rates to all-time lows. From the beginning of 2020, the South African Reserve Bank ("SARB") cut its key repo rate by a total of 300 basis points ("bps"). It also relaxed regulatory requirements on banks, aiming to free up more capital for lending by financial institutions to households and firms. Similarly, in the UK, rates were decreased to 0,15% from 0,79% at the start of the 2020 calendar year.

These decreases gave a lifeline to the property industry, as they reduce interest rate payments and increase the appeal of investing in property. We believe the rate environment will remain low in the medium term, and as our interest rate fixtures unwind, we will begin to see benefits to our earnings. The increased spread between property yield and interest rates also aids our disposal strategy, as the compelling return on equity for our non-core properties will attract demand from purchasers.

RESPONSE TO COVID-19

In mitigating the risks associated with the pandemic, our priorities were the health and safety of our employees, the support of our tenants and suppliers and the management of working capital.



The pandemic will have a pervasive impact on our business and industry, the extent of which is still unknown. While this presents challenges, we believe it provides opportunities for Texton to be agile and adaptable, and to leverage the competitive advantages in our defensive property portfolio.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

We are proud of the fact that Texton did not retrench any employees or reduce salaries during the various lockdown levels. As part of cost-cutting measures and in solidarity with all South Africans, board members waived 30% of their salaries and fees for a three-month period.

To ensure we were prepared to deal with the erosion of property operations, we took decisive action to preserve cash by effectively managing our working capital through the crisis. We are mindful that many of our tenants and suppliers are small, medium and micro-enterprises ("SMMEs") and the lifeblood of the SA economy. We have actively engaged with our tenants and suppliers, adopting a solutions-oriented mindset in an effort to generate win-win outcomes for all parties.

We maintained our strong relationships with tenants, and were proactive in following up on collections and providing relief on a case-by-case basis. It is testament to the robust nature of our portfolio that we maintained strong collections in the UK and SA. Detail can be found in the CFO's report on [page 29](#).

At the same time, we managed expenses by negotiating mutually beneficial terms with our suppliers, accelerated pre-existing expense cutting measures and suspended all discretionary spend. Refer to the CFO's report on [page 29](#) for specifics.

The duration and extent of the COVID-19 pandemic is unknown and casts significant uncertainty on the financial impact. The board considered it prudent and in the best interest of all stakeholders to exercise caution in these unprecedented times. Following consultation with the JSE, the board cancelled the payment of the interim dividend. We believe these steps were appropriate to assure we are well positioned to deal with the uncertainty that lies ahead. They strengthened our liquidity position and guided the business.

LOOKING AHEAD

A fundamental shift in the property industry

Landlords are facing a significant uphill battle when it comes to preserving cash flows. The added pressure caused by COVID-19 lockdown measures brought pre-existing concerns to the fore.

Over the past year at Texton, we started to implement difficult decisions and reconfigure our business to ensure longevity and sustainability. This shift fortuitously positioned us to survive and succeed in a new post-pandemic world.

Uncertainty remains and we foresee significant changes in the property industry in the short to medium term. We believe that by pursuing our strategy with intent, however, Texton will emerge as a stronger and more agile business. We continue to do our best to navigate the unprecedented market dislocation caused by COVID-19 and the financial impact on our business.

We are confident our dynamic leadership team will steer Texton through these pivots. We have a targeted range of expertise at board level, and there is full alignment between board members, executive management and employees on our strategy to see Texton through what will undoubtedly continue to be a difficult trading environment.

We will remain focused on the property fundamentals of retaining tenants and filling vacancies, while driving cost efficiencies. Our strong relationships with tenants as a key stakeholder group will be a priority.

Executing on balance sheet strength through our disposal strategy will put Texton in a strong position to be agile. Balanced with this, we will continue to responsibly invest in our properties to ensure they remain attractive to tenants.

We express our appreciation to the board for its support and to Texton's employees for their dedication. We also thank our tenants and suppliers for their engagement and commitment to our shared sustainability.



Marcel Golding
 Chairman



Pienaar Welleman
 Interim chief executive officer

CHIEF FINANCIAL OFFICER'S REPORT

Texton has traded through difficult conditions in SA and the UK. Despite the challenging operating context, our assets have performed well and have proven defensive in the current environment. Texton has shown progress in derisking its balance sheet. Through the sale of non-core assets, we expect to show further progress in the next 12 months.

The SA economy is facing unprecedented economic headwinds, which have been further exacerbated by the COVID-19 pandemic and the resultant government lockdowns. The economy recorded four consecutive quarters of economic decline prior to 30 June 2020 and the country's sovereign rating was downgraded to junk status. The Minister of Finance projected the fiscal deficit to be 14,6% of gross domestic product ("GDP")¹. These factors resulted in significant foreign capital leaving the country and a negative impact on the value of the Rand.

The UK economy contracted by a record 20,4% in Q4, following a 2,2% contraction in Q3 as a result of the impact of COVID-19 lockdown measures on business activity and spending. The scale of the contraction was caused by the large share of consumer-facing services in the economy, combined with a deeper and longer lockdown than most other developed countries. The UK economy has shown some recovery, with GDP rebounding by 2,4% in May and a further 8,7% in June, following the reopening of shops. The full impact of the recession on the labour market will be visible when the furlough scheme ends in October. Some forecasters predict the unemployment rate could rise to double digits.

The COVID-19 pandemic and subsequent lockdown in both geographies resulted in reduced demand for the commercial office section. As such, the office sector faces a crossroads, which could result in a structural shift in the role of office property in the future. Texton's view is that the role of the office will evolve to focus more on collaboration, training, meetings and flexible working.

PERFORMANCE HIGHLIGHTS

- The SA portfolio vacancy increased to 12,7% (2019: 10,8%)
- 90,0% (2019: 83,6%) of leases expiring during the year were renewed
- The UK portfolio is fully occupied
- Total distributable income, before the effects of implementation of a pay-out ratio, for the financial year amounted to R125,0 million (2019: R268,4 million), representing a 53,4% decrease. The decrease in earnings is a result of:
 - Realised foreign exchange loss incurred on the closing of a cross-currency interest rate swap ("CCIRS")
 - Higher provision for bad debts reflecting the current economic environment and possible further tenant failures in the future
 - No income from the joint venture was included in the distributable income for the year.

We disposed of R209,0 million (2019: R286,4 million) of non-core assets to streamline operations and make funds available to pay down debt. Our LTV² ratio profiles improved marginally from 47,2% to 46,2% as a result of our focused approach on balance sheet management.

¹ 2020 Supplementary Budget Review.

² Calculated according to REIT BPR 2019 second edition guidelines.

CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

DISTRIBUTABLE EARNINGS

Calculation of distributable earnings:

	30 June 2020 R'000	30 June 2019 R'000	Variance %
Revenue	521 905	558 025	(6,5)
Impairment losses recognised on tenant debtors	(27 595)	1 505	(1 933,6)
Property expenses	(183 780)	(193 434)	5,0
Profit/(loss) from joint venture	34 711	(1 158)	3 097,5
Non-cash items included in profit/(loss) from joint venture	(34 711)	11 166	(410,9)
Other income	4 715	11 000	(57,1)
Administrative expenses	(38 022)	(34 223)	(11,1)
Net finance cost	(83 111)	(93 663)	11,3
– Finance income	85 780	90 535	(5,3)
– Finance cost	(168 891)	(184 198)	8,3
Taxation – pre-pay-out ratio adjustment	(29 803)	(18 131)	(64,4)
Distribution of realised foreign exchange (loss)/gain	(47 496)	8 272	(674,2)
Distributable earnings on treasury shares	8 175	19 036	(57,1)
Distributable earnings	124 988	268 395	(53,4)
Number of shares in issue at year-end	376 066 766	376 066 766	

Net property income is made up as follows:

	30 June 2020 R'000	30 June 2019 R'000	Variance %
Investment property income²	521,9	558,0	(6,5)
SA	435,6	447,6	(2,7)
Office	331,6	333,6	(0,6)
Industrial	41,2	42,9	(3,9)
Retail	62,8	71,1	(11,7)
UK	86,3	110,4	(21,8)
Office	14,8	44,9	(67,0)
Industrial	42,2	38,7	9,0
Retail	29,3	26,8	9,4
Property expenses	(211,4)	(191,9)	(10,2)
SA	(207,2)	(187,0)	(10,8)
Office	(156,4)	(133,9)	(16,8)
Industrial	(19,3)	(20,2)	4,5
Retail	(31,5)	(32,9)	4,0
UK	(4,2)	(4,9)	14,3
Office	(0,9)	(2,1)	57,1
Industrial	(1,6)	(1,4)	(14,3)
Retail	(1,7)	(1,4)	(21,4)
Net property income	310,5	366,1	15,2

² Calculated according to REIT BPR 2019 second edition guidelines.

Investment property income decreased by 6,5% to R521,9 million, driven predominately by the impact of rental relief, reversions in our retail portfolio and vacancies in SA. In the UK, the sale of the Tesco Chobe property resulted in the significant decrease in income.

Property expenses increased by 13,5% due to increased provision for bad debts as a direct result of the COVID-19 pandemic. Other property expenses were on par with the previous year, as all non-critical expenditure was deferred to preserve cash during the final quarter of the financial year. Overall, net property income was 15,2% lower than the previous year.

Administration expenses increased by 11,1% to R38,0 million, driven by professional fees incurred in restructuring the balance sheet and additional head office costs during the transition in management. Finance costs decreased by 8,3% to R168,9 million due to debt reductions achieved from the sale of properties towards the end of the previous financial year and early in the current financial year. Texton has not yet fully benefited from the lower interest rates, as it maintains a significant hedged position, with 88% (2019: 93,5%) of its interest rate exposure hedged through interest rate swaps.

To reduce the risks to the balance sheet from currency movements, Texton closed out £7,5 million of CCIRS, which resulted in a realised foreign exchange loss of R50 million. In addition, 25% of a £10,0 million loan secured against SA assets was converted into Rand debt. Further unrealised foreign exchange losses were incurred which brings the total foreign exchange loss to R90,7 million (2019: R0,5 million loss).

CAPITAL MANAGEMENT

The importance of a robust balance sheet is now more relevant than ever. Before lockdown measures, Texton's focus was already on reducing the LTV ratio and derisking the balance sheet from currency and market risks. As a result of these initiatives, Texton reduced its group LTV ratio from 47,2% to 46,2%.

Sale of non-core properties

We identified 14 properties valued at R529,5 million as at 30 June 2019 for disposal. Two of these properties (valued at R209,0 million) were sold and transferred by 30 June 2020. The COVID-19 pandemic resulted in delays in the transfer process due to the closing of municipalities and deeds offices during the last quarter of the financial year. As at 30 June 2020, we identified a further four properties for sale, taking the total properties available for sale to 16, valued at c. R600 million for disposal. Eight of these properties (valued at R154,6 million) were contracted for and we expect sales to be completed by 31 December 2020.

Group borrowings

Texton refinanced all debt that expired during the financial year on favourable terms and tenures. This process confirmed we have supportive funders and the improved tenures provide Texton with a solid foundation from which to grow.

Total debt as at 30 June 2020 amounted to R2,0 billion, made up as follows:

	ZAR facilities Rm	GBP facilities £m	Total facilities Rm
Total debt facilities	1 132,9	40,2	1 997,4
Total debt drawn	1 132,9	40,2	1 997,4
Net debt*	1 051,3	37,5	1 857,8
Subject to fix rates	995,0	29,8	1 636,7
Hedged on net debt (%)	94,6	79,4	88,1
Effective interest rate (%)	9,4	2,9	6,6
Weighted average expiry	2,2	4,2	3,1

* Debt less cash and cash equivalents.

Texton refinanced R932 million of Standard Bank debt in the current year. The new debt was split into four different tranches:

	Rate	Term
Standard Bank Tranche A	Interbank ("JIBAR") + 1,95%	12 months
Standard Bank Tranche B (RCF)	Prime - 60bps	18 months
Standard Bank Tranche C	JIBAR + 235bps	30 months
Standard Bank Tranche D	JIBAR + 245bps	36 months

In the UK, Texton refinanced £1,7 million of debt expiring with Santander with a new five-year facility with HSBC. At the same time, Texton refinanced all its debt with HSBC totalling £32 million on a five-year facility with HSBC at a margin of 2,25% above LIBOR. The margin decreases to 2,10% when the LTV ratio on the portfolio reduces to 55%, which is expected to be completed by December 2020. The increased maturity and improved covenants will further improve the sustainability of our UK portfolio.

Our loan and swap profile as at 30 June 2020 is as follows:

	2021	2022	2023	2024	2025	Total
ZAR debt						
Loan expiry profile (Rm)	282	149	702	–	–	1 133
Hedging profile (Rm)	695	200	100	–	–	995
GBP debt						
Loan expiry profile (£m)	7,5	–	–	–	32,7	40,2
Hedging profile (£m)	–	29,8	–	–	–	29,8
Group						
Loan expiry profile (Rm)	446	149	702	–	703	1 997
Hedging profile (Rm)	695	742	200	–	–	1 637

Texton maintains a significant hedged position, with 88% (2019: 93,5%) of its interest rate exposure hedged through interest rate swaps. While this mitigates interest rate volatility, we are unable to take advantage of the low interest rates on offer in the current environment. We are investigating ways to benefit from these lower interest rates.

As at 30 June 2020, Texton had R98,3 million of property unencumbered (2019: R131,1 million).

CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

CCIRSs

As at 30 June 2020, we only had one CCIRS in place:

	GBP nominal £m	ZAR nominal Rm	GBP/ZAR initial rate	GBP average rate over the term %	ZAR fixed rate over the term %	Maturity	Mark-to- market Rm
Investec	30,8	600,0	19,48	3,18	11,0	2 Sep 2021	32,2

During the year, Texton closed out a CCIRS with mark-to-market close out costs of R50,0 million in order to derisk the balance sheet and reduce the value of CCIRS as a percentage of the total value of offshore investments. No new CCIRSs were entered during the year. The mark-to-market of the CCIRS as at 30 June 2020 was R32,2 million and no margining was required to be posted with Investec at year-end. Texton is committed to reducing its exposure to CCIRSs further over the medium term and we have been in discussions with our funders in this regard.

INVESTMENT PROPERTY

Texton's policy is to have one-third of its properties externally valued by an independent valuer each year. The remaining properties are valued internally by the board using the same methodology applied by the external valuers. For the financial year ended 30 June 2019, we valued the entire portfolio using an independent valuer. This was done to obtain a baseline for future valuations.

The table below shows the value of properties valued externally against the value of properties valued internally, and the movement in property valuation for the year ended 30 June 2020:

	% of portfolio	2020 R'000	2019 R'000	Change R'000	Change %
SA properties					
Internally valued	37,4	934 700	977 100	(42 400)	(4,3)
Externally valued	49,4	1 234 800	1 213 000	21 800	1,8
Held for sale	13,3	332 492	373 900	(41 708)	(11,2)
Total SA properties	100,0	2 501 992	2 564 000	(62 008)	(2,4)
UK properties					
Internally valued	46,9	587 907	492 673	95 234	19,3
Externally valued	31,2	391 650	324 280	67 370	20,8
Held for sale	21,9	274 801	430 264	(155 463)	(36,1)
Total UK properties	100,0	1 254 358	1 247 217	7 142	0,6
Total properties					
Internally valued	40,5	1 522 607	1 469 773	52 834	3,6
Externally valued	43,3	1 626 450	1 537 280	89 170	5,8
Held for sale	16,2	601 293	804 164	(197 171)	(24,5)
Total properties	100,0	3 756 350	3 811 216	(60 867)	(1,4)

Uncertainty due to COVID-19 measures impacted property values. As a result, we adopted a conservative outlook on property valuation assumptions. We increased exit capitalisation rates by at least 50bps and tempered market rental growth expectations. As a result of our response to the financial impact of COVID-19 mitigation measures, we did not factor any potential cost savings into property expense forecasts.

NAV PER SHARE

NAV per share decreased by 29,74 cents per share:

	30 June 2020 R'000	30 June 2019 R'000
Reported NAV attributable to the parent	1 972 737	2 123 952
Adjustments:		
Fair value of interest rate swaps	55 911	14 200
Deferred tax	12 754	7 303
Total equity	2 041 402	2 145 455
Shares outstanding		
Number of shares in issue at period-end (net of treasury shares) ('000)	349 395	349 395
Dilutive number of shares in issue	–	–
Total shares ('000)	349 395	349 395
NAV per share (cents)	584,27	614,05

PAYMENT OF FINAL DIVIDEND

Texton elected to defer the decision relating to the payment of a final dividend. The JSE notified REITs on 26 June 2020 that interim relief was approved by the Financial Sector Conduct Authority ("FSCA") to allow REITs with year-ends from February to September 2020 to postpone the payment of their dividends for an additional two-month period over and above the requirement to pay dividends within four months of year-end. On 22 September 2020, the JSE notified the market via SENS that the FSCA advised it is not in a position to consent to the request to relax the pay-out ratio requirements for REITs. Texton will need to assess the implications of this announcement and will make a dividend decision within the required timeframe.

LOOKING AHEAD

Outlook for 2021

The SA economy is expected to contract by up to 7,3% in the current year as it suffers from demand and supply side shocks. Inflation is expected to remain muted in the medium term, which should allow the SARB to maintain lower interest rates for longer. We believe this will provide some degree of relief for property owners and consumers. SA will, however, need more than just accommodative monetary policy to turn the economy around.

Our operating environment will remain challenging for the foreseeable future, characterised by pressure on rental incomes and an ever-increasing cost environment. Electricity supply is expected to be constrained and rates continue to rise in excess of inflation.

Tenants are leveraging the soft rental market to their advantage by occupying better space at lower rentals. Leases are taking longer to sign with difficult negotiations. Competition among landlords will persist, with material lease incentives being offered to attract tenants.

In the UK, government's generous support, in particular the job retention scheme, held the economy together during the hard lockdown. Notwithstanding these initiatives, the UK economy is in the midst of the most severe economic downturn in modern times and it is forecast that GDP will contract by 7,2% in 2020 before rising in 2021, on the assumption that a favourable trade deal will be negotiated with the EU.

Against this backdrop, Texton reaffirms its commitment to retain tenants and reduce vacancies and costs, at a property and head office level. The strengthening of our balance sheet through the lowering of our LTV ratio and treasury management is of paramount importance as we continue to navigate the effects of the pandemic on the markets in which we operate.

Looking ahead, we intend adopting a variable dividend pay-out ratio.

Texton's portfolio is defensively positioned in both markets in which it operates. This was demonstrated during the initial three months of the COVID-19 pandemic when collections remained above 90% in SA and the UK.

We believe that the sale of non-core assets, the low interest rate environment and the strength of our core portfolio will provide a suitable foundation for management to pivot Texton into a new future.

I express my appreciation to the board for its support and to Texton's employees for their commitment during this difficult time.

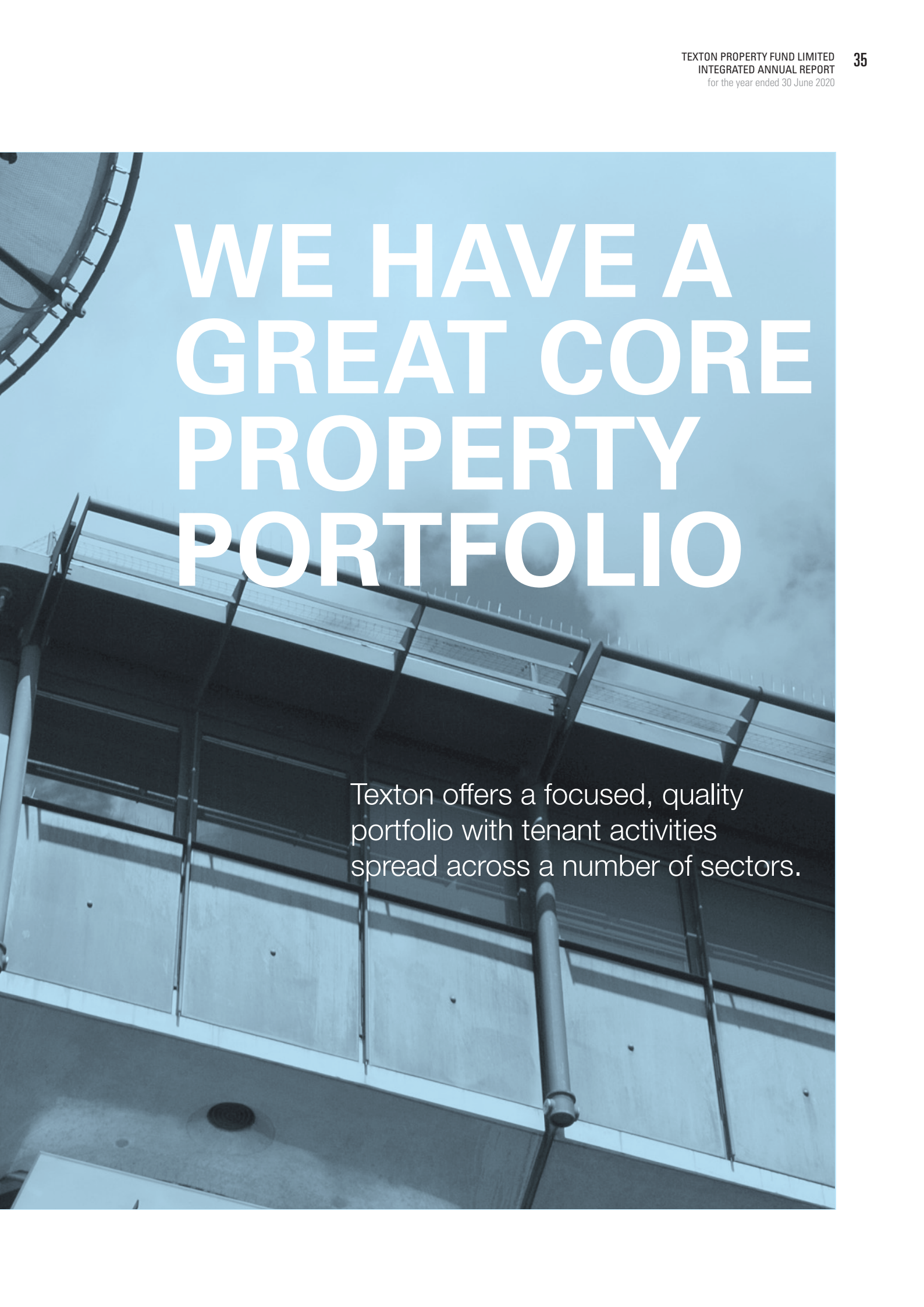


Pinny Hack
Chief financial officer

PERFORMANCE REVIEW

34-49





WE HAVE A GREAT CORE PROPERTY PORTFOLIO

Texton offers a focused, quality portfolio with tenant activities spread across a number of sectors.

TOP 10 PROPERTIES

The top 10 properties across our portfolio, excluding properties held for sale, are as follows:



01

01 | BROAD STREET MALL*

Retail shopping mall. Clearly defined position as a value offering within the retail hierarchy of Reading, which is an affluent top 20 UK retail destination. Texton holds 50% of Broad Street Mall in a joint venture. It is Texton's largest property asset.

There are significant development and capital expenditure projects in various stages of completion at Broad Street Mall, to transform the property into a mixed-use development.

Market value	R719 866 000
Location	Reading, England
Sector	Retail
GLA	18 415m²
Occupancy	78,3%

03 | FORETRUST

A-grade property situated on the Cape Town Foreshore. Accessibility to major highways.

Market value	R340 000 000
Location	Foreshore, Cape Town
Sector	Office
GLA	26 780m²
Occupancy	90,5%

* Texton's 50% holding.



02



03

02 | DHL, Doncaster

Purpose-built high-bay warehouse and distribution facility single let to DHL.

Market value	R391 650 000
Location	Doncaster, England
Sector	Industrial
GLA	25 294m²
Occupancy	100%

04 | BROWNE JACOBSON

Self-contained office building arranged over ground, first, second and third floors, tenanted by Browne Jacobson.

Market value	R188 724 000
Location	Nottingham, England
Sector	Office
GLA	5 360m²
Occupancy	100%



04



05

05 | BRYANSTON GATE OFFICE PARK

Refurbished A-grade multi-tenanted office park.

Market value	R183 000 000
Location	Bryanston, Johannesburg
Sector	Office
GLA	16 651m²
Occupancy	81,9%



06

06 | CATERPILLAR

Two adjacent warehouse facilities situated on North West Industrial Estate forming part of Caterpillar's wider campus.

Market value **R174 952 000**

Location **Peterlee, England**

Sector **Industrial**

GLA **10 117m²**

Occupancy **100%**



07

07 | B&Q, CAMBORNE

Steel portal framed, single-tenanted retail warehouse let to B&Q.

Market value **R167 205 000**

Location **Camborne, England**

Sector **Retail**

GLA **4 465m²**

Occupancy **100%**



08

08 | GAINSBOROUGH

Modern purpose-built single-tenanted warehousing facility.

Market value **R156 015 000**

Location **Gainsborough, England**

Sector **Industrial**

GLA **7 912m²**

Occupancy **100%**



09

09 | GOLDDURB

Strong-performing, multi-tenanted retail asset situated in the hub of Durban's central business district ("CBD").

Market value **R134 800 000**

Location **CBD, Durban**

Sector **Retail**

GLA **13 331m²**

Occupancy **81,6%**



10

10 | WELLINGTON ROAD

Single government-tenanted building in Parktown.

Market value **R133 700 000**

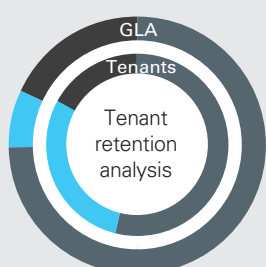
Location **Parktown, Johannesburg**

Sector **Office**

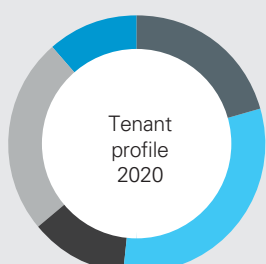
GLA **10 019m²**

Occupancy **100%**

PERFORMANCE OVERVIEW



■ Office
■ Retail
■ Industrial



■ National
■ Large listed
■ Government
■ Other
■ Vacant

RETAIN TENANTS

Of the leases that expired in 2020, Texton retained 90,5% (2019: 86,2%) by GLA and 98,3% (2019: 83,6%) by number of tenants. On a sectoral basis, Texton retained 91% (2019: 52,4%) of its office expiries and 72,2% (2019: 31,2%) of its retail expiries.

Tenant retention

	GLA m ²	GLA %	Number of tenants	Number of tenants %
Office	46 839	74,9	29	53,7
Retail	4 472	7,2	16	29,6
Industrial	11 228	17,9	9	16,7
	62 538	100,0	54	100,0

New deals

Texton entered into new deals over 11 104m² made up as follows:

	GLA m ²	GLA %	Number of tenants	Number of tenants %
Office	3 082	27,8	25	69,4
Retail	1 414	12,7	2	5,6
Industrial	6 608	59,5	9	25,0
	11 104	100,0	36	100,0

Tenant profile

	Number of tenants	GLA m ²	GLA %
30 June 2020			
National	79	75 442	20,7
Large listed	37	112 923	31,0
Government	14	45 271	12,4
Other	218	89 627	24,6
Vacant	–	41 092	11,3
	348	364 356	100,0

All tables above exclude Broad Street Mall.

LET VACANT SPACE

Overall lease expiry

	GLA %	Rental %
Vacant	11,0	
June 2020	17,4	19,0
June 2021	9,2	12,4
June 2022	15,6	11,1
June 2023	6,7	8,0
June 2024	6,7	6,4
>June 2024	33,4	43,1
	100,0	100,0

SA lease expiry

	GLA %	Rental %
Vacant	12,7	
June 2020	21,1	24,0
June 2021	11,2	15,7
June 2022	18,9	14,0
June 2023	8,1	10,1
June 2024	6,6	6,5
>June 2024	21,4	29,7
	100,0	100,0

UK lease expiry

	GLA %	Rental %
Vacant	–	
June 2020	–	–
June 2021	–	–
June 2022	–	–
June 2023	–	–
June 2024	7,1	5,7
>June 2024	92,9	94,3
	100,0	100,0



- Vacant
- June 2020
- June 2021
- June 2022
- June 2023
- June 2024
- >June 2024

PERFORMANCE OVERVIEW CONTINUED



- Vacant
- June 2020
- June 2021
- June 2022
- June 2023
- June 2024
- >June 2024

Office lease expiry

	GLA %	Rental %
Vacant	12,1	
June 2020	19,0	23,8
June 2021	9,5	13,2
June 2022	19,5	12,9
June 2023	6,2	9,2
June 2024	6,3	7,0
>June 2024	27,4	33,9
	100,0	100,0

Retail lease expiry

	GLA %	Rental %
Vacant	10,4	
June 2020	18,4	16,0
June 2021	15,8	17,2
June 2022	5,1	5,1
June 2023	13,3	9,2
June 2024	5,2	3,6
>June 2024	31,8	48,9
	100,0	100,0

Industrial lease expiry

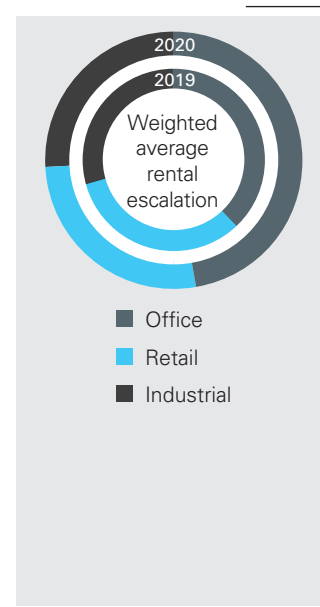
	GLA %	Rental %
Vacant	8,1	
June 2020	14,7	6,8
June 2021	6,7	4,9
June 2022	13,1	11,4
June 2023	5,2	2,7
June 2024	7,7	7,1
>June 2024	44,5	67,1
	100,0	100,0

All tables above exclude Broad Street Mall.

Weighted average rental

Average annualised property yield as at 30 June 2020 was 8,08% (2019: 8,57%).

	GLA m ²	Weighted average rental R/m ²	Weighted average rental escalation %
30 June 2020			
Office	183 437	105,25	6,27
Retail	58 952	136,92	3,83
Industrial	121 967	50,89	3,63
	364 356		
30 June 2019			
Office	198 380	118,95	4,57
Retail	55 707	150,93	3,97
Industrial	121 967	47,47	3,54
	376 054		



SECTORAL REVIEWS

Our core property portfolios in both geographies are well positioned and defensive, and are underpinned by strong covenants.

SOUTH AFRICAN PORTFOLIO OFFICE



Highlights

- Retained 98% of existing tenants
- Strong relationship with brokers resulted in new lettings
- Collection rate of over 90% throughout the COVID-19 pandemic
- Concluded all material leases with the DPW.



Challenges

- Tenants downsizing due to financial difficulties
- New letting becoming more difficult as tenants are averse to moving costs and existing landlords are offering higher incentives to retain tenants
- Edcon, which occupies 12 Laub Street, entered into business rescue, which may result in a significant vacancy that will be difficult to refill.



Future focus

- Texton will continue marketing its office space in line with tenants' requirements coming out of the COVID-19 crisis. We are continuously engaging with tenants and brokers to ensure our space is in line with the market and are confident we will continue to have a strong office product
- Sell non-core assets identified for disposal.



Outlook

The market is under pressure due to an oversupply of office space. We anticipate this to continue into the 2021 year. We believe that towards the end of 2021, however, there will be increase in business and consumer confidence resulting in an increased demand for office space.

OFFICE		
PROPERTIES	GLA	PROPERTY VALUE
36	178 077m ²	R1 914 392

The majority of Texton's office portfolio is located in Gauteng and the Western Cape. Buildings largely comprise single and double storey buildings that are easily accessible.

Property name	Location	GLA m ²	Weighted average rental per m ²	Valuation R'000
Foretrust	Western Cape	26 780	151,35	340 000
Bryanston Gate Office Park	Gauteng	16 651	92,50	183 000
Wellington Road	Gauteng	10 019	125,97	133 700
151 Katherine Street	Gauteng	8 621	127,94	120 200
Belvedere Place	Gauteng	10 873	96,09	122 000
12 Laub Street	Gauteng	27 450	58,85	92 500
The Grid	Gauteng	4 528	165,54	93 700
Investment Place	Gauteng	6 326	116,16	79 600
377 Rivonia Boulevard	Gauteng	4 886	150,44	67 700
Wale Street Chambers	Western Cape	6 982	103,77	58 692
Scott Street	Gauteng	4 329	117,63	54 500
1 Osborne Lane	Gauteng	3 865	112,93	53 000
Quintiles	Free State	3 404	117,16	45 500
Greenstone Hill Office Park Building 11	Gauteng	3 236	167,79	46 000
Lion Roars	Eastern Cape	4 027	105,89	37 700
Rynlal	Gauteng	5 882	92,57	33 000
14 Loop Street	Western Cape	2 323	155,42	35 100
Greenstone Hill Office Park Building 10	Gauteng	2 275	125,76	38 300
Greenstone Hill Office Park 2	Gauteng	2 391	154,24	34 500
35 Morsim Road	Gauteng	2 038	115,55	30 500
Greenstone Hill Office Park Building 12	Gauteng	2 326	182,54	33 000
Greenstone Hill Office Park Building 4	Gauteng	2 627	–	26 600
66 Wierda Road East	Gauteng	1 806	160,39	22 200
Greenstone Hill Office Park Building 9	Gauteng	1 822	106,28	24 200
Standard Bank Springs	Gauteng	1 916	47,67	12 000
Greenstone Hill Office Park Building 13	Gauteng	974	95,49	9 700
370 Rivonia Boulevard	Gauteng	1 743	121,24	11 000
St George's Mall	Western Cape	1 236	–	5 900
54 Bompas Road	Gauteng	750	121,22	12 200
Greenstone Hill Office Park Building 15	Gauteng	1 126	163,05	13 900
Greenstone Hill Office Park Building 14	Gauteng	1 128	94,60	12 600
Greenstone Hill Office Park Building 5	Gauteng	789	160,78	10 300
Standard Bank Harrismith	KwaZulu-Natal	1 086	96,82	8 000
Greenstone Hill Office Park Building 6	Gauteng	635	–	5 800
Standard Bank Stanger	KwaZulu-Natal	1 253	–	6 500
Greenstone Hill Office Park Coffee Shop	Gauteng	106	86,99	1 300
Total		178 077		1 914 392

SECTORAL REVIEWS CONTINUED



RETAIL



Highlights

- Concluded a 2 000 m² tenant for Woodmead Commercial Park during the lockdown period
- Negotiated further new lettings for Woodmead Commercial Park which resulted in future decreased vacancies
- Retained 72% of existing tenants during the lockdown by providing support during a difficult year
- Collections on the retail portfolio dropped to 70% on average during the lockdown period but have subsequently increased to above 90% post lockdown.



Challenges

- Increased arrears due to tenants not being able to trade during the COVID-19 pandemic
- Retaining tenants, especially smaller tenants, during the COVID-19 pandemic was challenging and required landlords' support.



Future focus

- Focus on a solid retail tenant mix to allow for continued and increased foot traffic to retail centres
- Work proactively with our retail tenants to ensure their survival.



Outlook

The retail sector will be under immense pressure in the short and medium term due to less consumer spend and retailers closing. Focusing on the right tenant mix will ensure sustainable foot traffic and trading densities.

RETAIL

PROPERTIES

3

GLA

32 546m²

PROPERTY VALUE

R365 800

Texton's retail portfolio is well placed for a specialised retail market. The portfolio is situated in Gauteng and KwaZulu-Natal.

Property name	Location	GLA m ²	Weighted average rental per m ²	Valuation R'000
Golddurb	KwaZulu-Natal	13 331	102,19	134 800
Kempstar Mall	Gauteng	6 018	215,70	124 000
Woodmead Commercial Park	Gauteng	13 197	89,34	107 000
Total		32 546		365 800



INDUSTRIAL



Highlights

- Low vacancies
- 74% of expiring leases renewed
- Concluded new leases
- Collection rates during lockdown averaged at 78% and increased to above 90% post lockdown.



Challenges

- Short-term pressures, with arrears due to tenants not being able to trade during the lockdown months
- Increase in vacancy at Alrode Industrial Park due to a large tenant vacating. Sourcing a new tenant for the premises is challenging in the current environment.



Future focus

- Keep the industrial sector filled with solid tenants and keep vacancy level low
- Leasing at Alrode Industrial Park
- Disposing of non-core properties identified for sale. The proceeds will be used to pay down debt and strengthen the balance sheet.



Outlook

The industrial sector should remain resilient. There is confidence in the manufacturing and commodities sector, which should maintain the demand for industrial space.

INDUSTRIAL

PROPERTIES

5

GLA

74 684m²

PROPERTY VALUE

R215 800

The industrial portfolio is situated in Gauteng and the North West.

Property name	Location	GLA m ²	Weighted average rental per m ²	Valuation R'000
Hermanstad Business Park	Gauteng	43 988	28,56	131 000
Alrode Industrial Park	Gauteng	16 557	36,62	37 300
42 Press Avenue	Gauteng	6 462	46,75	28 000
89 Ridder Street	North West	3 720	37,17	9 200
28 Press Avenue	Gauteng	3 957	27,16	10 300
Total		74 684		215 800

SECTORAL REVIEWS CONTINUED



UK PORTFOLIO



Highlights

- 97% rental collection on wholly-owned portfolio during the COVID-19 pandemic
- Five-year lease extension on Browne Jacobson, Nottingham, derisking the shortest lease in the UK wholly-owned portfolio
- Resolution of Bon Marche administration through a new five-year lease with Peacocks
- Secured resolution to grant planning consent for a residential scheme at Broad Street Mall.



Challenges

- Accelerated structural change driven by the COVID-19 pandemic, further straining a weak retail market
- Careful management of construction projects under way at Broad Street Mall, including the cinema, bowling/golf venue and food hall.



Future focus

- Completion of the sales of our two Nottingham properties
- Recycling of equity from UK sales into long and secure income streams with growth potential, underpinned by properties with sound real estate fundamentals and capital value stability
- Progression of the ongoing asset management and leasing initiatives at Broad Street Mall.



Outlook

The outlook in the UK real estate market is heavily influenced by the path of the COVID-19 pandemic and the ongoing restrictions imposed by government on trading and movement.

Further increases in unemployment are inevitable as the furlough scheme is wound down and the extent of government financial support is reduced.

Enforced home working has led to companies rethinking the role of the office. The impact on real estate is yet to play out but reduced office demand (particularly in central London) and reconfiguration of office space are likely.

Uncertainty is heightened by Brexit, which is again becoming prominent in the UK news. If a trade deal cannot be secured, many businesses will suffer further disruption.



The UK portfolio is situated in England and Wales.

Property name	Location	GLA m ²	Weighted average rental per m ²	Valuation R'000
 INDUSTRIAL				
DHL, Doncaster	England	25 294	65,47	391 650
Caterpillar	England	10 117	80,42	174 952
Gainsborough	England	7 912	82,67	156 015
Heddon Booker Warehouse	England	3 960	44,78	40 026
Total industrial		47 283		762 643
 OFFICE				
Browne Jacobson, Nottingham	England	5 360	209,62	188 724
Total offices		5 360		188 724
 RETAIL				
Broad Street Mall*	England	18 415	168,94	719 866
B&Q, Camborne	England	4 465	213,36	167 205
Chevelon	England	1 737	434,54	86 077
Parc Pensarn	Wales	1 789	180,53	49 709
Total retail		26 345		1 022 857
Total UK portfolio		79 047		1 974 233

* Texton's 50% shareholding.

SUSTAINABILITY

The board has committed to integrating sustainability into Texton's long-term decision-making.

Texton is committed to sustainable development to achieve long-term success. This balances environmental responsibility, transformation and economic growth with delivering value to stakeholders.

To meet this commitment, Texton will identify, measure and manage buildings and infrastructure impacts across defined economic, environmental, resource and social criteria. Texton will strive to follow international best practice in these areas and integrate them into the corporate business strategy.

We will continually seek to improve performance with respect to sustainability. This will be achieved through monitoring performance against meaningful indicators and setting targets to improve year-on-year performance. Texton also commits to the principles of transparency and annual progress reporting.

Texton subscribes to the following sustainability objectives:

- Implementing sustainable practices such as energy efficiency, renewable energy generation, rain water harvesting and storm water management and conservation
- Using energy, water and materials responsibly by reducing, reusing and recycling
- Engaging meaningfully with stakeholders around issues of sustainability
- Implementing sustainable technologies and promoting the development of SMMEs to introduce sustainable technologies
- Promoting the maintenance and conservation of open and recreational spaces
- Being cognisant of climate change projections in the areas in which we operate.

Texton commenced the planning phases of its sustainability roadmap and is focusing on creating baseline measurements, formulating a sustainability strategy and investigating how to report and communicate key sustainability metrics, which will form part of the integrated reporting journey going forward.

Sustainability metrics have been adopted as non-financial measures on executive scorecards.

NATURAL CAPITAL

Texton understands natural capital is a key success factor and managing non-finite resources is critical. This requires Texton to continually identify areas for improvement in relation to energy management, water and waste management and to look at economically feasible methods to reduce the business impact on the environment.

Texton recognises that it has a responsibility to minimise its negative natural capital impact. The reintroduction of load shedding in 2020, water shortages and concern regarding the SA services infrastructure have led to economic decisions having to override sustainability initiatives.

SOCIAL AND RELATIONSHIP CAPITAL

Texton identifies CSI as a social sustainability area that contributes to the development of the country and industry and makes a positive impact on B-BBEE. Its core focus is on education.

HUMAN CAPITAL

Texton values and understands the importance of the people who contribute to the business. Year-on-year, the team has been strengthened through the appointment of asset managers and the enhancement of our finance team.

Texton focuses on diversity in providing its people with development and growth opportunities.

INTELLECTUAL CAPITAL

Texton defines intellectual capital as our reputation, ethics and use of processes and best practice to create value for stakeholders.

Texton believes in ethical leadership and has adopted a code of conduct for internal staff, board members and certain stakeholders. An annual review of the code of conduct is performed by the social and ethics committee. A management report on compliance with the code of ethics as well as any ethical issues is prepared on a quarterly basis. For the 2020 year, no breaches of the code of conduct or disciplinary issues were reported.

MANUFACTURED CAPITAL

Texton defines manufactured capital as our properties, forming the core of our business. Details on our property portfolio are set out on page 160.

Our properties are well maintained and our focus remains on the retention of tenants and letting of vacant space.

FINANCIAL CAPITAL

Texton measures our contribution to various stakeholders through our value added to these stakeholders.

Below is the value added statement sharing the value created in the 2019 and 2020 financial years:

Tenant class	June 2020		June 2019	
	R'000	% of total	R'000	% of total
Income	521 905	80,7	558 025	83,3
South Africa	435 584	67,3	447 598	66,8
United Kingdom	86 321	13,3	110 427	16,5
Profit from joint venture	34 711	5,4	10 008	1,5
Finance income	85 780	13,3	90 535	13,5
Other income	4 715	0,7	11 000	1,6
Total value created	647 111		669 568	

Tenant class	June 2020		June 2019	
	R'000	% of total	R'000	% of total
To employees				
Remuneration and benefits	17 170	3,5	13 180	2,2
To providers of capital				
Net finance costs	83 111	16,9	93 663	15,6
To providers of capital				
Distribution to shareholders (excluding dividends paid on treasury shares)	116 813	23,8	249 363	41,6
To government				
Utilities	109 363	22,3	107 746	18,0
Tax	69 023	14,1	29 792	5,0
To suppliers				
Property expenses other than utilities	74 417	15,2	84 183	14,1
Administrative expenses other than employee benefits	20 852	4,2	21 043	3,5
Total value distributed	490 749	100,0	598 970	100,0

CORPORATE GOVERNANCE

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TEXTON IS MANAGED ETHICALLY

We adopt values and philosophies that are the benchmark against which we measure behaviour and ethical practices in our business.

BOARD OF DIRECTORS

MARCEL GOLDING (60)

Chairman, non-executive director

BA (Hons)

Date of appointment: 21 May 2018

Marcel has over 30 years' experience in a number of sectors and industries. He has occupied the following positions: deputy general secretary of the National Union of Mineworkers, chairman of the Mineworkers Investment company, member of parliament, and for 17 years, the executive chairman of Hosken Consolidated Investments, a company he co-founded. He presently serves on the following boards: Rex Trueform Group Limited, African & Overseas Enterprises Limited, Tsogo Sun Gaming Limited and Vunani Limited.

JOHN RUSSEL MACEY (57)

Lead independent director

BBusSc (Hons) (UCT), BCom (Hons) (UCT), CA(SA), RA

Date of appointment: 26 September 2011

John studied at UCT and completed his articles with Deloitte in Gauteng in 1991. After leaving Deloitte, he gained eight years of experience as CFO to manufacturing companies. He was also a staff member of the now College of Accounting at UCT for nine years, leaving as a tenured member of staff in 2009. He currently runs a successful audit and financial services practice in Cape Town. He is a qualified chartered accountant, a registered auditor and serves on the boards and audit committees of three JSE-listed companies.

WAYNE VAN DER VENT (56)

Independent non-executive director

BA (Law) (UCT)

Date of appointment: 21 November 2019

Wayne has been in the property industry for nearly 30 years. He has overseen the development of a number of properties, primarily township-based retail. Wayne joined the Public Investment Corporation ("PIC") in 2005 and grew its property portfolio to R80 billion, overseeing significant acquisitions including the V&A Waterfront in Cape Town. Wayne has served on various boards including Pareto Limited, SA Corporate Real Estate Limited and CBS Property Portfolio Limited. He has served as the chairman of various investment committees as well as the Airports Company of South Africa. He is currently involved in several ventures including an online trading portal and property rental site, Quoin Online.

ROBERT FRANCO (44)

Non-executive director

BBusSc (UCT)

Date of appointment: 21 November 2019

Robert is a founder of Kloof Capital South Africa Proprietary Limited ("Kloof Capital"), a private investment company established in 2013. Kloof Capital has significant real estate investment experience gained through its real estate allocation across various sectors, including residential, commercial, retail and industrial, as well as cross-border geographies.

ANDREW JAMES HANNINGTON (64)

Independent non-executive director

CA(SA)

Date of appointment: 24 September 2018

Andrew was previously the CEO of Grant Thornton Johannesburg and prior to that, the CEO and national chairman of PKF Inc. Andrew was a key driver in the merger of Grant Thornton Johannesburg and PKF Johannesburg. He was a member of SAICA, senior partners committee and a registered auditor under the independent regulatory board for auditors. During his over 40-year career in the auditing and accounting profession, he acted as the reporting accountant on a number of JSE listings. Andrew is the CFO of Zarclear Holdings Limited. Andrew is also an independent non-executive director of the previously listed Extract Group Limited and a member of the Institute of Directors of South Africa.

SHELLEY THOMAS (54)

Independent non-executive director

CA(SA)

Date of appointment: 29 October 2018

Shelley has over 20 years of experience, sitting on boards and committees in the public and private sectors. She completed her articles through Kessel Feinstein in 1991. Shelley was previously head of forensic, compliance and governance at Protect-A-Partner International and was financial director at Ubambo Investment Holdings Limited. Shelley previously sat on the National Lotteries board for 11 years, where she provided regulatory oversight of the first and second lottery licences.

PIENAAR WELLEMANN* (33)

Chief executive officer (interim)

BAcc CA(SA)

Date of appointment: 1 July 2020

Pienaar joined Texton from a boutique investment firm where he was actively involved in real estate investment across a broad range of sectors. Prior to this, he was with Deloitte for seven years, five of which were spent in the London office where he worked in the energy and resources team. Upon his return to SA, he was a key member of the team that set up Deloitte's corporate finance office in Cape Town. Pienaar is a chartered accountant and is eligible for the Chartered Financial Analyst ("CFA") charter after passing all three levels of the CFA programme.

PINCHAS HACK (37) (PINNY)

Chief financial officer, executive director finance

BBusSc (UCT), CA(SA)

Date of appointment: 12 June 2020

Pinny was involved with the listing and international expansion of Stor-Age Property REIT Limited ("Stor-Age"). He was with Stor-Age for eight and a half years and served as the company's head of finance and treasury. Prior to Stor-Age, Pinny was an audit manager at KPMG and was involved in the audit of numerous listed property companies.

* Prescribed officer.

CORPORATE GOVERNANCE REVIEW

BOARD STATEMENT

The group, through its board and management, is committed to complying with the disclosure and transparency rules of the JSE Listings Requirements, the Companies Act and King IV.

As a listed company, Texton operates in a regulated environment that requires the board and group to adhere to King IV principles. The board applied the main principles of King IV, together with the Companies Act, during the year. We set out our commitment and adherence to King IV on our website www.texton.co.za.

Texton is managed ethically and in compliance with relevant legislation, regulations, recognised best practice guidelines and the JSE Listings Requirements.

The board seeks to exercise leadership, integrity and sound judgement in pursuit of strategic goals and objectives and to achieve long-term sustainability, growth and prosperity. The board exercises oversight of the performance and governance of the group.



BOARD CHANGES

- Appointment of Wayne van der Vent as independent chairman of the capital and investment committee
- Appointment of Robert Franco to the capital and investment committee
- Optimised board size and composition.



GOVERNANCE IMPROVEMENTS

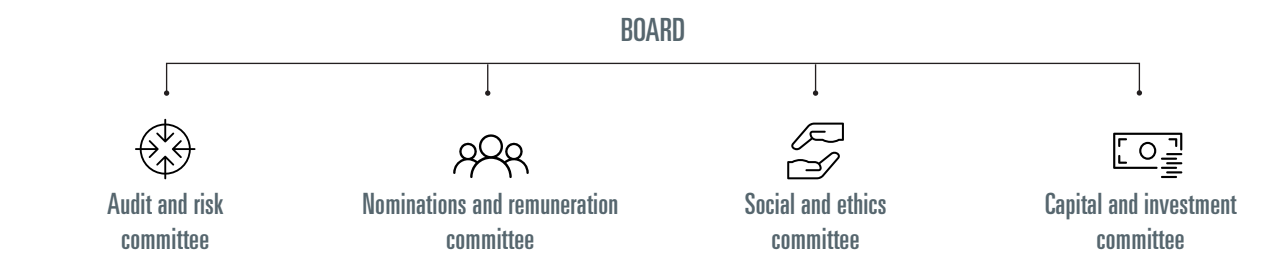
- Appointment of independent non-executive directors to chair all committees
- Majority of independent non-executive directors on all committees
- Clear roles and responsibilities for chairperson and lead independent director.



MAJOR BOARD ACTIVITIES

- Refinanced R930 million of SA and UK debt
- Approved disposals of non-core assets to improve property management efficiencies
- Managed the balance sheet through the unwinding of a cross-currency interest rate derivative in April 2020, resulting in reduced currency risk and further deleveraging of the balance sheet
- Approved the long-outstanding lease renewal of the largest SA asset, Foretrust, for a five-year term
- Increased oversight of UK assets
- Broadened skills base with independent property expertise.

GOVERNANCE FRAMEWORK



ROLE OF THE BOARD

The board adopted a charter, reviewed in 2019, outlining a framework of how the board operates. It provides leadership within a framework of prudent and effective controls which ensures risks are assessed and properly managed.

To achieve its objectives, the board may delegate certain of its duties and functions to various board committees or the CEO, without abdicating its own responsibilities. The board has formally defined and documented, by way of terms of reference, the authority it has delegated for various actions and functions. The board is supported by management in implementing the plans and strategies approved by the board.

The board:

- Approves the company's strategy
- Assesses the quantitative and qualitative aspects of the company's performance
- Oversees compliance with all applicable laws
- Is responsible for the governance of risk
- Acts as the focal point for and custodian of corporate governance
- Provides effective leadership based on an ethical foundation
- Approves the terms of reference of board committees
- Assesses the going concern fundamentals
- Ensures adequate controls are in place
- Ensures the company and its subsidiaries operate as responsible corporate citizens
- Enhances stakeholder perceptions of the business
- Ensures sustainable business practices, including social and environmental activities.

VALUES AND ETHICS

The board and management assume responsibility for ensuring the company's ethics are effectively managed by exercising ethical leadership, integrity and judgement. We adopt values and philosophies that are the benchmark against which we measure behaviour and ethical practices in our business. Our values require that directors and management operate with the utmost integrity, displaying consistent and uncompromising moral strength and conduct to promote and maintain trust. Sound corporate governance is entrenched in our values, culture, processes, functions and organisational structure.

The board commits itself to ensuring the group and its agents conduct business according to the highest ethical standards, and in particular:

- Comply with all laws of the country relevant to the group
- Comply with the rules of the JSE
- Act in the best interests of all stakeholders at all times
- Are transparent in disclosing all material information that may influence investors and potential investors
- Do not act in any way that may be regarded as harmful business practice
- Conduct business as a responsible corporate citizen
- Trade in securities of the company only in open periods and with the prior written permission of the chairman, lead independent director and/or the CFO
- Do not trade in competition with the group
- Do not hold positions that give rise to conflicts of interest. Should any potentially conflicting situations arise, full, prior written disclosure should be made to the board and participating in any discussions or voting on the matter should be abstained from, unless the board consents thereto.

CORPORATE GOVERNANCE REVIEW continued

Texton's code of conduct was approved in November 2019 and distributed to all employees and directors. It encompasses interaction with internal and external stakeholders and sets out the expected standards of such engagements. Compliance with the code of conduct is measured by the social and ethics committee.

All policies are available on the intranet. An employee handbook, which contains the company's code of conduct and details the expected behaviour of employees, is provided at the commencement of employment and a signed acknowledgement is required to be returned to the human resources department.

The code of ethics sets out the company's values and the ethical behaviour expected from the board, management and employees. A whistle-blowing policy was implemented by the social and ethics committee, which allows employees and other stakeholders to report incidents via a dedicated email address. These emails are monitored by the company secretary and the lead independent director.

Texton has also implemented a tip-off line on its website, available to all stakeholders, to anonymously report perceived cases of unethical or corrupt behaviour.

INSIDER TRADING

Employees of Texton (and their associates) may not deal, directly or indirectly, in Texton's ordinary shares on the basis of unpublished price-sensitive information regarding its business or affairs. Similarly, no director or prescribed officer (and their associates) may trade in shares of the company during a closed period, as

determined by the board in accordance with the JSE Listings Requirements. The group's closed periods are between the last day of the financial period and the publication of results, as well as during those periods when the group is under cautionary. The company secretary communicates these closed periods to the directors and employees of the company in advance.

INDEPENDENCE AND BOARD COMPOSITION

The board is compliant with part 5.3, principle 7.8 of King IV in that it has a majority of independent non-executive directors. The board applies the principles contained in King IV, the JSE Listings Requirements and the Companies Act to assess the independence of directors.

The board believes the independent non-executive directors are independent of management and promote the interests of stakeholders. The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power. No one individual or group can dominate board processes or decision-making.

The board believes it functions effectively and evaluates its performance annually.

The independence of non-executive directors classified as such is annually evaluated by the nominations and remuneration committee. The criteria applied in considering independence include whether the director:

- Is a significant provider of financial capital or ongoing funding to the organisation, or is an officer, employee or representative of such provider of financial capital or funding

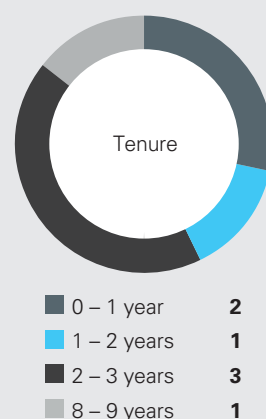
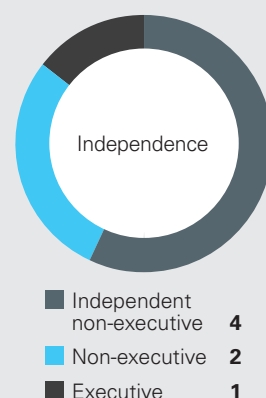
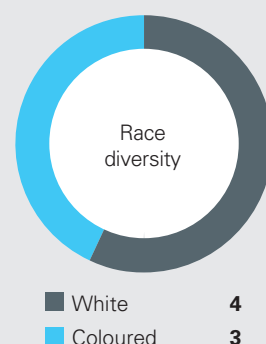
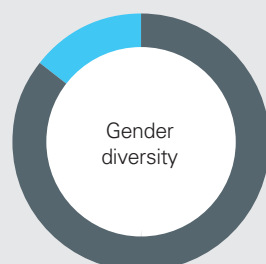
- Participates in a share-based incentive scheme offered by Texton
- Owns shares in Texton, the value of which is material to the personal wealth of the director
- Has been in the employ of Texton as an executive manager during the preceding three financial years or is a related party to such executive manager
- Has been the designated external auditor responsible for performing the statutory audit of Texton, or a key member of the audit team of the external audit firm, during the preceding three years
- Is a significant or ongoing professional adviser to Texton other than as a director
- Is a member of the governing body or the executive management of a significant customer of or supplier to Texton
- Is a member of the governing body or the executive management of a related party to Texton
- Is entitled to remuneration contingent on the performance of Texton.

The chairman of the board, Marcel Golding, is not independent due to his shareholding in Texton. John Macey was appointed lead independent director.

Texton acknowledged and adopted a board diversity policy in 2019, in compliance with the JSE Diversity Policy (3.84) which promotes broader diversity at board level. It specifically focuses on the promotion of diversity in gender, race, culture, age, field of knowledge, skills and experience. New appointments to the board have taken diversity factors into account while ramping up the board's property expertise.

Texton has also implemented a tip-off line on its website, available to all stakeholders, to anonymously report perceived cases of unethical or corrupt behaviour.

Board composition



CHAIRMAN AND CEO

The roles of the chairman and CEO are distinct and separate, with a clear division of responsibilities approved by the board. The chairman leads the board and is responsible for ensuring the board receives accurate, timely and clear information to ensure directors can perform their duties effectively.

SKILLS, KNOWLEDGE, EXPERIENCE AND ATTRIBUTES OF DIRECTORS

The board considers the skills, knowledge, experience and attributes of the directors as a whole are appropriate for their responsibilities and activities. The directors bring a diverse range of skills and expertise to the board, including:


International business and operational experience.

Understanding of the economics of the property sector in which the group operates.

Knowledge of the regulatory environments in which the group operates.

Financial, accounting, legal and property experience and knowledge.

The skills and experience profile of the board and its committees is regularly reviewed to ensure an appropriate and relevant composition from a governance, succession and effectiveness perspective.

BOARD AND DIRECTORS' PERFORMANCE EVALUATION

Texton commits to an annual board evaluation within its board and committee annual work plans. A detailed annual plan ensures the board executes its responsibilities and complies with its charter.

The performance of the board, its committees and individual directors is evaluated according to recognised corporate governance practices.

The performance evaluation process takes place informally, through personal observations and discussions, and formally, through the completion of questionnaires. The formal process has been approved by the nominations and remuneration committee. This includes an evaluation of the board as a whole and of each board subcommittee, as well as of the chairman and each director to review their ability to add value.

The results of the evaluations are discussed at a board meeting and the chairman seeks comments on the strengths and developmental areas of the members. Individual training and development needs are discussed with each director.

An evaluation was carried out in the second quarter of 2020. Where areas for improvement were identified, plans have been put in place. The performance review conducted post year-end indicated the board is applying sound corporate governance principles and is working cohesively with executive management. The board is experienced, well informed and attentive to key issues.

The board continues to focus on ensuring that the profile, skill set, diversification, qualifications and individual qualities of its executive and non-executive directors serve the current and future needs of the business and the ever-changing environment in which it operates.

The board is satisfied that the evaluation process is improving the board and directors' performance and effectiveness.

ONGOING TRAINING AND DEVELOPMENT

There is a formal induction process for new directors, and directors are encouraged to attend courses relevant to their roles. Development on updates to the JSE Listings Requirements, SA REIT best practice, Companies Act and B-BBEE codes was provided during the year.

TERMS OF APPOINTMENT

Non-executive directors are provided with a letter of appointment. The letter sets out, *inter alia*, duties, responsibilities, expected time commitments, details of Texton's policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director is a member.

CORPORATE GOVERNANCE REVIEW continued

An insurance policy is in place that insures directors against liability they may incur in carrying out their duties.

INDEPENDENT ADVICE

Individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of the company should they believe this to be in the best interest of the group.

COMPOSITION OF THE BOARD AND ITS COMMITTEES

Details of directors, including their full names, ages, qualifications and brief CVs are set out [page 52](#).

In terms of the Memorandum of Incorporation ("MOI") of the company, one-third of the non-executive directors have to retire annually by rotation. John Macey and Marcel Golding are set to retire by rotation at the forthcoming AGM in terms of clause 28.16 of the company's MOI. John Macey and Marcel Golding, being eligible, will offer themselves for re-election at the forthcoming AGM.

BOARD AND COMMITTEE MEETINGS

The board meets at least four times annually. Five board meetings were held during the year. The chairman is responsible for setting the agenda for each meeting, in consultation with the CEO. Comprehensive information packs on matters to be considered by the board are provided to directors in advance of the meetings.

BOARD COMMITTEES AND RESPONSIBILITIES

Committees are established by the board to assist it in the discharge of its duties. Board committees have unrestricted access to company information and any resources required to help them fulfil their responsibilities, including professional advice, which is paid for by the company, following an approved procedure. Delegating authority to board committees or management does not mitigate or discharge the board and its directors of their duties and responsibilities.

Every board committee has board-approved terms of reference which are reviewed annually. The board determines

and amends the scope and responsibilities of the committees, as well as the appointment of new committee members. All terms of reference were reviewed and approved in November 2019 and will be due for review in November 2020.

The CEO and CFO are present by invitation at all board committee meetings to optimise

the access to/sharing of relevant operational information. The company secretary attends all board committee meetings.

Each committee chairman reports formally to the board after each meeting on all matters within its duties and responsibilities, including recommendations on proposed actions.



Audit and risk committee

Refer to the audit and risk committee report on [page 77](#).



Social and ethics committee

The social and ethics committee comprises Shelley Thomas (independent chairperson), Marcel Golding and Andrew Hannington.

The committee is constituted as a statutory committee as required by section 72(4) of the Companies Act. The committee is guided by formal terms of reference and monitors group performance in terms of defined social and ethics performance indicators formulated with reference to regulation 43(5) of the Companies Act. This is further supported by a work plan which guides the committee on its mandate and responsibilities. The terms of reference are reviewed annually.

The committee is responsible for:

- Monitoring the group's activities against global responsibility protocols, including the United Nations Global Compact ("UNGC") and the principles of the Organisation for Economic Co-operation and Development ("OECD") recommendations regarding corruption. The company respects and supports the principles as set out in the UNGC, the OECD's recommendation on the prevention of corruption and the International Labour Organisation's directive on decent working conditions
- Monitoring compliance with the B-BBEE Act (Act 53 of 2003) ("B-BBEE Act") and Texton's transformation agenda. The group recognises integrating transformation into business practice is crucial for its sustainability
- Investigating any ethical issues or breaches of the code of conduct
- Monitoring compliance with labour legislation and human resources policies adopted by Texton
- Monitoring good corporate citizenship including promotion of equality, prevention of unfair discrimination and reduction of corruption, among other items
- Monitoring environmental, health and public safety compliance, including the impact of the group's activities as it relates to its properties
- Monitoring Texton's consumer relationships, public relations and compliance with consumer protection laws
- Monitoring Texton's employment relationships and contribution towards the educational skills development of employees.

The committee fulfilled its responsibilities in accordance with its terms of reference as disclosed in the social and ethics committee report on [page 69](#). The committee met three times during the year.



Nominations and remuneration committee

The members of the nominations and remuneration committee are Andrew Hannington (independent chairman), John Macey (lead independent director) and Marcel Golding.

The areas of responsibility of the committee are set out in the terms of reference. The responsibilities of the committee include:

- Identifying, assessing and recommending suitable candidates to fill vacancies on the board and its committees
- Determining and evaluating the adequacy, efficiency and appropriateness of the board
- Determining succession plans for the executive directors and the chairman of the board
- Reviewing the performance of executive directors and chairman of the board
- Ensuring the continued presence of independent non-executive directors
- Conducting an annual self-assessment of the board, its committees and individual directors
- Regularly reviewing the structure, size and composition (including the skills, knowledge and experience) of the board
- Ensuring that disclosure of directors' remuneration is compliant with the JSE Listings Requirements and other requirements
- Reporting to stakeholders on committee activities and remuneration matters via the remuneration report
- Reviewing the board's training development and orientation needs
- Making recommendations to the board on the fees of the chairman and the non-executive directors, for subsequent approval by the company's shareholders at the AGM
- Making recommendations to the board on board composition and any proposed board changes
- Making recommendations to the board for the retention of current directors.

The committee fulfilled its responsibilities in accordance with its terms of reference as reported in the remuneration implementation report on [page 66](#). The committee met four times during the 2020 financial year.



Capital and investment committee

The capital and investment committee was reconstituted during the year. To boost the committee's property expertise, Wayne van der Vent was appointed as independent chairman and Robert Franco was appointed to the committee.

The committee's roles and responsibilities include:

- Reviewing and approving disposals of investment properties
- Reviewing and approving refurbishment or redevelopment opportunities and significant capital expenditure in line with the board-approved mandate
- Assessing whether transactions are in the best interests of the group and in line with the group's strategic objectives
- Assessing potential risks and conflicts of interest that may arise from acquisitions and disposals.

The committee, together with the audit and risk committee, is further responsible for the review and approval of Texton's investment property valuations for recommendation to the board for inclusion in the integrated annual report and any other public documents.

The committee met four times during the year and has fulfilled its responsibilities in accordance with its terms of reference.

CORPORATE GOVERNANCE REVIEW continued

IT GOVERNANCE

All IT services are outsourced to a third-party service provider in terms of a service level agreement. Executive management meets with the service provider on a quarterly basis to discuss any IT-related issues. There were no significant IT-related issues that affected the company during the year. Compliance with and performance in terms of the service level agreement are measured regularly.

DELEGATION OF AUTHORITY

During the year, the board approved the delegation of authority framework and policy which stipulate the governance framework. The board is satisfied the framework and policy contribute to role clarity and the effective exercise of authority and responsibilities.

EXTERNAL AUDIT

SNG Grant Thornton ("SNG GT") is Texton's external auditor. The audit and risk committee reviews its independence annually. The audit and risk committee meets with the external auditor to review the scope of the external audit, budgets, the extent of non-audit services and all other audit matters. The external auditor is invited to attend audit and risk committee meetings and has direct access to the chairman.

The external audit partner is rotated every five years in accordance with SAICA guidelines. As SNG GT was appointed in 2017, the first partner rotation will occur in November 2022.

COMPLIANCE

The group is subject to external regulation and supervision by various supervisory authorities. The primary regulator is the JSE. Other regulatory bodies include SARS, the FSCA, the South African Financial Intelligence Centre, the National Consumer Commission, the B-BBEE Commission, the Companies and Intellectual Property Commission, the Takeover and Regulation Panel and the Competition Commission. We strive to have open and active dialogue with regulators and other authorities. We embrace our responsibility of conducting business in accordance with governing laws and regulations.

The group adheres to King IV and strives towards absolute compliance therewith.

A summary, available on our website at www.texton.co.za, records the ways the group applies the principles of King IV.

COMPANY SECRETARY

Motif Capital Partners, represented by Joel Naidoo, was appointed company secretary to the group. The board satisfied itself that Motif Capital Partners has staff with the requisite qualifications and expertise to perform the role of company secretary.

The board confirms no employee of Motif Capital Partners has served as a director on the board, nor does it take part in board deliberations but only advises on matters of governance, form or procedure.

All directors have access to the professional advice and services of the company secretary, which in turn assists the board in monitoring the company's adherence to appropriate governance standards.

The company secretary is also responsible for alerting the directors of any relevant changes to the Companies Act, the Financial Markets Act (Act 19 of 2012), the JSE Listings Requirements, all governance reports, as well as any other statutory regulations or laws affecting them in their capacity as directors. The company secretary also monitors the directors' dealings in securities and ensures adherence to prohibited periods for share trading.

Ethical leadership and good corporate governance are priorities for Texton. The company secretary is responsible for assisting the board to lead ethically and effectively, and assessing the board's integrity, competence, accountability, fairness and level of transparency with its stakeholders.

Similarly, the chairman and the CEO, in consultation with the audit and risk committee, conduct a detailed assessment to satisfy the board of the competence, qualifications and experience of the company secretary in accordance with section 3.84(h) of the JSE Listings Requirements.

This is usually performed through:

A review of qualifications and experience

An assessment (detailing all legislative and King IV requirements). This assessment specifically includes questions on how effectively the role as gatekeeper of good governance in the company is performed, the effectiveness of the arm's length relationship and how the role and duties of the company secretary are performed

A performance review by the CEO against measured targets from a daily administrative and strategic KPI perspective.

CONFLICTS OF INTEREST

Conflicts of interest are discussed at every board and committee meeting and such interests are disclosed. A conflicted director will recuse himself/herself from voting on a matter where he/she has a conflicting interest and will also recuse himself/herself from the relevant meeting and may not be part of the matter except for disclosing its general nature or any material information.

In the event the group is presented with an investment proposal involving a property owned (in whole or in part), directly or indirectly, by any related party, such interest will be fully disclosed to the company and will be referred to the capital and investment committee and the board. The capital and investment committee and the board must approve any such proposals referred to them before an investment is made. No instances of conflicts of interest were reported during the year.

COMBINED ASSURANCE

The board endorses a comprehensive combined assurance programme with management, which provides oversight of day-to-day operations. The board oversees the results of the application of strategic guidance given and the performance of the group and external auditor during the statutory audit.

SHARE CAPITAL

There were no share buybacks during the year. There are 26 672 213 treasury shares held.

SUSTAINABILITY PRACTICES

Texton's sustainability goals reflect its culture of continuous advancement and reaffirm the belief that sustainability is about managing and positioning the business for the long term. The company's sustainability philosophy is driven by commitment to company culture and values. The approach to sustainability reflects the acute awareness of the need for longevity and an ingrained understanding of the practices that underpin sustainability.

Refer to the sustainability report on [page 48](#).

BOARD AND COMMITTEE MEETINGS

Director	Board	Audit and risk committee	Social and ethics committee	Nominations and remuneration committee	Capital and investment committee
Marcel Golding ^{&}	11/11	–	3/3	6/6	13/13
John Macey [#]	11/11	8/8	–	6/6	13/13
Andrew Hannington [#]	11/11	8/8	3/3	6/6	–
Shelley Thomas [#]	11/11	8/8	3/3	–	11/13 [^]
Wayne van der Vent [#]	9/9	–	–	–	3/3
Robert Franco ^{&}	9/9	–	–	–	3/3
Pienaar Welleman ^{&}	N/A	–	N/A	N/A	13/13 [^]
Inge Pick [*]	4/4	6/6	3/3 [^]	–	10/10 [^]
Marius Muller [*]	11/11	–	3/3 [^]	–	13/13

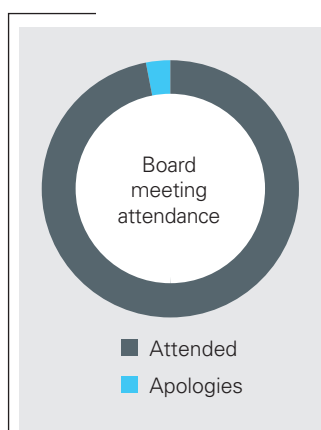
[&] Non-executive director.

[#] Independent non-executive director.

^{*} Executive director.

[&] Prescribed officer.

[^] By invitation.



REPORT OF THE NOMINATIONS AND REMUNERATION COMMITTEE

PART 1: LETTER FROM THE NOMINATIONS AND REMUNERATION COMMITTEE CHAIRMAN

Dear stakeholder,

The nominations and remuneration committee has pleasure in submitting this report.

Following the resignation of Marius Muller, Pienaar Welleman was appointed as interim CEO on 1 July 2020. Pienaar was previously the acting CFO at Texton. Pinny Hack, a senior property specialist, was appointed as executive director finance and CFO on 12 June 2020. The senior appointments strengthened our property and management expertise. We believe the company and the team, led by our new leadership, achieved commendable results during these challenging times.

The board promoted management's cost containment initiatives during the COVID-19 pandemic by supporting a 30% fee reduction during the period April to June 2020.

Changes to the board

The committee reviewed Texton's board composition and size to entrench its commitment to corporate governance principles. In November 2019, the board completed the 18-month process of appointing a more independent board with suitably qualified and technically experienced non-executive directors. During the 2020 financial year, Wayne van der Vent (independent) and Robert Franco were appointed to the board as non-executive directors. The contribution from the new board members has been valued across the organisation, with positive feedback received from stakeholders.

Roles and responsibilities for the chairman and lead independent director were reviewed and are in line with the recommendations of King IV. All committees are chaired by an independent director, with a majority of independent non-executive directors.

Non-binding advisory votes on the remuneration policy and remuneration implementation report

The 2020 remuneration policy, which is set out in part 2 of this remuneration report, has been updated to take into account specific shareholder engagements and feedback, King IV and the most recent considerations on reward practices. The implementation of the remuneration policy during the year is described in part 3 and will be tabled at the AGM for an advisory vote.

Voting at the 2019 AGM reflected a support of 61,09% for the remuneration policy and 72,78% for the 2019 remuneration implementation report. On 22 November 2019, Texton extended an invitation to shareholders, over SENS, to engage with the company concerning the remuneration policy and remuneration implementation report, as the advisory vote represented more than 25% of the voting shares.

The key issues raised are summarised below.

Shareholders' feedback and our responses

Shareholders asked Texton to apply a larger differentiation between short-term and long-term KPIs. In addition, shareholders considered that the 2019 KPIs were linked to budgets with limited reference to sector or peer group-relative measurement or absolute measures. The proposed 2020 KPIs are presented on  page 65. Forecasting and setting targets in the current environment, along with the impact of the COVID-19 pandemic, may require the committee to apply discretion to determine future short-term incentive ("STI") outcomes.

After careful deliberation and planning, we considered shareholder feedback and aligned the 2020 short- and long-term performance conditions to better support the achievement of the overall business strategy.

These are described in more detail in part 3.

Changes to the remuneration policy

The malus and clawback policy was reviewed and enhanced and a new long-term incentive ("LTI"), a Conditional Share Plan ("CSP"), was approved by the board and the JSE on 12 August 2020. We believe the 2020 CSP is consistent with best practice and demonstrates improved alignment with shareholder objectives to reward for performance, while simplifying the cost and mechanics of the incentive structure.

At the 2020 AGM, we will submit the non-executive directors' remuneration and the CSP for shareholder approval, in accordance with statutory requirements.

Details of the CSP are set out in part 3.

Committee areas of focus in 2021

The committee's areas of focus for the 2021 financial year will include further stakeholder engagement, confirmation of Texton's peer group benchmarks, the refinement of performance measures and targets, and the outcome and disclosure of STI and LTI schemes.

Committee performance

The committee's performance is assessed annually. In February 2020, this took the form of a self-assessment questionnaire. The committee was assessed as effective.

The committee is satisfied it fulfilled its role and responsibilities in terms of its mandate and that the group's remuneration policy achieved its objectives for the year.

We intend for remuneration disclosure to be transparent, easy to understand and aligned with the interests of all shareholders. We look forward to your support of the remuneration resolutions at the AGM.



Andrew Hannington
Chairman of the nominations and remuneration committee

30 October 2020

PART 2: REMUNERATION POLICY

Introduction

The group aims to attract and retain top talent through incentivisation. In determining the remuneration policy, the committee considered all factors deemed necessary to set appropriate remuneration levels to attract, retain and motivate directors and executives, yet at the same time align their interests with those of the shareholders.

The forward-looking remuneration policy is set out below:

An overview of the remuneration policy

The Texton remuneration policy ("the policy") applies to Texton Property Fund Limited ("Texton") and all of its subsidiaries and group entities ("the group"). The purpose of the policy is to set out the remuneration principles and methods applied in determining the remuneration for executive management and employees.

The policy aims to align the interests of executive management and employees with those of Texton's stakeholders, primarily its shareholders.

Texton is committed to a reward philosophy which prevails throughout the organisation, and a suitable reward strategy.

Texton recognises remuneration is a business issue, not only a human resources issue, and that its reward strategy will have a direct impact on operational expenditure, company culture, employee behaviour and, ultimately with correct alignment, on its ongoing strategic sustainability. As such it needs to be consistent with Texton's business objectives and strategic value drivers, clearly defined, and monitored and managed over time to ensure sustained validity and effectiveness.

Responsibility

The policy was drafted by management under the guidance of the committee. It was approved by the committee and will be reviewed on an annual basis.

In line with King IV, the rewritten policy will be put to a non-binding advisory vote by shareholders.

Shareholder engagement and voting

Texton will table the remuneration policy and remuneration implementation report for separate non-binding advisory votes by shareholders at the AGM in line with King IV. If 25% or more of the shareholders vote against either of the resolutions, the committee will engage with the dissenting shareholders regarding their concerns on the remuneration policy and/or remuneration implementation report.

The committee will address valid and reasonable concerns raised by dissenting shareholders and disclose the shareholder engagement process in the remuneration report for the following financial year.

Principles

Texton is committed to maintaining the following:

- Rewards aligned to the business strategy, performance objectives and results
- Pay practices that motivate highly skilled individuals who can consistently and effectively apply their skills and creativity to enhance business performance
- Guaranteed pay levels that reflect an individual's contribution to Texton
- A performance management system that focuses on individual performance and serves as a link to learning and development for employees
- Rewards that recognise performance where appropriate
- Corporate strategic and operational performance of Texton
- Operational performance of individuals
- A structured and open communications policy regarding Texton's reward practices that enables management to have an informed understanding of, and the ability to adequately deal with, the majority of remuneration questions and issues arising in the workplace
- A reward system that can operate flexibly in response to change, given that Texton is operating in a volatile environment.

REPORT OF THE NOMINATIONS AND REMUNERATION COMMITTEE continued

Remuneration benchmarking

Salary benchmarking is used to determine market-related salaries and remuneration. An external market survey will be done every two years. A specialist remuneration firm, 21st Century, was utilised to perform a salary benchmarking exercise in 2019.

Each component of remuneration (basic salary, *ad hoc* bonuses, LTIs and benefits) is analysed and the overall remuneration package reviewed. The revised policy was approved by the committee. The specific adjustments are set out below:

- Differentiation between long- and short-term KPIs
- Reference to absolute measures
- Reference to peer REIT performance.

Remuneration components

Total guaranteed package

Texton adopts a total cost-to-company approach in determining remuneration. The total guaranteed package comprises the basic salary of the employee or member of executive management and is payable for day-to-day job requirements. The group pays market-related salaries reflective of the individual's expertise, experience and skills.

Pay ranges represent the level of compensation paid in respect of similar positions in the market. The group aims to pay basic salaries between the mid-point and the first quartile of those paid by competitors for similar positions, with a minimum and maximum of the range informed by the lower and upper market quartile. Only in special circumstances of particularly scarce skills or experience shortages may an individual be compensated beyond the maximum of the range.

It should be noted that salaries consider the proportionality of highest to lowest paid employees while considering the role played by the individuals, qualifications, experience, etc.

No benefits or allowances are granted to employees other than a cell phone allowance. The cell phone allowance is based on the job level of the employee. Travel costs incurred are reimbursed on an actual cost basis and kilometres travelled are reimbursed at the AA rate.

At present, Texton's total guaranteed package is not structured to include any

retirement, medical aid benefits or post-retirement benefits unless required by law.

STIs

Employees are eligible for an annual STI. The STI is a discretionary bonus which is calculated as a percentage of the employee's gross annual remuneration package. The STI is determined on a performance basis by management for staff who have delivered above expectations. STI payments to the executive directors are determined and approved by the committee. The STI is determined with reference to the financial performance of the group and the achievement of individual KPIs. All employees are eligible to participate in the STI if the annual performance so warrants.

LTIs

Texton will be presenting a new LTI scheme for adoption at the AGM. The scheme will replace all current LTI schemes in place.

The CSP will primarily be used as an incentive to participants to deliver the group's business strategy over the long term. The intent of the CSP is to incentivise, motivate and retain select employees through the award of performance and retention shares. The vesting of performance shares is subject to the satisfaction of performance conditions and continued employment over the vesting period. The vesting of retention shares is subject to continued employment over the vesting period. The CSP will give participants the opportunity to share in the success of the company and provides direct alignment between participants and shareholders.

The extent and nature of performance conditions applicable to CSP awards will be approved by the committee annually and specifically included in the award letter to participants. The employment condition applicable to all share awards is the requirement for continued employment of the participant by any employer company within the group for the duration of three years from the award date.

Award components

The CSP will be used to make awards as follows:

- Awards of performance shares, the vesting of which is subject to the satisfaction of performance conditions and continued employment for the

vesting period in line with Texton's approach to performance-related incentives

- Awards of retention shares, the vesting of which is subject to the satisfaction of continued employment for the vesting period.

Participants

It is envisaged that participation in the CSP will be limited to executives, senior management and other key employees and will exclude non-executive directors. Final discretion regarding participation will remain with the committee. Participation in the CSP is not a condition of employment, and the committee has the absolute discretion to make an award to any permanent employee within the group in terms of the CSP. To be considered for participation, an employee must have been employed by the group for a minimum period of 12 months (unless exceptional circumstances apply) and have achieved an above average performance rating as part of the annual performance appraisal process.

Rights of participants

Participants will not be entitled to any shareholder rights before the settlement of the shares. This will only take place after vesting of the awards. From settlement date, participants will have all shareholder rights, including dividend and voting rights, with regard to the settled shares.

Basis of awards and award levels

Award levels for performance shares and/or retention shares will be determined by the committee each time awards are granted, taking into account the particular circumstances at that time and the participant's annual salary, grade, retention or recruitment requirements and market benchmarks.

It is envisaged that the retention share component of the award will not exceed 35% of the total award, with the remainder being performance shares.

Annual awards will be benchmarked and set to a market-related level of remuneration while considering the overall affordability thereof to the company.

Performance conditions and vesting

The extent and nature of performance conditions applicable will be approved by the committee annually and specifically included in the award letter to participants. Retention shares will not be subject to performance conditions, due to their inherent nature as retention instruments, but will be subject to the employment condition, which requires continued employment of the participant by any employer company for the duration of the employment period.

Further details on performance conditions:

Financial measures – 75%

PERFORMANCE CONDITION	DESCRIPTION	WEIGHTING
Distribution per share (“DPS”) growth (relative measure) DPS growth measured relative to the SA Listed Property Index (adjusted for any anomalies) or comparable index	Threshold: 0% outperformance On-target: 5% outperformance Stretch: 10% outperformance	20%
DPS growth (absolute measure) DPS growth measured against SA Consumer Price Index (“CPI”) + margin	Threshold: CPI On-target: CPI + 1% Stretch: CPI + 2%	20%
NAV NAV growth measured against weighted UK and SA CPI + margin	Threshold: CPI On-target: CPI + 1% Stretch: CPI + 2%	30%
LTV ratio	Threshold: 45% On-target: 40 – 45% Stretch: Less than 40%	30%

The committee will be responsible for determining an appropriate margin relative to CPI, taking account of prevailing market conditions, independent forecasts and external advice where necessary.

Non-financial measures – 25%

PERFORMANCE CONDITION	WEIGHTING
Strategy development Determining strategy and providing strategic guidance throughout the group.	20%
Performance planning Implementing an expansion strategy in accordance with the company's five-year strategic plan.	20%
Corporate governance Ensuring good corporate governance is entrenched throughout the group.	20%
Stakeholder management Ensuring financial reporting and shareholder communication are carried out in a transparent, accurate, concise and timely manner.	20%
Sustainability Implementing sustainable practices such as energy efficiency, renewable energy generation, rain water harvesting and storm water management and conservation. Maintaining and retaining a committed and motivated workforce.	20%

REPORT OF THE NOMINATIONS AND REMUNERATION COMMITTEE continued

Retention

The company's retention strategy is concerned with the formulation and implementation of strategies and policies that aim to retain identified staff in accordance with their value to the company. The overall strategic aim of the company's retention policy is to retain key staff in order to ensure the future success of the organisation.

The strategy utilises LTIs and a guaranteed pay percentile with a focus on key skill categories, career planning and training.

Malus and clawback provisions

The events giving rise to malus and clawback are:

- A material misstatement in the accounts of the group, any member of the group or the member of the group by which the employee was employed, of which the employee was aware or could reasonably have been expected to be aware
- Following termination of employment, facts have emerged which if known at the time, would have caused the award to lapse or would have resulted in the committee exercising any discretion differently
- Information has emerged which, had it been disclosed at the time of the award, would have affected the level of the award which was granted to the employee, or the level at which any performance conditions were determined to have been satisfied.

If one or more of the events listed above occur before an award vests, the committee may decide that:

- An award will lapse wholly or in part
- An award will vest to a lesser extent than it would otherwise have vested
- Vesting will be delayed for such period as it may determine.

If one or more of the events listed above occur after an award has vested, the committee may decide, at any time in the two years following the date of vesting of an award granted after 1 July 2020, that the participant must pay to the company an amount equal to any cash payment made pursuant to the award.

Annual salary increases

Annual increases are granted on 1 July of each calendar year and are based on external factors such as the prevailing rate of inflation and market forces, as well as on the individual's performance, skills, experience and effort.

Executive director remuneration

Regarding fixed pay, the annual review process is used to determine where an employee's pay is in relation to the market and to make necessary adjustments in line with the pay philosophy. The annual review takes place in March each year, with increases effective on 1 July. Based on the annual review, a recommendation is made to the committee for approval of the mandate for annual increases.

Executive directors enter into standard Texton employment contracts. The notice period for executive directors is three months' written notice. There are no payments *in lieu* of termination of employment and the rights to any share options allocated cease on the date of resignation or termination.

Sign-on, retention and restraint payments

The group does not pay any retention or restraint payments. *Ad hoc* sign-on bonuses may be paid to senior employees or executives subject to approval by the committee.

Responsibility for the policy

The responsibility for the monitoring, reviewing and implementation of the policy rests with the committee.

The role of the committee is to assist the board in ensuring the group has implemented an effective policy for remuneration that will enhance the group's ability to meet its strategic objectives and attract and retain high-calibre staff and executive management. In determining such policy, the committee must consider all factors it deems necessary.

PART 3: REMUNERATION IMPLEMENTATION REPORT

The year in review

The committee completed the process of appointing suitably qualified and experienced independent non-executive directors, while considering the size of the board. Wayne van der Vent (independent) and Robert Franco were appointed to the board as non-executive directors during the 2020 financial year.

DIRECTOR	ROLE	EXPERIENCE
W van der Vent	- Independent non-executive director - Member of the board - Chairman: Texton's capital and investment committee.	Wayne has been in the property industry for nearly 30 years and adds depth to the board with his extensive property sector expertise, particularly his knowledge of specific assets and nodal dynamics and trends. He has overseen the development of a number of properties, primarily township-based retail. Wayne joined the PIC in 2005 and grew its property portfolio to R80 billion, overseeing significant acquisitions including the V&A Waterfront in Cape Town. Wayne has served on various boards including Pareto Limited, SA Corporate Real Estate Limited and CBS Property Portfolio Limited, and as the chairman of various investment committees and the Airports Company of South Africa.
RA Franco	- Non-executive director - Member of the capital and investment committee.	Robert is a founder of Kloof Capital, a private investment company established in 2013. Kloof Capital has significant real estate investment experience gained through its real estate allocation across various sectors, including residential, commercial, retail and industrial, as well as cross-border geographies.
PM Hack	- Executive director finance - Member of the board - CFO.	Prior to joining Texton, Pinny was involved with the listing and international expansion of Stor-Age. He was with Stor-Age for eight and a half years and served as the company's head of finance and treasury. Prior to this, Pinny was an audit manager at KPMG. Prior to this, was involved in the audit of numerous listed property companies.
HSP Welleman	- Interim CEO - Prescribed officer.	Pienaar joined Texton from a boutique investment firm where he was actively involved in real estate investment across a broad range of sectors. Prior to this, he was with Deloitte for seven years, five of which were spent in the London office where he worked in the energy and resources team. Upon his return to SA, he was a key member of the team that set up Deloitte's corporate finance office in Cape Town.

A transparent process is followed regarding board appointments. The committee identifies, evaluates and recommends appointees and board committees to the board for approval.

The committee assessed the performance of the CEO and CFO during the year against their respective KPIs. The assessment of the effectiveness of the CFO was monitored by the audit and risk committee.

Committee composition and terms of reference

The committee's terms of reference were reviewed in 2020 and set out the committee's duties and responsibilities.

The committee comprises Andrew Hannington, John Macey and Marcel Golding. Attendance at meetings is disclosed on page 61.

The committee assessed the remuneration policy for, among other factors, alignment of the interests of executive management, staff and stakeholders as well as the legal, statutory and industry practices regarding remuneration.

The committee was responsible for ensuring comprehensive employment contracts were entered into with executive management, currently comprising the interim CEO and CFO, which govern termination payments and compensation commitments as well as notice periods of not less than 90 days. In addition, the committee approved executive management remuneration. The committee did not recommend the award of STIs or LTIs during the year.

Non-executive directors' fees

Non-executive directors' fees reflect the directors' role and membership to the board and its committees. Non-executive directors' fees are reviewed annually, based on inflation and a comparison of similar sized funds. The committee recommended the fees for approval by the company's shareholders at the AGM. The committee, with the assistance of an external consultant, completed a review against the peer market for directors' remuneration during 2019.

REPORT OF THE NOMINATIONS AND REMUNERATION COMMITTEE continued

In compliance with section 66(9) of the Companies Act, directors' fees are to be approved at the AGM held on 21 November 2020 for a two-year period and are applicable for the financial period ended 30 June 2020. The fees comprise an annual fee which takes cognisance of the responsibilities of the non-executive directors throughout the year and a meeting attendance fee.

The board, on the recommendation of the committee, proposed to simplify the structure of non-executive directors' remuneration to a fixed fee basis. The remuneration proposed is considered to be fair and reasonable and in the best interests of the company. The fixed fee structure for non-executive directors is also consistently applied with the majority of REITs.

In terms of sections 66(8) and 66(9) of the Companies Act, the committee recommended that the company remunerate its non-executive directors for their services as directors and/or pay any fees related thereto as detailed in the following table.

Roll	Approved fees for the year			
	Annual fixed fee R	Annual attendance fee R	Proposed fixed fees per annum 2021 [®] R	Proposed fixed fees per annum 2022 [#] R
Chairperson of the board	125 000	31 250	350 000	364 000
Lead independent director	75 000	18 750	300 000	312 000
Member of the board	50 000	12 500	225 000	234 000
Chairperson of the board committee	50 000	12 500	50 000	52 000
Member of the board committee	25 000	6 250	25 000	26 000
Ad hoc meeting fee	N/A	3 150	N/A	N/A

[®] The proposed fee for the 2021 financial year will be capped at R1 977 021 and represents a saving of approximately 13% against the current approved non-executive director remuneration structure.

[#] The 2022 financial year fees are capped at a 4% increase against the proposed 2021 financial year fees.

Non-executive directors do not participate in the company's variable pay plans to avoid conflicts of interest and to maintain their independence. None of the non-executive directors have a contract of employment with the company. Their appointments are made in terms of the company's MOI, which provides that non-executive directors who have served for three years will retire by rotation but may, if eligible, offer themselves for re-election. At least one-third of non-executive directors retire by rotation annually in accordance with the MOI. Appointments are confirmed initially at the first AGM of shareholders following their appointment, and thereafter at a minimum of three-year intervals.

For details pertaining to direct or indirect beneficial holdings in the shares of Texton in the current or prior year, refer to [page 164](#).

Total guaranteed package

	Salary R'000	Other R'000 ¹	Bonus R'000	Total guaranteed package R'000
Executive director				
PM Hack ²	163	–	–	163
MH Muller ³	2 650	1 524	–	4 174
IF Pick ⁴	1 515	2 432	–	3 947
Total	4 328	3 956	–	8 284
Prescribed officer				
HSP Welleman	1 147	–	–	1 147
Total	1 147	–	–	1 147

¹ Includes the payment of leave due and other payments.

² Appointed as CFO from 12 June 2020.

³ Resigned as CEO on 30 June 2020.

⁴ Resigned as CFO on 4 December 2019.

As the two new executives were only employed from June 2020, there was no increase applied for the year commencing 1 July 2020.

Refer to note 34 to the annual financial statements for further details.

STI

The remuneration policy provides for the allocation of *ad hoc* bonuses as a form of STI. There was no short-term bonus paid in the current year.

LTI

During the year, no share appreciation rights ("SARs") were issued and the current scheme is no longer in use. Refer to note 43 to the annual financial statements for further information.

Disclosure of remuneration

Refer to note 34 to the annual financial statements for the remuneration paid to directors for the year.

No deviations from the remuneration policy were authorised or paid during the year.

REPORT OF THE SOCIAL AND ETHICS COMMITTEE

The social and ethics committee has pleasure in submitting this report to shareholders as required by the Companies Act.

The focus of the committee is extended to careful consideration of Texton's broader contribution to its stakeholders, society and the environment.

ROLE, FUNCTION AND COMPOSITION

The committee is a statutory committee that assists the board in monitoring the group's governance, compliance, corporate citizenship, sustainability and ethics programmes. The statutory duties of the committee are set out in sections 72(4) and (5) of the Companies Act, read with regulation 43 of the Companies Regulations, 2011 as well as the committee terms of reference and the committee's annual work plan.

To achieve the committee's annual work plan, the committee met three times during the year. Attendance at committee meetings is disclosed on [page 61](#).

The committee comprises of a majority of independent non-executive directors and chaired by an independent non-executive director. Executive management continues to have direct access to the skills and expertise of the committee in programme design and implementation.

COMMITTEE FOCUS AREAS IN 2020

Ethics

The committee supports the board with the governance of ethics. Texton identified and evaluated the corruption risks at its employees or others acting on its behalf that are likely to encounter and used this knowledge as a basis for developing the appropriate measures to reduce these risks. The risk evaluation considers the nature of the company's business, including sectors and markets in which it operates and will be reviewed annually or as Texton's business changes, expands or develops.

Specific focus was placed on ensuring implementation of Texton's corporate compliance programme.

Governance

The committee's activities focused on:

- Transformation, B-BBEE and the company's alignment with the Property Sector Charter
- The review and approval of the committee's terms of reference and annual work plan
- Ensuring policies are aligned with King IV for recommendation to the board
- Improved awareness of the impact of General Data Protection Regulation (UK) and the Protection of Personal Information Act for asset managers and across the group
- Review and recommendation of non-financial disclosures in the governance report.

Health and safety

The committee reviewed and recommended to the board for implementation the occupational safety and health policy. The policy was amended to comply with changes in legislation.

Reports on building compliance, fire and safety, and occupational health as it relates to the property management of the SA portfolio are monitored quarterly by the committee. There were no significant health and safety issues to report for the year.

Transformation

The committee provided oversight in addition to its statutory duties on Texton's B-BBEE strategy and transformation targets. Transformation remains an important focus area for the committee. Texton's plans and progress were considered in terms of the requirements of the B-BBEE Act and the amended Property Sector Charter.

A number of initiatives and programmes originally planned were delayed or postponed due to the impact of the national lockdown on operations and the uncertainty associated with the effects of the COVID-19 pandemic on operations.

Sustainability

The committee approved the sustainability section as presented in this report (page 48).

COVID-19 and safe return to work

Texton successfully implemented the return to work campaign under the guidance of the CEO and compliance officer.

Committee evaluation

The independent committee evaluation identified the following areas of focus for 2021 to 2023. In the coming year, the committee will focus on:

- Broader stakeholder identification and engagement
- Tenant engagement and retention strategies
- Texton's transformation strategy and B-BBEE compliance
- Monitoring the implementation of enterprise and supplier development across the group
- Ensuring ongoing ethics awareness and training
- Continued oversight of safety, health and compliance
- Contractor and employee awareness of their responsibilities in the safe return to work programme
- Monitoring changes in environmental and sustainability legislation.

The committee is satisfied that there has been no material non-compliance with legislation or non-adherence to codes of best practice in terms of the areas within the committee's mandate during the year. The committee is also satisfied that it has considered and discharged its responsibilities in terms of its mandate and terms of reference in King IV, the JSE Listings Requirements and the Companies Act.

Texton implemented the necessary frameworks, policies and systems to sustain and improve on its commitment to responsible corporate citizenship, including social and economic development, environmental responsibility and good corporate citizenship.

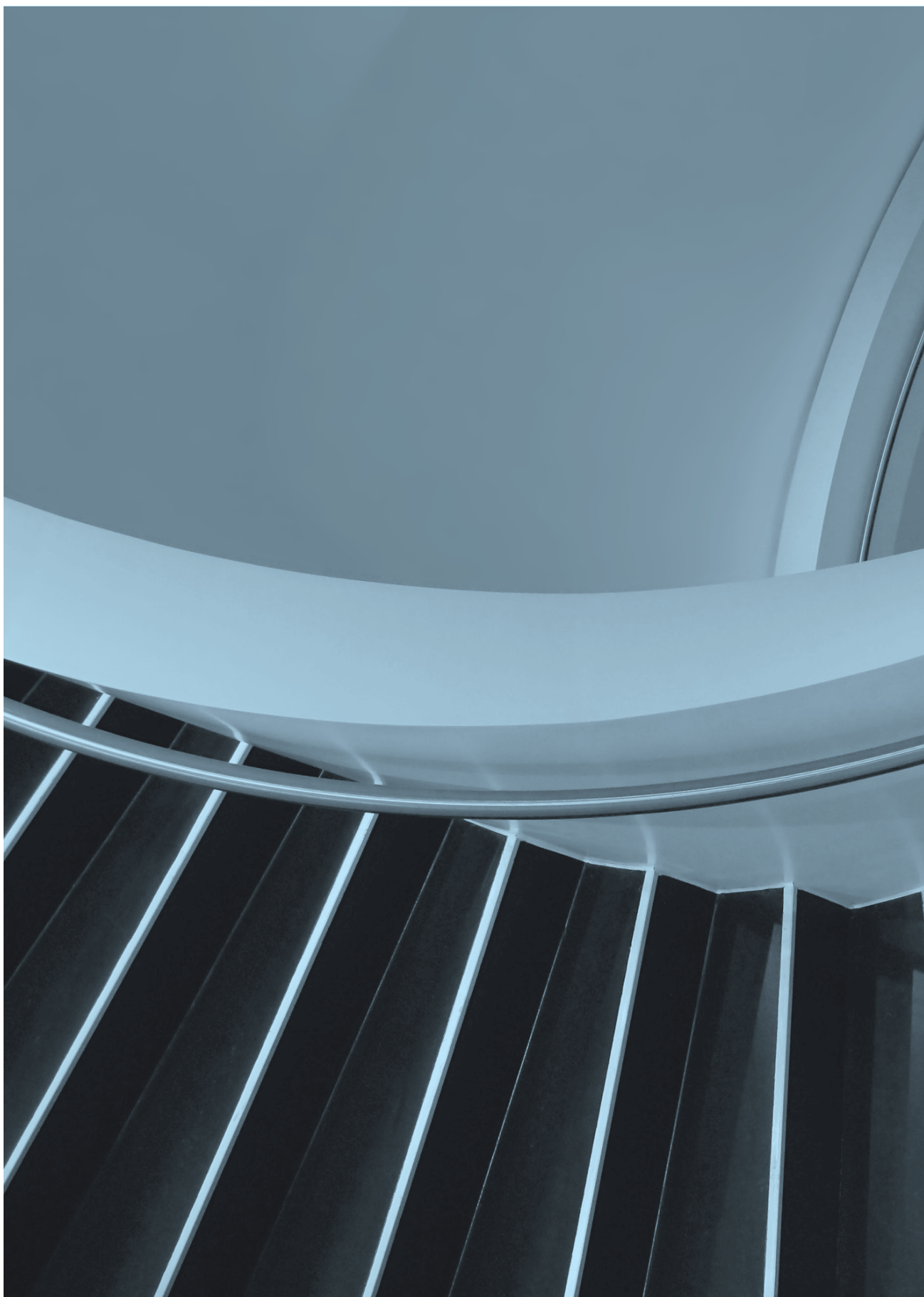


Shelley Thomas

Chairperson of the social and ethics committee

30 October 2020

72-164 ANNUAL FINANCIAL STATEMENTS





DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the integrity, preparation and fair presentation of the group and company annual financial statements, comprising the statements of financial position as at 30 June 2020 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guidelines, the JSE Listings Requirements, the Financial Reporting Standards Council and the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors have responsibility for ensuring that accurate and complete accounting records are kept to enable the group and the company to satisfy their obligations with respect to the preparation of annual financial statements.

The directors are also responsible for such internal control as the directors determine necessary to enable the preparation of annual 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 and its subsidiaries and group entities to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The group's external auditor SizweNtsalubaGobodo Grant Thornton audited the group and company annual financial statements and their audit report is presented on pages 78 to 81.

The external auditor was given unrestricted access to all financial records and relevant data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditor during the audit are valid and appropriate.

APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS AND THE ANNUAL FINANCIAL STATEMENTS OF TEXTON PROPERTY FUND LIMITED

The group annual financial statements and the annual financial statements of Texton Property Fund Limited, as identified in the first paragraph, were approved by the board of directors on 23 September 2020.



Pinchas Hack
Chief financial officer

23 September 2020



Marcel Golding
Chairman

CERTIFICATE BY THE COMPANY SECRETARY

In terms of the Companies Act, (Act 71 of 2008), we certify that, to the best of our knowledge and belief, Texton Property Fund Limited has lodged all returns and notices required by the Companies Act with the Commissioner of the Companies and Intellectual Property Commission for the year ended 30 June 2020 and all such returns and notices prescribed by the Companies Act appear to be true, correct and up to date.



Motif Capital partners
Company secretary

23 September 2020

DIRECTORS' REPORT

NATURE OF THE BUSINESS

Texton Property Fund Limited ("Texton", the "company", the "fund" or the "group") is an internally asset-managed Real Estate Investment Trust ("REIT") listed on the JSE Limited. Its portfolio of retail, office and industrial property assets are located in South Africa ("SA") and the United Kingdom ("UK") and is valued at R4,5 billion as at 30 June 2020.

SA REIT ASSOCIATION BEST PRACTICE RECOMMENDATIONS ("BPR")

The SA REIT Association has recently released a second edition BPR, which deals with best practice reporting. The new BPR is applicable for financial year-ends commencing after 1 January 2020 and will accordingly be applicable to Texton from the financial year ending 30 June 2021. Texton will assess the new BPR in due course and will, as far as possible, endeavour to comply with the recommendations contained therein.

Subsidiaries

	Location	% owned
Discus House Proprietary Limited	South Africa	100
Imperial Comm Props Proprietary Limited	South Africa	100
Investage 183 Proprietary Limited*	South Africa	54
Nungu Trading 88 Proprietary Limited	South Africa	100
Sable Place Properties 121 Proprietary Limited	South Africa	100
Texton Propco Proprietary Limited	South Africa	100
Texton Property UK Limited	United Kingdom	100
Chevelon Investment Holdings Limited	United Kingdom	100
Chobe Investment Holdings Limited	United Kingdom	100
Heddon Investment Holdings Limited	United Kingdom	100
Zeya Investment Holdings Limited	United Kingdom	100
Forbesdale Investment Holdings Limited	United Kingdom	100
Onslow Investment Holdings Limited	United Kingdom	100
Cheltondale Investment Holdings Limited	United Kingdom	100
Ganix Investment Holdings Limited	United Kingdom	100
Malabar Investment Holdings Limited	United Kingdom	100

Controlled entities

Texton Property Fund Limited Share Incentive Trust	South Africa	100
Vunani Property Investment Trust*	South Africa	100

* During the year, VPIT and Investage entered into a section 42 transaction, whereby VPIT transferred its assets to Investage for shares. This was a common control transaction and IFRS 3 did not apply.

RESTRUCTURES UNDERTAKEN DURING THE YEAR

Refer to note 47 for restructure of inter-company loans undertaken during the year.

FINANCIAL RESULTS

The detailed financial results are fully set out in the consolidated and separate financial statements.

GOING CONCERN

The group and company has reasonably satisfied the liquidity and solvency test as required by the Companies Act and the directors have satisfied themselves that the company and group are in a sound financial position and that it has access to sufficient facilities to meet its foreseeable cash requirements.

The directors consider that the company and group have adequate resources to continue operating for the foreseeable future and realise its assets and settle its liabilities in the ordinary course of business. As such it is appropriate to adopt the going concern basis in preparing the consolidated and separate financial statements.

IMPACT OF COVID-19

An outbreak of the coronavirus disease 2019 ("COVID-19") emerged during 2019 and was declared a global pandemic by the World Health Organisation in 2020.

Immediately, Texton took decisive action to preserve cash by actively managing our working capital through the crisis. Texton is mindful that many of our tenants and suppliers are small, medium and micro-enterprises ("SMMEs") and the lifeblood of the SA economy. Texton actively engaged with both our tenants and suppliers, adopting a solutions-oriented mindset in an effort to generate win-win outcomes for all parties.

To support tenants negatively impacted by the COVID-19 lockdown, Texton provided R3,0 million in rental relief, equating to 0,6% of annual gross income, to 25 tenants by way of rental discounts (35,3%) and rental deferrals (64,7%). Requests for rental relief have only been considered on an individual basis and take into account whether a tenant is in good standing. Texton has also taken opportunities to negotiate lease re-gears in exchange for upfront rent-free incentives. Rent deferment structures are from one to three months with payback periods of three to six months.

At the same time, Texton managed expenses by negotiating terms with our suppliers that were mutually beneficial to the sustainability of our business and theirs; and accelerated pre-existing expense-cutting measures and suspended all discretionary spend.

DIRECTORS' REPORT CONTINUED

RENTAL COLLECTION

Since year-end, we have collected over 93% and 97% of rental due in SA and the UK respectively. The collection of rentals and recovery of debt remains a key focus area. Texton has committed additional resources to this given the elevated risk levels in this area and the expected strain consumers may experience in the coming months.

BANKING FACILITIES

Texton has unlimited borrowing powers in terms of the Memorandum of Incorporation ("MOI"), but the group has maintained its debt levels below 60% of its gross asset value in accordance with the JSE Listings Requirements for REITs. The group is also subject to certain financial covenants with the strictest being a 50% loan-to-value ("LTV") covenant on its bank borrowings. The group's overall debt was R1,997 billion (2019: R2,241 billion) at the reporting date as detailed in note 16 to the consolidated financial statements.

Texton was able to refinance all debt that expired in the current financial year on favourable terms and tenures. Texton refinanced R932 million of Standard Bank debt in the current year. The new debt was split into four different tranches:

Subsidiary	Rate	Term
Standard Bank Tranche A	JIBAR* + 1,95%	12 months
Standard Bank Tranche B (RCF)#	Prime - 60bps	18 months
Standard Bank Tranche C	JIBAR* + 235bps	30 months
Standard Bank Tranche D	JIBAR* + 245bps	36 months

In the UK, Texton refinanced £1,7 million of debt expiring with Santander with a new five-year facility with HSBC. At the same time, Texton refinanced all its debt with HSBC totalling £32 million on a five-year facility with HSBC at a margin of 2,25% above LIBOR**. The margin decreases to 2,10% when the LTV on the portfolio reduces to 55%, which is expected to be completed by December 2020.

All bank covenants were in compliance at year-end.

SALE OF NON-CORE PROPERTIES

We identified 14 properties valued at R529,5 million as at 30 June 2019 for disposal. Two of these properties (valued at R209,0 million) were sold and transferred by 30 June 2020. The COVID-19 pandemic resulted in delays in transfer process due to the closing of municipalities and deeds offices during the last quarter of the financial year. As at 30 June 2020, we identified four additional properties, taking the total to 16 properties valued at R601,2 million for disposal. Eight of these properties (valued at R154,6 million) have been contracted for and we expect sales to be completed by 31 December 2020.

SUBSEQUENT EVENTS

Refer to note 38 for information relating to subsequent events.

PAYMENT OF FINAL DIVIDEND

Texton has elected to defer the decision relating to the payment of a final dividend. The JSE originally notified REITs on 26 June 2020 that interim relief has been approved by the Financial Sector Conduct Authority ("FSCA") to allow REITs, with year ends from February to September 2020, to postpone the payment of their dividends for an additional two-month period over and above the requirement to pay dividends within four months of year-end. On 22 September 2020, the JSE notified the market via SENS that the FSCA had advised that they are not in a position to consent to the request put to them by the JSE in regards to the relaxation of the pay-out ratio requirements for REITs. Due to the timing of the JSE's announcement and Texton's results announcement, Texton will need to assess the implications of this announcement and will make a dividend decision within the required timeframe.

CHANGES TO THE BOARD AND PRESCRIBED OFFICERS

The board underwent a number of changes during the year and thereafter:

- Robert Franco was appointed as a non-executive director on 21 November 2019
- Inge Pick resigned as CFO and from the board on 4 December 2019
- Marius Muller resigned as CEO on 31 March 2020 and from the board on 30 June 2020
- Pinny Hack was appointed as CFO, effective 12 June 2020
- Wayne van der Vent was appointed as independent non-executive director on 21 November 2019.
- Pienaar Welleman was appointed as interim CEO, effective 30 June 2020.

The details relating to directors and to directors' interest in shares can be found in note 33 to the annual financial statements

COMPANY SECRETARY

Motif Capital Partners continued to act as company secretary during the year under review.

STATED CAPITAL

The authorised shares of the company consist of 2 000 000 000 (two billion) ordinary shares of the same class and no par value. At year-end, there were 376 066 766 shares outstanding. No shares were repurchased or issued in the year.

AUDITOR

SizweNtsalubaGobodo Grant Thornton Inc. will be recommended to shareholders at the annual general meeting to continue in office in accordance with section 90(1) of the Companies Act.

LITIGATION

The directors are not aware of any legal or arbitration proceedings that have commenced, are pending, have been threatened, or may have a material impact on the results of the group.

HOLDING COMPANY

Texton has no holding company and the main shareholders are detailed in the shareholder analysis on page 164 of this report.

* Johannesburg Interbank Agreed Rate.

** London Interbank Offered Rate.

Rolling credit facility.

REPORT OF THE AUDIT AND RISK COMMITTEE

The audit and risk committee (the “audit committee”) takes pleasure in presenting its report for the year ended 30 June 2020.

TERMS OF REFERENCE

The audit committee is a formal committee of the board of the company and its subsidiaries and has adopted written terms of reference. These terms of reference include the statutory requirements of the Companies Act (“the Act”), the recommendations of King IV and certain responsibilities delegated by the board.

The main responsibilities of the audit committee include:

- Reviewing the ongoing effectiveness of the internal financial controls
- Reviewing the interim and preliminary results, the annual financial statements and other content in the integrated annual report, and making a formal recommendation to the board to adopt the same
- Ensuring compliance with IFRS and the relevant requirements of the Act and the JSE with respect to financial reporting
- Report back on its responsibilities pursuant to paragraph 22.15(h) of the JSE Listing Requirements
- Overseeing the appointment and independence of the external auditor and reviewing their external audit reports
- Determining a policy for the provision of non-audit services by the external auditor
- Monitoring the risk management framework adopted by the company and its subsidiaries (the “group”) and reviewing any risk management reports in this regard
- The audit committee confirms that it has considered the expertise and experience of the financial director
- Reviewing management’s assessment of the group and company to continue as a going concern.

The audit committee confirms that it has fulfilled all its statutory obligations as well as its terms of reference for the year under review.

The audit committee has monitored and confirms that it is in compliance with the risk management policy, which is in accordance with industry practice and prohibits the company from entering into speculative derivative transactions not in the ordinary course of business.

MEMBERS OF THE AUDIT COMMITTEE, ATTENDANCE OF MEETINGS AND EVALUATION

The audit committee comprises three independent non-executive directors and is chaired by John Macey CA(SA). Certain executive directors, senior management, as well as the external auditor attended audit committee meetings by invitation.

The terms of reference require an annual evaluation of the performance of the audit committee and its members as well as confirmation of the members’ independence in terms of King IV and the Act. The evaluation performed covers the year ended 30 June 2020. The outcome of the evaluation performed on 9 September 2020 was satisfactory.

EXTERNAL AUDITOR

The audit committee nominated SizweNtsalubaGobodo Grant Thornton Inc. (“SNG GT”) as the external auditor for the current year, having satisfied itself that they are independent of the group. The audit committee noted Priya Madhav as the designated auditor and confirmed that both she and SNG GT are accredited with the JSE as required. The external auditor has unrestricted access to the audit committee.

The audit committee approved the terms of the auditor’s engagement letter, their audit plan and budgeted audit fees for the audit of the group and company annual financial statements for the year ended 30 June 2020.

The audit committee adopted a formal framework for the pre-approval of allowable non-audit services above certain pre-determined thresholds.

SIGNIFICANT MATTERS

Valuation of investment property

The major risk relating to investment property is the valuation of investment property. This has been highlighted as an area of critical judgement and is detailed in note 5 to the annual financial statements. Each property is externally valued at least every three years. Where an external valuation is not obtained, the directors determine the fair value of each property, using the valuation methodology in note 5. Through discussion with the executive directors, the audit committee is satisfied with the valuation methodology and inputs. A number of non-executive directors have extensive experience in the property industry and the board as a whole approves the valuations. The audit committee also monitors differences between internal and independent external valuations and is satisfied overall that the fair value of investment properties is not materially misstated.

REIT status

As income contains elements which may be deemed to be non-property-related income, there is a risk that the company does not meet the requirements to be classified as a REIT as stipulated in section 25BB of the Income Tax Act. Management performs an assessment, on an ongoing basis, to ensure that the company’s “rental income” is above the 75% threshold as set out in section 25BB. Management has also taken appropriate external advice in its determination as to whether the requirements set out in section 25BB have been met. Through discussion with management and inspection of financial records, the audit committee is satisfied that the company meets the criteria to be classified as a REIT.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

INTERNAL AUDIT

The audit committee continues to assess the requirement to have an internal audit function as the company grows. At this point in time, the audit committee has satisfied itself that the size and complexity of the group does not warrant an internal audit function.

PROACTIVE MONITORING

The audit committee confirms that it has considered the findings contained in the JSE's 2020 Proactive Monitoring Report when preparing the annual financial statements for the year ended 30 June 2020.

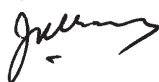
INTERNAL FINANCIAL CONTROLS

The audit committee reviewed the risk management and internal control framework presented by management and matters raised by the external auditor's report as to the efficiency of the group's internal financial controls.

In accordance with paragraph 3.84(g)(ii) of the JSE Listings Requirements, the audit committee confirms that no material breakdown of internal financial controls was identified during the current financial year.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The audit committee confirms that it has formally recommended the adoption of the group and company annual financial statements to the board of directors.



John Macey

Chairman of the audit and risk committee

23 September 2020

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Texton Property Fund Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Texton Property Fund Limited (the group and company) set out on pages 82 to 159, which comprise the consolidated and separate statements of financial position as at 30 June 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Texton Property Fund Limited as at 30 June 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are

further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report.

We are independent of the group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IDENTIFIED KEY AUDIT MATTER	HOW WE RESPONDED TO THE KEY AUDIT MATTER
Valuation of Investment Properties (applicable to the consolidated and separate financial statements) The valuation of investment properties is considered to be a key audit matter because the determination of the fair value involves significant judgement by management and the use of external valuation experts. The Groups Investment Property portfolio is split between South Africa and the UK, with a total valuation of R3,15 billion in the consolidated statement of financial position. Refer to Note 5 to the consolidated financial statements for details on the valuation of Investment Property. The Investment Property is stated at the fair values of the properties, based on the directors' valuations and external valuations as deemed appropriate. The fair values as at year end were determined using the discounted cash flow method of valuation. In determining a property's valuation, the directors and valuers take into account property specific information. The valuers apply yields and exit capitalization rates which are influenced by prevailing market yields and comparable market transactions to arrive at the final valuation. The Group has considered the impact of COVID-19 on the valuation of the properties. In making this assessment, the directors and valuers have considered the impact of the virus on the market growth rates as well as the vacancy rates. We consider the valuation of investment properties to be a matter of significance to the current year audit because of the significance of the estimates and judgements involved in its determination.	We obtained an understanding of management's approach for the valuation of the group's investment property portfolio. We inspected the valuation reports for the externally valued properties to assess whether the valuation approach was in line with the requirements IFRS and suitable for determining fair value for the purpose of financial statements. We also assessed the competences, capabilities and objectivity of the independent valuers by understanding the scope of their engagement and evaluating their qualifications. We also assessed whether there are any matters that might affect their objectivity; and obtained a confirmation of their independence from management. For a sample of properties, we evaluated significant assumptions including discount rates; capitalization rates; vacancy rates and market rental growth rates by comparing them to market benchmarks in order to assess whether they were in a reasonable range. Our procedures in this regard did not identify any material deviations. In addition to the aforementioned procedures we consulted independent valuers to assess the methodology, significant assumptions and yields applied by the directors and external valuers. We tested the accuracy and completeness of data inputs in the directors' valuation, as well as the valuations prepared by external valuers. Our procedures in this regard focused on the inputs underpinning the investment property valuations including rental income; tenancy schedules; general lettable area schedules; expenditure details and agreed these to supporting documentation. Our procedures in this regard did not identify any material deviations.

INDEPENDENT AUDITOR'S REPORT CONTINUED

IDENTIFIED KEY AUDIT MATTER	HOW WE RESPONDED TO THE KEY AUDIT MATTER
Intercompany Loan restructure and share repurchase (applicable to the separate financial statements) In 2015 the Company advanced interest-bearing loans to Zeya, Chevelon and Forbesdale in terms of a loan agreement. During the current financial year, the Company has undertaken a transaction in which it: - waived a portion of its loans receivables from Zeya, Chevelon and Forbesdale - entered into a full loan repayment and share repurchase agreement with its subsidiary, Chobe. Chobe ceded its rights in the Zeya, Heddon and Chevelon loans as repayment of the loan from the Company and repurchase of its shares - entered into agreements with Zeya, Chevelon and Heddon, where it was agreed that the loans owed to the Company would be extinguished through the issue of additional shares by the subsidiaries to the Company. The details of the restructuring transaction are detailed in Note 47 of the consolidated financial statements. The assessment of the substance of the transaction is complex and requires significant estimates and judgements. We therefore consider the above to be a transaction of significance to the current year audit.	We have obtained an understanding of the contractual terms of the transactions that have taken place and the impact thereof on the financial statements. We have also assessed the substance of the restructure and reviewed the accounting entries made to assess whether the transaction was accounted for in line with the requirements of IFRS. In addition to the aforementioned procedures we consulted actuaries to assess the methodology and significant assumptions applied by the directors in determining the fair value of the amounts involved in the restructuring at each step. We have also assessed the transactions for compliance with the Companies Act of South Africa and engaged the component auditors to assess compliance with the local laws and regulations. We have further consulted our taxation specialist to assess the transactions for compliance with the Income Tax Act.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Texton Property Fund Limited Integrated Annual Report 2020" and in the document titled "Texton Property Fund Limited Separate Financial Statements for the year ended 30 June 2020", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's reports thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon. In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and separate entity or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

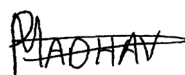
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc has been the auditor of Texton Property Fund Limited for 3 years.



SizweNtsalubaGobodo Grant Thornton Inc.

Priya Madhav

Director

Registered Auditor

23 September 2020

20 Morris Street East

Woodmead

2191

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2020

	Note	GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
ASSETS					
Non-current assets		3 416 932	3 578 646	2 298 018	2 168 069
Investment property	5	3 149 057	3 291 916	1 511 401	1 573 400
Plant and equipment	6	3 236	1 911	1 524	1 029
Tenant installation	7	6 089	11 448	3 935	6 205
Investments in subsidiaries	40	–	–	525 058	318 233
Investment in joint venture	41	252 272	206 094	252 272	206 094
Other non-current assets	8	6 278	9 789	3 828	5 620
Other financial assets	9	–	57 488	–	57 488
Current assets		189 864	381 915	749 379	1 314 333
Loans to subsidiaries	20	–	–	593 605	624 042
Loans to group entities	20	–	–	32 008	393 613
Restricted cash	10	–	12 782	–	–
Trade and other receivables	11	44 222	43 920	17 941	20 250
Dividends receivable	32	–	–	58 870	–
Income tax receivable		3 451	1 228	19	130
Cash and cash equivalents	13	142 191	323 985	46 936	276 298
Investment property held for sale*	12	601 293	529 523	173 900	140 000
Total assets		4 208 089	4 490 084	3 221 297	3 622 402
EQUITY AND LIABILITIES					
Equity		1 972 740	2 123 952	1 765 197	1 994 118
Share capital	14	2 842 473	2 842 473	3 098 489	3 098 489
Retained earnings		(758 095)	(504 642)	(1 333 292)	(1 104 371)
Foreign currency translation reserve	15	(111 638)	(213 879)	–	–
Non-current liabilities		1 642 388	545 930	932 444	3 102
Other financial liabilities	16	1 626 382	535 301	929 342	–
Lease liability	17	3 252	3 326	–	–
Deferred tax	18	12 754	7 303	3 102	3 102
Current liabilities		592 961	1 820 202	523 656	1 625 182
Other financial liabilities	16	456 440	1 720 475	452 386	1 485 517
Trade and other payables	19	107 923	90 318	45 339	37 304
Income tax payable		28 598	9 409	23 904	–
Loans from subsidiaries	20	–	–	2 027	1 439
Loans from group entities	20	–	–	–	100 922
Total equity and liabilities		4 208 089	4 490 084	3 221 297	3 622 402

* Refer to note 48 for representations.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Note	GROUP		COMPANY	
		2020 R'000	Restated* 2019 R'000	2020 R'000	Restated* 2019 R'000
Investment property income	21	521 905	558 025	297 909	301 428
Straight-line rental adjustment		(2 720)	(2 360)	(6 052)	(2 687)
Property income		519 185	555 665	291 857	298 741
Impairment loss on trade receivables*		(27 595)	1 505	(17 857)	174
Property expenses*	22	(183 780)	(193 434)	(108 567)	(114 402)
Net property income		307 810	363 736	165 433	184 513
Other income*	23	4 715	11 000	124 812	136 855
Administrative expenses		(38 022)	(34 223)	(26 041)	(25 456)
Profit/(loss) from joint venture		34 711	(1 158)	34 711	(1 158)
Foreign exchange losses		(90 732)	(505)	(17 960)	(9 156)
Operating profit		218 482	338 850	280 955	285 598
Finance income*	24	85 780	90 535	101 665	114 494
Finance costs	25	(168 891)	(184 198)	(143 676)	(151 395)
Fair value adjustments	26	(196 849)	(699 524)	(142 179)	(420 391)
Expected credit loss ("ECL") adjustment on inter-company loans		–	–	(89 519)	(47 626)
(Loss)/profit on disposal of subsidiary		–	(9 041)	–	5 055
Impairment of investment in joint venture		–	(30 418)	–	(30 418)
Impairment of investment in subsidiaries*		–	–	(40 512)	(226 757)
Capital expenses	27	–	(14 350)	–	(14 350)
Loss before tax		(61 478)	(508 146)	(33 266)	(485 790)
Taxation expense	28	(69 023)	(29 792)	(63 317)	(1 098)
Loss for the year		(130 501)	(537 938)	(96 583)	(486 888)
Other comprehensive income:					
Items that may be classified to profit or loss:					
Exchange differences on translating foreign operations		102 241	1 075	–	–
Total comprehensive loss for the year		(28 260)	(536 863)	(96 583)	(486 888)
Profit and total comprehensive loss attributable to:					
Equity holders of the company		(28 260)	(536 863)	(96 583)	(486 888)
Basic earnings per share					
Basic and diluted earnings per share	35	(37,35)	(153,96)	–	–

* Refer to note 48 for reclassifications.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2020

	GROUP			
	Stated capital R'000	Foreign currency translation reserve R'000	Retained earnings R'000	Total R'000
Balance as at 1 July 2018	2 257 206	(214 954)	246 816	2 289 068
ECL arising from the application of IFRS 9	–	–	98	98
Total comprehensive loss for the year	–	1 075	(537 938)	(536 863)
Loss for the year	–	–	(537 938)	(537 938)
Exchange differences on translation of foreign operations	–	1 075	–	1 075
Transactions with shareholders recognised directly in equity	585 267	–	(213 618)	371 649
Dividend paid	–	–	(270 921)	(270 921)
Extinguishment of PIC Put Option liability	(57 303)	–	57 303	–
Extinguishment of PIC Put Option liability	642 570	–	–	642 570
Balance as at 30 June 2019	2 842 473	(213 879)	(504 642)	2 123 952
Total comprehensive loss for the year	–	102 241	(130 501)	(28 260)
Loss for the year	–	–	(130 501)	(130 501)
Exchange differences on translation of foreign operations	–	102 241	–	102 241
Transactions with shareholders recognised directly in equity	–	–	(122 952)	(122 952)
Dividend paid	–	–	(122 952)	(122 952)
Balance as at 30 June 2020	2 842 473	(111 638)	(758 095)	1 972 740

	COMPANY		
	Stated capital R'000	Retained earnings R'000	Total R'000
Balance as at 1 July 2018	2 513 222	(321 891)	2 191 331
ECL arising from the application of IFRS 9	–	(61 293)	(61 293)
Total comprehensive loss for the year	–	(486 888)	(486 888)
Loss for the year	–	(486 888)	(486 888)
Transactions with shareholders recognised directly in equity	585 267	(234 299)	350 968
Dividend paid	–	(291 602)	(291 602)
Extinguishment of PIC Put Option liability	(57 303)	57 303	–
Extinguishment of PIC Put Option liability	642 570	–	642 570
Balance as at 30 June 2019	3 098 489	(1 104 371)	1 994 118
Total comprehensive loss for the year	–	(96 583)	(96 583)
Loss for the year	–	(96 583)	(96 583)
Transactions with shareholders recognised directly in equity	–	(132 338)	(132 338)
Dividend paid	–	(132 338)	(132 338)
Balance as at 30 June 2020	3 098 489	(1 333 292)	1 765 197

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2020

	Note	GROUP		COMPANY	
		30 June 2020 R'000	Restated* 30 June 2019 R'000	30 June 2020 R'000	Restated* 30 June 2019 R'000
Cash flows from operating activities					
Cash generated by operations*	29	262 879	334 834	118 829	172 760
Interest received		85 609	90 535	124 499	88 407
Interest paid		(162 636)	(167 503)	(140 578)	(143 446)
Commissions paid		(3 614)	(5 751)	(2 434)	(2 837)
Dividends paid	31	(122 952)	(270 921)	(132 338)	(291 602)
Dividends received*	32	–	–	65 085	126 632
Taxation paid	28	(47 477)	(7 786)	(39 303)	–
Net cash inflow/(outflow) from operating activities		11 809	(26 592)	(6 240)	(50 086)
Cash flows from investing activities					
Additions to plant and equipment	6	(2 166)	(910)	(860)	(473)
Additions to investment property	5	(1 706)	(5 474)	–	(3 173)
Proceeds on disposal of investment property classified as held for sale		208 928	286 398	–	–
Disposal of interest in subsidiary		–	–	–	71 154
Loans repaid		–	332	–	–
Loans repaid by subsidiaries*	20	–	–	27 009	242 489
Loans advanced to subsidiaries	20	–	–	(26 976)	(9 190)
Loans repaid by group entities	20	–	–	–	54 072
Loans advanced to group entities	20	–	–	(215)	(11 889)
Additional investment in joint venture		(11 469)	(18 328)	(11 469)	(18 328)
Tenant installation incurred	7	(3 265)	(4 754)	(1 640)	(1 232)
Net cash inflow/(outflow) from investing activities		190 322	257 264	(14 151)	323 430
Cash flows from financing activities					
Realisation of currency put option		–	5 853	–	5 854
Proceeds from other financial liabilities	30	57 845	426 361	–	249 220
Repayments of other financial liabilities	30	(457 288)	(468 961)	(208 971)	(292 261)
Lease liability payment	17	(472)	(474)	–	–
Net cash outflow from financing activities		(399 915)	(37 221)	(208 971)	(37 187)
Net (decrease)/increase in cash and cash equivalents for the year		(197 784)	193 451	(229 362)	236 157
Cash and cash equivalents at the beginning of the year		323 985	93 668	276 298	40 141
Effect of exchange rate movement on cash and cash equivalents		3 382	(220)	–	–
Release of restricted cash		12 608	37 086	–	–
Cash and cash equivalents at the end of the year		142 191	323 985	46 936	276 298

* Refer to note 48 for reclassifications.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

1. BASIS OF PREPARATION

1.1 Reporting entity

Texton Property Fund Limited is a company listed on the Johannesburg Stock Exchange and is domiciled in the Republic of South Africa. The group financial statements include the financial statements of Texton Property Fund Limited ("Texton" or "the company" or "the fund"), its subsidiary companies, joint ventures and controlled trusts (together referred to as the group and individually as group companies). Where reference is made to the "group", this means the company or the group as appropriate in the context in which it applies.

Subsidiaries are set out in note 40.

1.2 Statement of compliance

The group and company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the accounting practices committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the South African Companies Act of South Africa.

1.3 Basis of measurement

The annual 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 annual financial statements. The annual financial statements are prepared on the basis that the company and its subsidiaries are going concerns.

1.4 Functional and presentation currency

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

1.5 Use of estimates and judgements

The preparation of the financial statements in accordance with IFRS requires management to exercise its judgement in the process of applying the group's accounting policies and make estimates and assumptions concerning the future. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The most significant judgements, estimates and assumptions that may have a material impact on the financial statements are as follows:

Valuation of investment property

The board has used the best available evidence to determine the fair value of investment properties as set out in note 5 to the financial statements. This includes current market prices for properties with similar characteristics and leases and cash flow projections. As the available information is not directly comparable to the properties within the group, the amounts are determined within a reasonable range of fair value. The principal assumptions underlying the board's estimation of fair value are disclosed in note 5 and include the receipt of contracted rentals, lease renewals, maintenance requirements,

operational costs and appropriate discount and capitalisation rates. Management has also disclosed sensitivities to the significant inputs which can be found in note 5.

The outbreak of the COVID-19, declared by the World Health Organisation ("WHO") as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. As a result of the effects of COVID-19 on the property market, the board has used conservative assumptions and estimates in determining the fair value of investment property. These assumptions are further detailed in note 5.

As at the valuation date the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

Investment in joint venture

Texton has reclassified its loan in the joint venture as part of the net investment in the joint venture. In the prior year, the board assessed whether Texton would receive the contractual cash flows relating to the loan and it was noted that no cash flows were expected to be received on the loan. As a result of the loan not having contractual cash flows and that the cash settlement of the loan was neither planned nor likely to occur in the foreseeable future, Texton has reclassified its loan in the joint venture as part of the net investment in the joint venture.

Leases

Lease term

Where the group recognises a lease liability and corresponding right-of-use asset, consideration is given around the extension options of the lease, in terms of IFRS 16. In determining the lease term, all facts and circumstances are considered that create an economic incentive to exercise a renewal option. Renewal options and periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The group applies judgement in assessing whether it is reasonably certain that options will be exercised. Factors considered include the length of the current lease term in determining whether a renewal option will be exercised.

For leases that continue indefinitely on a month-to-month basis and where the group has the right to terminate the lease without incurring a significant penalty, the group considers the broader economics of the contract to determine the lease term. Judgement has been applied in assessing the lease term and factors considered are the importance of the asset to the group's operations.

Lease discount rate

Except where a discount rate implicit in the lease has been stipulated in the lease agreement, the lease payments are discounted using the incremental borrowing rate. The incremental borrowing rate requires significant judgement.

Other areas of significant judgement and estimations:

- ECL provision for trade receivables (refer to note 11) where details are explained.

Assessment of COVID-19

The WHO announced that COVID-19 was a global pandemic on 11 March 2020, which subsequently resulted in the President of SA declaring a national state of disaster on 15 March 2020.

Texton took decisive action to preserve cash by activity managing our working capital through the crisis. Texton is mindful that many of our tenants and suppliers are small, medium and micro-enterprises ("SMMEs") and the lifeblood of the SA economy. Texton actively engaged with both our tenants and suppliers, adopting a solutions-oriented mindset in an effort to generate win-win outcomes for all parties.

In mitigating the risks associated with the pandemic, our priorities are the health and safety of our employees, the support of our tenants and suppliers and the management of working capital.

Management has considered all the possible financial effects the virus could have on the measurement, presentation and disclosure in the annual financial statements. Key areas are considered below:

- Investment property, refer to note 5 for assessment of impact of COVID-19
- Trade and other receivables, refer to note 11 for assessment of impact of COVID-19.

2. ACCOUNTING POLICIES

2.1 Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the holding company, its subsidiaries and controlled trusts.

Subsidiaries

Subsidiaries are entities controlled by the company. The company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The annual financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the company financial statements, investments are accounted for at cost less accumulated impairment losses. A list of the group's subsidiaries is set out in note 40.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

An interest in a joint venture is accounted for using the equity method, except when the investment is classified as held for sale in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*.

Under the equity method, interests in joint ventures are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated and separate financial statements include the group's and company's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases. Unrealised gains on transactions between the

group and a joint venture are eliminated to the extent of the group's interest therein. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

When the company loses joint control, the group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

Business combinations

All business combinations are accounted for by applying the acquisition method in terms of IFRS 3.

Where the group obtains control of entities that own investment properties, or when the group acquires properties or a group of properties collectively, an evaluation is performed as to whether such acquisitions should be accounted for as business combinations or acquisitions in terms of IAS 40: *Investment Properties*.

An acquisition is not considered to be a business combination if the definition of a business is not met.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the group to the previous owners of the acquiree and equity interests issued by the company. Consideration transferred also includes the fair value of any contingent consideration. If a business combination results in the termination of pre-existing relationships between the group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event and its fair value can be measured reliably.

Transaction costs that the company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

The group has not early adopted the amendment to IFRS 3: *Business Combinations* as referred in note 49.

Common control transactions

For transactions in which combining entities are controlled by the same party or parties before and after the transaction and where that control is not transitory are referred to as common control transactions. The group's accounting policy for the acquiring entity would be to account for the transaction at book values as reflected in the financial statements of the selling entity. The excess of the case of the transactions over the acquirer's proportionate share of the net assets value acquired in common control transactions, will be allocated to the common control reserve in entity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

2.2 Financial instruments

Classification

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

Non-derivative financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss and financial assets at amortised cost. The classification depends on the contractual cash flow characteristics of the financial assets as well as the business model concerning the assets and is determined on initial recognition.

The group's non-derivative financial assets comprise trade and other receivables, cash and cash equivalents and loans which are classified as financial assets at amortised cost.

The group initially recognises financial assets at amortised cost and deposits on the date that they are originated when the group 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 group becomes a party to the contractual provisions of the instrument.

The group 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 group is recognised as a separate asset.

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

Financial assets at amortised cost

Financial assets are classified at amortised cost when the contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the group's business model is to collect the contractual cash flows. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, the instruments are measured as follows:

- **Trade and other receivables**

Trade and other receivables are carried at amortised cost, being the gross carrying amount less an allowance for ECL. The group measures the loss allowance at an amount equal to lifetime ECL (the "simplified approach") of IFRS 9.

Refer to note 11 for composition of trade and other receivables.

Refer to note 2.5 for ECL assumptions.

- **Loans**

Loans are carried at amortised cost, being the gross carrying amount less an allowance for ECL. Interest earned is recognised on an accrual basis using the effective interest method.

Non-derivative financial liabilities

The group 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 group becomes a party to the contractual provisions of the instrument.

The group 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 using the effective interest rate method.

- **Other financial liabilities**

Non-derivative financial liabilities comprising long-term interest-bearing loans 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 group's accounting policy for borrowing costs.

- **Loans**

Loans from group companies are classified as financial liabilities at amortised cost.

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 group utilises derivative financial instruments to hedge its exposure to interest rate risks and currency risks arising from operational, financing and investment activities. The group does not hold or issue derivative financial instruments for trading purposes. Derivatives that do not qualify for hedge accounting, however, are accounted for as trading instruments. Hedge accounting is not applied.

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 group 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. An entity currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

2.3 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 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.

After initial recognition, investment property is measured at fair value. Fair values are determined annually by external independent registered valuers and internally by the directors 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 in the year in which they arise.

Investment property is maintained, upgraded and refurbished where necessary in order to preserve or improve the capital value as far as it is possible to do so. Maintenance and repairs which neither materially add to the value of the properties nor prolong their useful lives are charged against profit or loss.

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 proceeds and the carrying amount of the investment property as determined at the last valuation date.

When the group 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.

2.4 Plant and equipment

Recognition and measurement

Items of 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. Subsequent expenditure on items of plant and equipment is capitalised when it is probable that future economic benefits associated with that expenditure will flow to the group 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 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 plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of 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 component of 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
Furniture and fittings	6 years
Computer equipment	3 years
Tenant installations	Period of the initial lease

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.5 Impairment

Non-derivative financial assets

• Trade and other receivables

The group measures the loss allowance for trade and other receivables at an amount equal to lifetime ECL (the so-called “simplified approach” of IFRS 9). The group makes use of a provision matrix as a practical expedient to the determination of ECL on trade and other receivables.

The customer base is diverse, with significantly different loss patterns for different customer segments. The group combines customer segments which share similar credit risk characteristics for purposes of determining the credit loss allowance. Details of the provision matrix, per customer segment, is presented in note 11.

• Loans

The group recognises a loss allowance for ECL on all loans receivable. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The loss allowance is measured using, what is referred to as the general approach, at an amount equal to lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk has not increased significantly since initial recognition, then the loss allowance is measured at 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of an instrument, while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

Refer to note 20 for further detail on how the group assesses significant increases in credit risk on loans.

ECL are measured individually for each loan to subsidiary or loan to group company based on the risks as discussed in note 20.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the loan's carrying amount through a loss allowance account.

Non-financial assets

The carrying amount of the group's and company's non-financial assets, other than investment property, 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 its 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 of disposal. 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.

2.6 Property letting commissions

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

2.7 Investment property held for sale

Investment properties are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than continuing use.

Investment properties are only classified as held for sale when the property is available for immediate sale in its present condition, the company is committed to a plan to sell the investment property, an active plan has been launched to locate a buyer and complete the sale, the property is being actively marketed at a sale price that is reasonable in relation to the current fair value of the non-current asset or disposal group and the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Such assets are measured at fair value.

2.8 Treasury shares

Company shares held by the share incentive scheme trust (formed for the benefit of employees) that have not yet vested and shares held by subsidiaries are classified as treasury shares on consolidation and presented as a deduction from equity. These shares are held at cost in the group financial statements.

Statement of financial position presentation

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of the company's own equity instruments is recognised directly in equity.

Statement of comprehensive income presentation

Dividends and unrealised losses on own shares are eliminated from group profit for the year.

Earnings per share

In calculating the basic earnings per share, the treasury shares are deducted from the weighted average number of shares in issue. The issued and weighted average number of shares is reduced by the treasury shares for the purposes of the basic and headline earnings per share calculations. The issued number of shares is not reduced by the treasury shares for the purpose of the dividend per share calculations. Dividends received on treasury shares are eliminated against dividends paid.

When calculating the diluted earnings per share, the number of shares at year-end that have a dilutive effect are included in the weighted average number of shares.

2.9 Dividends paid

Dividends or other distributions to the holders of equity instruments, in their capacity as owners, are recognised directly in equity on the date of declaration.

2.10 Leases

IFRS 16 is effective for the group and company for its financial year ended 30 June 2020 with a date of transition of 1 July 2019.

In the comparative period leases were classified as either an operating or finance lease under IAS 17.

Policy applicable for the year ended 30 June 2020

Lessor accounting

The group and company are party to numerous leasing contracts as the lessor of property. All leases are operating leases, which are those leases where the group and company retain a significant portion of the risks and rewards of ownership.

The group allocates the consideration to each lease and non-lease component based on the amount as stipulated in the lease agreement as the rental for the asset is separate from the recovery of expenses.

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 entity 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.

Costs incurred in obtaining an operating lease are capitalised and these costs are recognised as an expense over the lease term.

Costs incurred in earning the lease income are recognised as an expense.

Modifications to an operating lease are accounted for as a new lease from the effective date of the modification, considering any lease income received in advance or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

With the adoption of IFRS 16, no changes have been made to the measurement and recognition of leased assets where the group is the lessor.

Lessee accounting

The group and company are party to lease contracts as lessee for the use of property and IT equipment.

The group allocates the consideration to each lease and non-lease component based on the amount as stipulated in the lease agreement as the rental for the asset is separate from the recovery of expenses.

- **Right-of-use asset**

After the adoption date, the group recognises the right-of-use asset at the commencement date of the lease. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liabilities, any initial direct costs incurred by the group, any lease payments made in advance of the lease commencement date, less any incentives received.

Right-of-use assets recognised as Investment property are subsequently measured at fair value.

- **Lease liability**

The lease liability is initially measured at the present value of the future lease payments discounted using the group's incremental borrowing rate. Lease payments included in the measurement of the finance lease liability comprise:

- fixed payments
- variable lease payments dependent on an index or a rate, initially measured using the index or rate as at the lease commencement date.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased by the interest cost. Interest costs are included in finance costs in the statement of profit or loss and other comprehensive income over the lease period.

- **Low-value leased assets**

Rentals for the low-value leased assets are recognised in other operating expenses. Low-value assets include IT equipment. The group has applied the exemption in IFRS 16 for this asset, and a lease liability and right-of-use asset has not been recognised.

The threshold for low-value assets are R100 000.

The rental is straight-lined over the lease term.

- **Variable lease payments**

Variable lease payments that are based on turnover rental are excluded from the initial measurement of the lease liability and are recognised under property expenses. This has been disclosed separately under note 22.

These lease payments are expensed on a straight-line basis over the lease term.

- **Short-term leases**

Lease contracts with a term of less than 12 months are considered a short-term lease. The group has applied the exemption in IFRS 16 for this asset, and a lease liability and right-of-use asset has not been recognised.

These lease payments are expensed on a straight-line basis over the lease term.

Policy applicable for the year ended 30 June 2019

A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer to the lessee substantially all the risks and rewards incidental to ownership.

Operating leases

The group and company are party to numerous leasing contracts as the lessor of the property. All leases are operating leases, which are those leases where the group and company retain a significant portion of the risks and rewards of ownership.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. An adjustment is made to contractual rental income earned to bring into account in the current period the difference between the rental income that the entity is currently entitled to and the rental for the period calculated on the straight-line basis over the period of the lease term.

The group and company are party to leasing contracts as the lessees of some property and equipment. Leases are classified as operating leases, where substantially all the risks and rewards associated with the 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 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.

Finance leases

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Refer to note 44 for the adoption and impact of IFRS 16.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

2.11 Revenue

Revenue comprises rental income and recovery of expenses, excluding value added tax ("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.

Revenue from operating costs recoveries which is a non-lease component included within the lease agreements is accounted for in accordance with IFRS 15. The revenue is recognised over time, as the costs are incurred as and when the service is being rendered.

Revenue is recognised when a lease is signed and the tenant has taken occupation of the premises. Rental and recoveries are billed on a monthly basis on the SA properties and payment is due within the month either by the 1st or 15th of the month depending on the terms of the lease. For the properties located in the UK, rental is billed and received quarterly.

2.12 Finance income and finance costs

Finance income comprises interest income on bank balances, interest on cross-currency interest rate swaps, interest on interest rate swaps and interest received on inter-company loans. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance-costs comprise interest expense on bank balances, interest on cross-currency interest rate swaps, interest on interest rate swaps and bank loans. Finance costs are expensed in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, 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. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

2.13 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the group at the exchange rates as at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate as at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the group's presentation currency (Rand) at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Rand at the monthly average rate which approximates the actual rate.

Foreign currency translation reserve ("FCTR")

Foreign currency differences on translation of the financial position and results of a foreign operation into the group's presentation currency are recognised in other comprehensive income and accumulated in the FCTR. When a foreign operation is disposed of, in part so that control is lost, or in full, the relevant amount in the FCTR is reclassified to profit and loss as part of the profit or loss on disposal.

Where the settlement of a monetary item receivable from foreign operations is neither planned nor likely in the foreseeable future, foreign currency gains or losses arising from such item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income and accumulated in the FCTR in equity.

2.14 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service on an undiscounted basis. The accrual for employee entitlements to salaries, bonuses and annual leave represents the amount which the group has a present obligation to pay as a result of employees' service provided to the statement of financial position date. The group does not provide any retirement or post-retirement benefits.

Cash-settled share-based employee remuneration

Cash-settled share-based payments result in the recognition of a liability, which is an obligation to make a payment in cash or other assets, based on the price of the underlying equity instrument.

Employee services received in a cash-settled share-based payment are measured indirectly at the fair value of the liability at grant date. The initial measurement of the liability is based on the fair value of the underlying instruments. Measurement of the liability takes into account the extent to which services have been rendered to date.

The grant date fair value of the liability is recognised over the vesting period.

At each reporting date, and ultimately at the settlement date, the fair value of the recognised liability is remeasured. Remeasurement applies to the recognised portion of the liability through to vesting date. The full amount is remeasured from vesting date to settlement date.

Remeasurements after the vesting period are recognised immediately in profit or loss.

2.15 Income tax

Tax expenses

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.

The group is not liable for income tax in SA, only up to amounts distributed as it qualifies as a REIT in terms of the appropriate tax legislation and distributable profits are distributed as dividends. Profits that are not distributable in terms of section 25BB of the Income Tax Act are subject to SA tax at the applicable rate.

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.

Deferred tax

Deferred tax is recognised in respect of temporary differences. 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.

No deferred tax was recognised on the fair value of investment property as capital gains tax on investment property is not applicable to REITs in terms of section 25BB of the Income Tax Act.

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.

2.16 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 which the group 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 and the entities connected to the above.

2.17 Earnings per share

The group presents basic, diluted, headline earnings and diluted headline earnings per share. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the group by the weighted average number of shares outstanding during the year, adjusted for treasury shares held.

Diluted earnings per share is determined by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding, adjusted for treasury shares held and the effects of all dilutive potential shares.

Headline earnings per share is calculated by dividing the headline earnings attributable to shareholders of the group by the weighted average number of shares outstanding during the year, adjusted for treasury shares held.

Diluted headline earnings per share is calculated by dividing the headline earnings attributable to shareholders by the weighted average number of shares outstanding during the year, adjusted for treasury shares held and the effect of all dilutive potential shares.

Headline earnings per share is calculated in terms of circular 01/2019.

2.18 NAV per share and net tangible asset value per share

NAV per share is calculated by dividing the equity of the group by the number of shares in issue at year-end adjusted for treasury shares held.

Net tangible asset value per share is calculated by dividing the equity excluding deferred tax of the group by the number of shares in issue at year-end adjusted for treasury shares held.

2.19 Segmental reporting

An operating segment is a component of the group 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 group's other components.

All operating segments' operating results are reviewed regularly by the group's CEO 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 investment property and plant and equipment.

3. RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk.

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

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for the year ended 30 June 2020

Credit risk

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

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 credit worthiness before the group'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.

A loss allowance is recognised for all trade receivables and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The group makes use of a provision matrix to determine the loss allowance, in accordance with the simplified approach of IFRS 9. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward-looking information and general economic conditions of the industry as at the reporting date.

Trade receivables

The ECL is calculated by applying a loss rate to the outstanding balance of the debtor as at the financial year-end date. The portfolio is segmented into the following risk categories and separate loss rates are derived for each category:

- Region (SA/UK)
- Type of debtor (government, large listed, other)
- Arrears status of the debtor
- Where the debtor is in arrears, whether a payment was made in the month immediately preceding the financial year-end, or not.

The loss rate per segment is calculated as the product of the following:

- The probability of default ("PD")
- The loss given default ("LGD").

Probability of default

The definition of default that is used is 90 days, or more, in arrears. This definition is, however, applied carefully to certain cases:

- Certain entities, particularly the SA government, may be slow or irregular payers. A typical arrears or default provision is not necessarily held in such cases
- The terms of payment with certain entities may be such that payments are due less frequently than monthly.

Industry statistics that are publicly available from Moody's regarding historical default behaviour is utilised to estimate 12-month PDs for government entities, large listed corporates and other (SMMEs).

The ECLs on a 12-month and lifetime basis will not differ materially if applied to the trade receivables book. This is due to the short-term nature of the debt, which is one month's rental income.

Loss given default

The LGD assumptions for debtors that are not in default at the valuation date were set as follows:

- For the "Large Listed" sector, industry statistics were directly applied to set the LGD assumption as this is readily available
- For the "Other" sector, the LGD assumption was set at a level that is, in our experience, broadly consistent with past data and market practice on unsecured credit.

The LGD assumptions for debtors in default are set at the same level for those not in default, unless the debtor is material, in which case management applies specific LGD assumptions.

Liquidity risk

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

The group'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 group'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 profit or loss or the value of the holdings 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.

Interest rate risk

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

The group enters into interest rate derivatives to manage borrowing costs.

Foreign currency risk

The group's transactions are predominantly entered into in the respective functional currency of the company and the individual subsidiaries. The company, however, utilises Pound Sterling borrowings and, consequently, is exposed to exchange rate fluctuations that have an impact on cash flows and financing activities. The translation of foreign operations to the presentation currency of Texton Property Fund Limited is not taken into account when considering foreign currency risk.

The group is exposed to currency risk in terms of Great British Pound ("GBP") borrowings and distributions from subsidiaries. The group manages exchange rate risk across all Rand debt facilities and dividend payments through the use of currency derivatives.

The group is not exposed to equity price risk.

Capital risk management

The group's objectives when managing capital are to safeguard the ability of the company and its subsidiaries to continue as going concerns 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 group consists of other financial liabilities and trade and other payables disclosed in notes 16 and 19 and equity as disclosed in the statement of financial position. The group monitors capital on the basis of the gearing ratio. The group considers the equity attributable to shareholders as the permanent capital of the group.

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.

4. FAIR VALUES

A number of the group'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.

The group 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 at each reporting date by the group's capital and investment committee for recommendation to the board and significant valuation issues are reported to the group's audit and risk committee.

Investment property

Independent valuation companies and the directors, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued,

values the group's investment property portfolio annually. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 credit-worthiness, the allocation of maintenance and insurance responsibilities between the group and the lessee, and the remaining economic life of the property.

Trade and other receivables

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

Derivatives

The fair value of interest rate swaps and currency swaps is based on banker quotes.

Non-derivative financial assets and liabilities

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 as 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 as 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 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 carrying amount of trade and other payables approximates the fair value.

Loans to subsidiaries and group entities

The carrying amount of the loans receivable approximates the fair value due to the loans being repayable on demand.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

5. INVESTMENT PROPERTY

	GROUP				
	Cost R'000	Cumulative fair value adjustments R'000	Cumulative straight- line rental adjustment R'000	Cumulative foreign currency adjustment R'000	Carrying amount R'000
30 June 2020					
Investment property	3 302 841	(249 817)	77 548	18 485	3 149 057
30 June 2019					
Investment property	3 725 710	(319 969)	81 358	(195 183)	3 291 916

	30 June 2020 R'000	30 June 2019 R'000
Reconciliation of movement in investment property for the year:		
Balance at beginning of year	3 291 916	4 534 810
Additions	1 706	5 491
Straight-line rental adjustment	(2 719)	(2 360)
Fair value adjustments	(24 443)	(690 671)
Transfer to investment property held for sale	(330 601)	(529 523)
Disposals	(469)	(12 400)
Foreign currency translation reserve	213 667	(13 431)
Balance at end of year	3 149 057	3 291 916

	COMPANY			
	Cost R'000	Cumulative fair value adjustments R'000	Cumulative straight- line rental adjustment R'000	Carrying amount R'000
30 June 2020				
Investment property	1 636 373	(166 436)	41 464	1 511 401
30 June 2019				
Investment property	1 696 731	(171 904)	48 573	1 573 400

	30 June 2020 R'000	30 June 2019 R'000
Reconciliation of movement in investment property for the year:		
Balance at beginning of year	1 573 400	2 133 950
Additions	–	3 173
Disposals	(469)	–
Straight-line rental adjustment	(6 052)	(2 687)
Fair value adjustments	322	(421 036)
Transfer to investment property held for sale	(55 800)	(140 000)
Balance at end of year	1 511 401	1 573 400

A register of investment property is maintained. The register is maintained at the company's registered offices and is available for viewing.

The fair value measurement for investment properties is categorised as level 3 under the fair value hierarchy based on the inputs to the valuation techniques used. There has been no movements to and from level 3 during the year.

5. INVESTMENT PROPERTY CONTINUED

The group's policy is to have at least one-third of its properties to be externally valued by an independent valuer each year and the remaining properties valued internally by the directors of the company using methodology that is similar to that used by the independent valuers.

Investment property and property held for sale amounting to R3,7 billion (2019: R3,4 billion) has been pledged as security in respect of the loans disclosed in note 16. The below table sets out the number of properties that have been selected by the directors to be externally valued as at 30 June 2020.

	% of portfolio	30 June 2020 R'000	30 June 2019 R'000
SA internally valued	37,4	934 700	977 100
SA externally valued	49,5	1 234 800	1 213 000
SA properties held for sale	13,1	326 492	373 900
Total SA properties	100	2 495 992	2 564 000
UK internally valued	46,9	587 907	492 673
UK externally valued	31,2	391 650	324 280
UK properties held for sale	21,9	274 801	202 723
Total UK properties	100	1 254 358	1 019 676
Total properties internally valued	40,5	1 522 607	1 469 773
Total properties externally valued	43,3	1 626 450	1 537 280
Total properties held for sale*	16,2	601 293	529 523
Total properties	100	3 750 350	3 536 576

* Refer to note 12.

The property valuations determine the current market value for the properties as maybe achieved on the market after due consideration of all market forces. Three of the properties included in held for sale were externally valued. Therefore a total of 13 properties, were externally valued.

COVID-19 material valuation uncertainty relating to the valuation of investment property held in South Africa and the United Kingdom

The outbreak of the COVID-19, declared by the WHO as a global pandemic on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our external valuations have been reported on the basis of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global. Similarly our internal valuations have followed the same conservative approach. The result of COVID-19 has meant less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the valuations, management has taken the approach to use conservative assumptions around market rental, market rental growth rates, capitalisation rate, exit capitalisation rate and discount rates.

Details of SA valuations

Details of the external independent valuers are as follows:

Peter Parfitt (Dip Val, MIV SA, RICS) of Quadrant Properties Proprietary Limited, who are independent and members of the South African Institute of Valuers, independently valued seven properties in the SA portfolio as at 30 June 2020.

Theunis Behrens (NDip Val) of Real Insight Proprietary Limited, who are independent and a member of the South African Institute of Valuers, independently valued three properties in the SA portfolio.

Valuation technique

The fair value of each property is determined by calculating its net present value by discounting forecasted future net cash flows and a residual value at the end of the cash flow projection period by the discount rate of each property. The discount rate used to determine the fair value of each property is assessed with reference to observable inputs. The capitalisation rate is dependent on a number of factors including location, asset class, market conditions and the risk inherent in the property.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

5. INVESTMENT PROPERTY CONTINUED

Significant unobservable inputs

Financial information used to calculate forecast net income – e.g., future growth in revenue, exit capitalisation rates and discount rates. These are further explained below.

	30 June 2020 %	30 June 2019 %
1) Discount rates used are included below:		
Sector		
Office	14,8 – 16,8	14,5 – 17,0
Industrial	15,8	14,5 – 16,8
Retail	14,8 – 16,0	15,3 – 15,5
2) Exit cap rates for year five used are included below:		
Sector		
Office	9,8 – 12,5	9,3 – 12,0
Industrial	11,0 – 11,3	10,0 – 11,0
Retail	10,0 – 10,8	10,0 – 10,5
3) The future revenue growth rate for the five-year projection is included below:		
Sector		
Office	2,0 – 5,5	4,0 – 6,0
Industrial	5,0 – 5,5	5,0 – 5,5
Retail	4,0 – 5,0	5,5

Inter-relationship between key unobservable inputs and fair value measurements

All other factors being equal, higher net operating income would lead to an increase in the valuation of an investment property and an increase in the capitalisation rate or discount rate would result in a lower valuation and vice versa.

Higher assumptions for rental rates and lower assumptions for operating costs, would result in an increase in projected net operating income, and thus an increase in valuation.

	30 June 2020 R'000	30 June 2019 R'000
Sensitivity analysis to exit capitalisation rates		
Exit capitalisation rate increases by 1%	(112 853)	(126 362)
Exit capitalisation rate decreases by 1%	131 098	152 189
Sensitivity analysis to discount rates		
Discount rate increases by 1%	(83 458)	(83 271)
Discount rate decreases by 1%	80 845	86 553
Sensitivity analysis to market rentals		
Market rental decreases by 1%	(19 407)	(23 804)
Market rental increases by 1%	19 648	23 780

5. INVESTMENT PROPERTY CONTINUED

Details of valuation – United Kingdom

Details of the external independent valuers are as follows:

On the UK portfolio, three properties have been valued by independent external valuers of which one is classified under investment property and two under investment property held for sale.

All external valuers are Registered Valuers of The Royal Institution of Chartered Surveyors ("RICS"), in the UK.

The valuation has been carried out in accordance with the current edition of the RICS Valuation – Professional Standards, published by The Royal Institution of Chartered Surveyors (the Red Book).

The external valuations were carried out by:

- Savills (UK) Limited
- CBRE Limited
- Allsop LLP.

Valuation techniques

The property valuations were prepared based on the equivalent yield or income capitalisation method whereby the fair value of property is determined by applying an equivalent yield to a market-related rental into perpetuity.

Significant unobservable inputs

	30 June 2020 %	30 June 2019 %
1) Equivalent yields used are included below:		
Sector		
Office	6,0 – 8,6	8,0 – 8,3
Industrial	6,4 – 7,0	5,8 – 7,4
Retail	6,5 – 8,8	6,9 – 9,3

	30 June 2020 R'000	30 June 2019 R'000
2) Annual market rentals per square feet used are included below:		
Sector		
Office	9 129,2 – 18 552,0	7 109,2 – 15 366,3
Industrial	2 851,5 – 26 264,0	2 632,4 – 22 502,2
Retail	278,7 – 10 312,6	312,3 – 8 854,3

Inter-relationship between key unobservable inputs and fair value measurements

All other factors being equal, higher net operating income would lead to an increase in the valuation of an investment property and an increase in the capitalisation rate or discount rate would result in a lower valuation and vice versa.

Higher assumptions for rental rates and lower assumptions for operating costs, would result in an increase in projected net operating income, and thus an increase in valuation.

	30 June 2020 R'000	30 June 2019 R'000
Sensitivity analysis to exit capitalisation rates		
Equivalent yield increases by 1%	(155,154)	(131,677)
Equivalent yield rate decreases by 1%	209,167	178,934
Sensitivity analysis to market rentals		
Market rental decreases by 1%	(6,241)	(5,717)
Market rental increases by 1%	6,241	5,807

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

6. PLANT AND EQUIPMENT

	30 June 2020		
	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
GROUP			
Equipment	9 730	(6 641)	3 089
Furniture and fixtures	41	(27)	14
Computer equipment	338	(205)	133
	10 109	(6 873)	3 236
COMPANY			
Equipment	3 856	(2 475)	1 381
Furniture and fixtures	15	(1)	14
Computer equipment	328	(199)	129
	4 199	(2 675)	1 524

	30 June 2019		
	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
GROUP			
Equipment	7 607	(5 856)	1 751
Furniture and fixtures	26	(25)	1
Computer equipment	310	(151)	159
Computer software	522	(522)	–
	8 465	(6 554)	1 911
COMPANY			
Equipment	3 039	(2 162)	877
Computer equipment	300	(148)	152
Computer software	419	(419)	–
	3 758	(2 729)	1 029

6. PLANT AND EQUIPMENT CONTINUED

Reconciliation of movement in carrying amount of plant and equipment

	GROUP				
	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing carrying amount R'000
2020					
Equipment	1 751	2 123	–	(785)	3 089
Furniture and fixtures	1	15	–	(2)	14
Computer equipment	159	28	–	(54)	133
Computer software	–	–	–	–	–
	1 911	2 166	–	(841)	3 236
2019					
Equipment	1 476	871	–	(596)	1 751
Furniture and fixtures	2	–	–	(1)	1
Computer equipment	196	39	(11)	(65)	159
Computer software	177	–	(165)	(12)	–
	1 851	910	(176)	(674)	1 911

	COMPANY				
	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing carrying amount R'000
2020					
Equipment	877	817	–	(313)	1 381
Furniture and fixtures	–	15	–	(1)	14
Computer equipment	152	28	–	(51)	129
	1 029	860	–	(365)	1 524
2019					
Equipment	662	434	–	(219)	877
Computer equipment	186	39	(11)	(62)	152
Computer software	177	–	(164)	(13)	–
	1 025	473	(175)	(294)	1 029

7. TENANT INSTALLATION

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Cost	22 357	34 397	18 981	17 342
Accumulated depreciation	(16 268)	(22 949)	(15 046)	(11 137)
Carrying amount	6 089	11 448	3 935	6 205
Opening carrying amount	11 448	11 908	6 205	8 698
Additions	3 265	4 754	1 640	1 232
Depreciation	(8 624)	(5 214)	(3 910)	(3 725)
Closing carrying amount	6 089	11 448	3 935	6 205

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for the year ended 30 June 2020

8. OTHER NON-CURRENT ASSETS

Other non-current assets consist of commissions raised on property transactions.

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Commissions capitalised	6 278	9 125	3 828	4 956
Loan to Huawei*	–	664	–	664
	6 278	9 789	3 828	5 620
Opening carrying amount	9 789	19 370	5 620	15 647
Additions	3 613	5 751	2 434	3 169
Forfeiture of Equites acquisition deposit and costs paid	–	(10 543)	–	(10 543)
Repayment of loan to Huawei	–	(332)	–	(332)
Amortisation of letting commission	(7 124)	(4 457)	(4 226)	(2 321)
Closing carrying amount	6 278	9 789	3 828	5 620

* The loan to Huawei bears interest at prime plus 2% and matures in July 2020. As the loan is due in the next 12 months, the loan has been included under trade and other receivables in the current year. Refer to note 11.

9. OTHER FINANCIAL ASSETS

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Cross-currency interest rate swaps	–	57 488	–	57 488

The group has entered into cross-currency interest rate swaps with Investec Bank plc, whereby it receives fixed interest on its Rand-based currency amount and pays floating interest on its GBP-based currency amount. The cross-currency interest rate swap is "out of the money" as at 30 June 2020 and has been classified under other financial liabilities. Refer to note 16.

10. RESTRICTED CASH

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Restricted cash balances are as follows:				
Current portion	–	12 782	–	–
Closing balance	–	12 782	–	–

Restricted cash relates to prepaid rental for Tesco Chobe. The property was sold on 8 July 2019 and the restricted cash was released to Texton.

11. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Trade receivables	41 178	10 937	17 094	2 723
Tenant recovery accounts	18 284	11 675	9 190	7 118
Deposits	6 107	6 277	4 323	4 206
Other receivables	447	12 088	306	3 290
Allowance for impairment	(35 162)	(7 567)	(19 488)	(1 631)
	30 854	33 410	11 425	15 706
Prepayments	8 134	7 890	1 453	1 924
Accrued interest	5 234	2 620	5 063	2 620
	44 222	43 920	17 941	20 250

Exposure to credit risk

Trade and other receivables inherently expose the group to credit risk. The policies and procedures adopted by the group to manage credit risk arising from trade and other receivables are disclosed in note 3 Risk management. During the current year, the group's credit risk policies have been strengthened in order to deal with the current economy and the impact of COVID-19.

The ECL allowance is recognised for all trade receivables and is monitored at the end of each reporting period.

In addition to the loss allowance, trade and other receivables and tenant recovery accounts are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The group makes use of a provision matrix to determine the loss allowance, in accordance with the simplified approach of IFRS 9 as presented on [pages 104 to 107](#). The provision matrix has been developed by making use of forward-looking information and general economic conditions of the industry as at the reporting date. The group incorporated future property growth percentages in addition to the respective credit ratings (at reporting date) of trade and other receivables to the ECL calculation as the forward-looking factors in the ECL calculations.

The definition of default that is used is 90 days, or more, in arrears. The definition is, however, applied carefully to certain cases:

- Certain entities, particularly the SA government, may be slow or irregular payers. A typical arrears or default provision is not necessarily held in such cases
- The terms of payments with certain entities may be such that payments are due less frequently than monthly.

Collateral relating to bank guarantees and deposits from tenants were considered in the determination of the ECL.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

11. TRADE AND OTHER RECEIVABLES CONTINUED

Exposure to credit risk continued

Even though the customer base is widespread, management monitors the tenant credit risk by grouping them according to their credit characteristics. The collective basis was used when considering impairment and trade receivables were grouped as follows: government, large listed and other. The provision for credit losses is therefore based on the accounts receivable age analysis along these risk groupings. The loss allowance provision is determined as follows:

Tenant class	30 June 2020				
	GROUP				
	Current R'000	30 days R'000	60 days R'000	>90 days R'000	Total R'000
Government					
– Gross carrying amount	7 926	–	–	154	8 080
– Loss allowance (%)	–	–	–	0,04	–
– Credit loss allowance	–	–	–	–	–
Net amount	7 926	–	–	154	8 080
Large listed					
– Gross carrying amount	21	3 795	–	228	4 044
– Loss allowance (%)	–	0,03	–	70,18	3,98
– Credit loss allowance	–	(1)	–	(160)	(161)
Net amount	21	3 794	–	68	3 883
Other					
– Gross carrying amount	13 639	5 420	2 253	32 580	53 892
– Loss allowance (%)	35,59	81,38	81,58	73,35	64,95
– Credit loss allowance	(4 853)	(4 411)	(1 838)	(23 899)	(35 001)
Net amount	8 786	1 009	415	8 681	18 891
Total trade and other receivables					
– Gross carrying amount	21 586	9 215	2 253	32 962	66 016
– Loss allowance (%)	22,49	47,88	81,60	72,99	53,26
– Credit loss allowance	(4 853)	(4 412)	(1 838)	(24 059)	(35 162)
Net amount	16 773	4 803	415	8 903	30 854

11. TRADE AND OTHER RECEIVABLES CONTINUED

Exposure to credit risk continued

Tenant class	30 June 2020				
	COMPANY				
	Current R'000	30 days R'000	60 days R'000	>90 days R'000	Total R'000
Government					
– Gross carrying amount	5 922	–	–	154	6 077
– Loss allowance (%)	–	–	–	–	–
– Credit loss allowance	–	–	–	–	–
Net amount	5 922	–	–	154	6 077
Large listed					
– Gross carrying amount	–	–	–	228	228
– Loss allowance (%)	–	–	–	70,00	70,00
– Credit loss allowance	–	–	–	(160)	(160)
Net amount	–	–	–	68	68
Other					
– Gross carrying amount	7 733	568	1 085	15 222	24 608
– Loss allowance (%)	77,57	50,31	81,57	79,87	78,50
– Credit loss allowance	(5 999)	(286)	(885)	(12 158)	(19 328)
Net amount	1 734	282	200	3 065	5 320
Total trade and other receivables					
– Gross carrying amount	13 655	568	1 085	15 605	30 913
– Loss allowance (%)	43,93	50,31	81,60	78,94	63,04
– Credit loss allowance	(5 999)	(286)	(885)	(12 318)	(19 488)
Net amount	7 656	282	200	3 287	11 425

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

11. TRADE AND OTHER RECEIVABLES CONTINUED

Exposure to credit risk continued

30 June 2019					
Tenant class	GROUP*				
	Current R'000	30 days R'000	60 days R'000	>90 days R'000	Total R'000
Government					
– Gross carrying amount	2 007	–	–	155	2 162
– Loss allowance (%)	–	–	–	29,68	2,14
– Credit loss allowance	–	–	–	(46)	(46)
Net amount	2 007	–	–	109	2 116
Large listed					
– Gross carrying amount	6 384	87	–	–	6 471
– Loss allowance (%)	–	1,15	–	–	0,02
– Credit loss allowance	–	(1)	–	–	(1)
Net amount	6 384	86	–	–	6 470
Other					
– Gross carrying amount	22 622	672	98	8 952	32 344
– Loss allowance (%)	–	17,56	18,37	82,47	23,25
– Credit loss allowance	(1)	(118)	(18)	(7 383)	(7 520)
Net amount	22 621	554	80	1 569	24 824
Total trade and other receivables					
– Gross carrying amount	31 013	759	98	9 107	40 977
– Loss allowance (%)	–	15,68	18,37	81,57	18,47
– Credit loss allowance	(1)	(119)	(18)	(7 429)	(7 567)
Net amount	31 012	640	80	1 678	33 410

* The gross carrying amount in the table has been updated to tie into the note.

11. TRADE AND OTHER RECEIVABLES CONTINUED

Exposure to credit risk continued

30 June 2019					
Tenant class	COMPANY*				
	Current R'000	30 days R'000	60 days R'000	>90 days R'000	Total R'000
Government					
– Gross carrying amount	4 215	–	–	155	4 370
– Loss allowance (%)	–	–	–	29,08	1,05
– Credit loss allowance	–	–	–	(46)	(46)
Net amount	4 215	–	–	109	4 324
Large listed					
– Gross carrying amount	–	–	–	–	–
– Loss allowance (%)	–	–	–	–	–
– Credit loss allowance	–	–	–	–	–
Net amount	–	–	–	–	–
Other					
– Gross carrying amount	10 545	24	66	2 332	12 967
– Loss allowance (%)	–	100	83,33	64,58	12,22
– Credit loss allowance	–	(24)	(55)	(1 506)	(1 585)
Net amount	10 545	–	11	826	11 382
Total trade and other receivables					
– Gross carrying amount	14 760	24	66	2 487	17 337
– Loss allowance (%)	–	100	83,33	62,41	9,41
– Credit loss allowance	–	(24)	(55)	(1 552)	(1 631)
Net amount	14 760	–	11	935	15 706

* The gross carrying amount in the table has been updated to tie into the note.

Reconciliation of credit loss allowance

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Opening balance	(7 567)	(9 072)	(1 631)	(1 805)
Adjustments on adoption of IFRS 9	–	98	–	441
Amounts written off	–	2 111	–	865
Loss allowances on new trade receivables	(27 595)	(1 603)	(17 857)	(1 132)
Reversal of allowances	–	899	–	–
Closing balance	(35 162)	(7 567)	(19 488)	(1 631)

Gross trade receivables increased by an amount of R30,2 million at a group level and R14,3 million at a company level compared to 2019, largely as a result of the current economic conditions and the COVID-19 pandemic, which has put pressure on tenants and their ability to fully service their debt. Post level 4 of the lockdown in SA, we are starting to see improvements in tenants ability to pay.

Management has included a 20% overlay on the ECL provision to cater for the expected impact of the current COVID-19 pandemic. The overlay has been applied to the balance of tenants not impaired based on the credit ratings and default rates used.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

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11. TRADE AND OTHER RECEIVABLES CONTINUED

The impact of COVID-19 on trade and other receivables has resulted in an increase in the ECL provision by R7,9 million. The impact of the changes in the rate of the overlay used are reflected in the table below:

Tenant class	5% increase		10% increase	
	Recognised COVID-19 R'000	R'000	R'000	R'000
20% overlay applied to ECL	7 931	397	793	

Sensitivity analysis

Movements in the PD rates used would have the following impact on the ECL provision:

	R'000
– PD rates increase by 10%	2 029
– PD rates decrease by 10%	(2 029)

Movements in the LGD rates used would have the following impact on the ECL provision:

	R'000
– LGD rates increase by 10%	2 029
– LGD rates decrease by 10%	(2 029)

12. INVESTMENT PROPERTY CLASSIFIED AS HELD FOR SALE

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Opening balance	529 523	272 156	140 000	–
Transferred from investment property	330 601	529 523	55 800	140 000
Fair value adjustments	(45 608)	–	(21 900)	–
Foreign currency translation reserve	(2 766)	–	–	–
Loss on disposal of property	(1 529)	–	–	–
Proceeds on disposals	(208 928)	(272 156)	–	–
Closing balance	601 293	529 523	173 900	140 000
Breakdown of closing balance				
Cost	734 992	657 158	251 905	192 017
Cumulative straight-line adjustment	3 825	2 798	1 673	615
Cumulative fair value adjustment	(137 524)	(130 433)	(79 678)	(52 632)
Closing balance	601 293	529 523	173 900	140 000

The items classified as held for sale comprise investment properties. The items were classified as held for sale as a disposal strategy was identified prior to year-end and it is expected that the transfer of the assets will be concluded in the 2021 financial year-end.

These disposals are in line with the group's strategy of reducing the non-core portfolio of assets and in terms of improving the overall balance sheet strength.

Management has assessed the assets that were previously held for sale but not yet sold. These assets still meet the requirements of IFRS 5 and the sale of these assets are expected to conclude in the next 12 months.

Fair value losses of R45,6 million (2019: R148,0 million) and R24,6 million (2019: R53,7million), respectively, for the group and company were included in profit or loss for the year.

Assets of R326,5 million are included in the SA segment and R274,8 million in the UK segment.

13. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Cash and cash equivalents comprise:				
Bank balances	142 191	323 985	46 936	276 298

All cash reserves are placed with reputable financial institutions. The bank's credit ratings are shown below which have an estimated potential default rating of zero, therefore ECL of Rnil was raised.

Absa	Ba1 (Moody's Investor Services)
Standard Bank	Ba1 (Moody's Investor Services)
Investec	Baa3 (Moody's Investor Services)
HSBC	Aa3 (Moody's Investor Services)
Santander UK PLC	Aa3 (Moody's Investor Services)
Investec UK	Baa1 (Moody's Investor Services)
Butterfields	A3 (Moody's Investor Services)

14. SHARE CAPITAL

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Authorised				
2 000 000 000 (2019: 2 000 000 000) ordinary shares of no par value				
Issued				
376 066 766 (2019: 376 066 766) ordinary shares of no par value	3 098 489	3 098 489	3 098 489	3 098 489
10 428 348 (2019: 10 428 348) shares issued to the share incentive scheme	(100 000)	(100 000)	–	–
	2 998 489	2 998 489	3 098 489	3 098 489
16 243 865 (2019: 16 243 865) treasury shares of no par value	(156 016)	(156 016)	–	–
	2 842 473	2 842 473	3 098 489	3 098 489
Treasury shares				
10 428 348 (2019: 10 428 348) shares were issued to the Employee Share Scheme at an average cost of R11,31 per share and these have been accounted for as treasury shares.				
16 243 865 (2019: 16 243 865) shares are held in Discus House Proprietary Limited as treasury shares.				
Share capital				
Ordinary shares of no par value				
Opening balance	2 842 473	2 257 206	3 098 489	2 513 222
Plus: Extinguishment of PIC Put Option liability*	–	585 267	–	585 267
Closing balance	2 842 473	2 842 473	3 098 489	3 098 489

* The extinguishment of the PIC Put Option was credited directly to share capital because the initial recognition of the PIC Put Option was recognised in equity.

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14. SHARE CAPITAL CONTINUED

	GROUP		COMPANY	
	Number of shares 30 June 2020	Number of shares 30 June 2019	Number of shares 30 June 2020	Number of shares 30 June 2019
Share reconciliation				
Ordinary shares of no par value				
Opening balance	394 394 553	394 394 553	376 066 766	376 066 766
Less: Treasury shares acquired	–	–	–	–
Closing balance	394 394 553	394 394 553	376 066 766	376 066 766

15. FOREIGN CURRENCY TRANSLATION RESERVES

The FCTR arose from the conversion of Heddon Investment Holdings Limited, Zeya Investment Holdings Limited, Chobe Investment Holdings Limited, Chevelon Investment Holdings Limited, Cheltondale Investment Holdings Limited, Forbesdale Investment Holdings Limited, Onslow Investment Holdings Limited, Ganix Investment Holdings Limited and Malabar Investment Holdings Limited from their functional currency, GBP, to SA Rand on consolidation and from the conversions of the loans to foreign operations where settlement is neither planned nor likely in the foreseeable future, and are considered to form part of the net investment in foreign operations.

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Opening balance	(213 879)	(214 954)
Movement through other comprehensive income	102 241	1 075
Closing balance	(111 638)	(213 879)

The closing exchange rate as at 30 June 2020 was R21,52:£1 (2019: R17,87:£1) and the average exchange rate for the 12 months ended 30 June 2020 was R19,76:£1 (2019: R18,46:£1).

16. OTHER FINANCIAL LIABILITIES

Summary

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Standard Bank Limited (note 16.1)	933 667	1 141 823	933 667	1 141 823
Investec Private Bank Limited (note 16.2)	367 133	328 728	367 133	328 728
Santander Limited (note 16.3)	–	235 359	–	–
HSBC (note 16.4)	696 557	535 301	–	–
	1 997 357	2 241 211	1 300 800	1 470 551
At fair value through profit or loss				
Interest rate swaps	53 301	14 565	48 764	14 966
Cross-currency interest rate swap (note 16.2)	32 164	–	32 164	–
Total swaps	85 465	14 565	80 928	14 966
	2 082 822	2 255 776	1 381 728	1 485 517
Reconciliation of non-current and current portion				
Non-current portion	1 626 382	535 301	929 342	–
Current portion	456 440	1 720 475	452 386	1 485 517
	2 082 822	2 255 776	1 381 728	1 485 517

16.1 Standard Bank Limited

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Carried at amortised cost	935 991	1 142 484	935 991	1 142 484
Less: Redraw portion of facility	–	–	–	–
Standard Bank Limited loan (net)	935 991	1 142 484	935 991	1 142 484
Structuring fees capitalised to loan	(2 324)	(1 221)	(2 324)	(1 221)
Amortisation of structuring fees	–	560	–	560
	933 667	1 141 823	933 667	1 141 823
Amounts to be settled within 12 months included in current liabilities	(85 253)	(371 883)	(85 253)	(371 883)
Amounts reclassified to current liabilities due to covenant breaches condoned after year-end	–	(769 940)	–	(769 940)
	848 414	–	848 414	–
Carried at fair value through profit or loss				
Interest rate swaps	22 129	10 567	22 129	10 567
	22 129	10 567	22 129	10 567

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for the year ended 30 June 2020

16. OTHER FINANCIAL LIABILITIES CONTINUED

16.1 Standard Bank Limited continued

Facility	Maturity date	Variable base rate	Margin %	GROUP		COMPANY	
				30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Rnil (2019: R200 million)	31 January 2020	3m JIBAR	1,80	–	200 818	–	200 818
Rnil (2019: R50,5 million)	31 March 2021	3m JIBAR	1,95	–	50 891	–	50 891
Rnil (2019: R200 million)	30 November 2020	3m JIBAR	1,75	–	200 815	–	200 815
Rnil (2019: R85,3 million)	31 August 2020	3m JIBAR	1,65	–	85 961	–	85 961
Rnil (2019: R140,0 million)	31 August 2020	3m JIBAR	2,00	–	140 119	–	140 119
Rnil (2019: R175,0 million)	31 March 2020	3m JIBAR	1,88	–	172 700	–	172 700
Rnil (2019: R350 million)	31 August 2020	Prime	(1,60)	–	291 180	–	291 180
R80,6 million (2019: Rnil million)	30 June 2021	3m JIBAR	1,95	81 759	–	81 759	–
R149,1 million (2019: Rnil million)	31 December 2021	Prime	(0,60)	149 630	–	149 630	–
R250,7 million (2019: Rnil million)	31 December 2022	3m JIBAR	2,35	251 884	–	251 884	–
R451,6 million (2019: Rnil million)	30 June 2023	3m JIBAR	2,45	452 718	–	452 718	–
				935 991	1 142 484	935 991	1 142 484

Texton has a security SPV, Invula Income RF Proprietary Limited, in which all SA mortgage bonds are registered. Invula then issues guarantees to the various funders. Guarantees relate to groups own liabilities which are already fully disclosed.

The Standard Bank loans are secured by mortgage bonds over land and buildings located in SA with a value of R1 734,2 million (2019: R1 780,7 million). Loan covenants applicable to the Standard Bank facilities are as follows:

- LTV ratio for the group may not exceed 50%
- Group interest cover of a minimum of 2,0 times
- LTV ratio for the Standard Bank facilities may not exceed 65%
- Interest cover ratio for the facility must be a minimum of 2,0 times.

None of the covenants were breached during the year.

During the year, the existing Standard Bank facilities were restructured with extended maturity dates and new terms. In terms of IFRS 9, this resulted in substantial modification the original facilities were derecognised and new liabilities were recognised on the statement of financial position.

Interest rate swaps

	Fixed base rate %	Inception date	Maturity date	GROUP		COMPANY	
				30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Interest rate swap 1	7,40	16 May 2017	16 May 2021	225 000	225 000	225 000	225 000
Interest rate swap 2	7,27	16 May 2017	16 May 2020	–	225 000	–	225 000
Interest rate swap 3	7,19	15 February 2018	2 November 2020	200 000	200 000	200 000	200 000
Interest rate swap 4	7,82	15 February 2018	30 June 2021	270 000	270 000	270 000	270 000
				695 000	920 000	695 000	920 000

16. OTHER FINANCIAL LIABILITIES CONTINUED

16.2 Investec Private Bank Limited

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Carried at amortised cost	366 531	330 040	366 531	330 040
Structuring fees capitalised to loan	(629)	(1 860)	(629)	(1 860)
Amortisation of structuring fees	1 231	548	1 231	548
	367 133	328 728	367 133	328 728
Amounts to be settled within 12 months included in current liabilities	(367 133)	–	(367 133)	–
Amounts reclassified to current liabilities due to covenant breaches condoned after year-end	–	(328 728)	–	(328 728)
	–	–	–	–
Carried at fair value through profit or loss				
Interest rate swaps	26 635	4 399	26 635	4 399
	26 635	4 399	26 635	4 399

				GROUP		COMPANY	
				30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Facility	Maturity date	Variable base rate	Margin %				
R204,6 million (2019: R149 million)*	22 May 2021	3m JIBAR	2,50	204 593	150 679	204 593	150 679
£7,5 million (2019: £10 million)*	22 May 2021	3m LIBOR	3,50	161 938	179 361	161 938	179 361
				366 531	330 040	366 531	330 040

* On 22 May 2020, Texton converted a £2,5 million of this facility to a Rand facility equating R55 million on transaction date. This was done to decrease balance sheet currency risk in the fund.

Texton has a security SPV, Invula Income RF Proprietary Limited, in which all SA mortgage bonds are registered. Invula then issues guarantees to the various funders.

The Investec loan is secured by mortgage bonds over land and buildings located in SA with a value of R755,3 million (2019: R652,5 million).

Loan covenants applicable to the Investec facilities are as follows:

- LTV ratio for the group may not exceed 50%
- Group interest cover of a minimum of 2,0 times
- LTV ratio for the Investec facilities may not exceed 55%.

None of the covenants were breached during the year.

Interest rate swaps

				GROUP		COMPANY	
				30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
	Fixed base rate %	Inception date	Maturity date				
Interest rate swap 1	7,31	15 February 2018	15 February 2022	200 000	200 000	200 000	200 000
Interest rate swap 2	7,23	24 May 2019	24 May 2023	100 000	100 000	100 000	100 000
Interest rate swap 3*	7,39	24 May 2019	24 May 2023	100 000	100 000	100 000	100 000
				400 000	400 000	400 000	400 000

* Two-year forward, effective 24 May 2021.

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for the year ended 30 June 2020

16. OTHER FINANCIAL LIABILITIES CONTINUED

16.2 Investec Private Bank Limited continued

Cross-currency swap

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Cross-currency interest rate swaps	(32 164)	–	(32 164)	–

The market-to-market on the cross-currency interest rate swap was R32,1 million in the current year. In the prior year the cross-currency interest rate swap was "in the money" and included under other financial assets.

	R'000	£'000	We receive %	We pay
2 September 2021	600 000	30 801	11	3m LIBOR +3,18%
27 January 2022*	128 547	7 710	12	3m LIBOR +3,98%

* This swap was closed out during the year.

16.3 Santander UK plc

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Carried at amortised cost	–	236 117	–	–
Structuring fees capitalised to loan	–	(2 389)	–	–
Amortisation of structuring fees	–	1 631	–	–
	–	235 359	–	–
Amounts to be settled within 12 months included in current liabilities	–	235 359	–	–
	–	–	–	–

Facility	Maturity date	Margin %	GROUP		COMPANY	
			30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
£nil (2019: £0,378 million)	27 February 2020	3,66	–	6 762	–	–
£nil (2019: £0,378 million)	27 February 2020	3,61	–	6 762	–	–
£nil (2019: £2,972 million)	27 February 2020	3,61	–	53 105	–	–
£nil (2019: £1,506 million)	27 February 2020	3,61	–	26 916	–	–
£nil (2019: £7,875 million)	27 February 2020	3,61	–	142 572	–	–
			–	236 117	–	–

Following the disposal of Tesco Chobe on 8 July 2019, the proceeds were used to settle R205,6 million of the loan. The facility expired during the year, the facilities were settled with funds obtained from the HSBC refinance. Refer to note 16.4 for details on the refinance.

16. OTHER FINANCIAL LIABILITIES CONTINUED

16.4 HSBC

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Carried at amortised cost	707 024	538 862	–	–
Structuring fees capitalised to loan	(10 467)	(4 906)	–	–
Amortisation of structuring fees	–	1 345	–	–
	696 557	535 301	–	–
Amounts to be settled within 12 months included in current liabilities	(4 054)	–	–	–
	692 503	535 301	–	–
Carried at fair value through profit or loss				
Interest rate swaps	4 537	(401)	–	–
	4 537	(401)	–	–

				GROUP		COMPANY	
				30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Facility	Maturity date	Variable base rate	Margin %				
£nil (2019: £4,2 million)	15 August 2021	3m LIBOR	2,00	–	75 401	–	–
£nil (2019: £10,2 million)	15 August 2021	3m LIBOR	2,00	–	184 276	–	–
£nil (2019: £5,9 million)	15 August 2021	3m LIBOR	2,00	–	106 100	–	–
£nil (2019: £5,1 million)	15 August 2021	3m LIBOR	2,00	–	91 943	–	–
£nil (2019: £4,5 million)	15 August 2021	3m LIBOR	2,00	–	81 142	–	–
£5,5 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	119 109	–	–	–
£10,9 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	235 722	–	–	–
£4,4 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	96 319	–	–	–
£5,2 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	113 277	–	–	–
£4,0 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	88 012	–	–	–
£1,0 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	23 255	–	–	–
£1,5 million (2019: £nil)	23 June 2025	3m LIBOR	2,25	31 330	–	–	–
				707 024	538 862	–	–

During the year, the existing HSBC facilities were restructured with additional funds being obtained with extended maturity dates and new terms. In terms of IFRS 9, this resulted in substantial modification the original facilities were derecognised and new liabilities were recognised on the statement of financial position.

In terms of IFRS 9, the original loans were derecognised at its carrying amount and new loans recognised on the balance sheet. The structuring fee on the previous facility was written off when the new facility was recognised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

16. OTHER FINANCIAL LIABILITIES CONTINUED

16.4 HSBC continued

The HSBC loans are secured by mortgage bonds over land and buildings situated in the UK owned by Texton's subsidiaries to the value of £54,3 million (2019: £50,2 million).

Loan covenants applicable to the HSBC facilities are as follows:

- LTV ratio for the HSBC facilities may not exceed 65%
- Historical interest cover ratio for the facility must be a minimum of 2 times
- Projected interest cover ratio for the facility must be a minimum of 1,75 times.

None of the covenants were breached during the year.

Texton entered into a Guarantee and Indemnity agreement with HSBC with respect to the aforementioned facilities. The total amount recoverable by HSBC from Texton is limited to the aggregate amount realised from the disposal of shares or value of shares of each of the entities.

Interest rate swaps

				GROUP		COMPANY	
	Fixed base rate %	Inception date	Maturity date	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Interest rate swap 1 £10,2million	0,495	12 August 2016	12 August 2021	219 496	188 307	–	–
Interest rate swap 2 £4,2million	0,495	12 August 2016	12 August 2021	90 381	77 538	–	–
Interest rate swap 3 £5,9million	0,495	12 August 2016	12 August 2021	127 179	109 107	–	–
Interest rate swap 4 £5,0million	1,282	30 November 2018	12 August 2021	108 694	93 249	–	–
Interest rate swap 5 £4,5million	1,282	30 November 2018	12 August 2021	95 926	82 295	–	–
				641 676	550 496	–	–

These are the nominal value of the interest rate swaps converted at closing spot rate as at 30 June 2020.

17. LEASE LIABILITY

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Witwatersrand Estates Limited	3 252	3 326	–	–

A lease was entered over the property namely Erf 531, Woodmead extension 5 and Erf 532, Woodmead extension 5. The lease term is over 40 years with the option to renew.

The net carrying amount of the investment property held under this finance lease is R107 million (2019: R111,7 million). The current year interest expense amounted to R0,3million (2019:R0,4 million).

17. LEASE LIABILITY CONTINUED

	<1 year R'000	2 – 5 years R'000	>5 years R'000	Total R'000
Minimum lease rentals payable				
30 June 2020				
Lease payments	472	1 889	5 077	7 438
Finance charges	(387)	(1 478)	(2 321)	(4 186)
Net present values	85	411	2 756	3 252
30 June 2019				
Lease payments				
Finance charges	472	2 361	4 605	7 438
Net present values	(396)	(1 950)	(1 766)	(4 112)
	76	411	2 839	3 326

Refer to note 44, for the adoption and impact of IFRS 16 for the group's leases.

The group has not included the option to renew in the calculation of the lease liability.

18. DEFERRED TAX

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Deferred tax liability	12 754	7 303	3 102	3 102
Deferred tax liability comprises:				
Investment property building allowances	12 754	7 303	3 102	3 102
The movement in deferred tax during the year is as follows:				
Opening balance	7 303	7 303	3 102	3 102
Foreign currency translation movement	20	–	–	–
Recognised in profit or loss	5 431	–	–	–
Closing balance	12 754	7 303	3 102	3 102

With effect from 1 July 2013, Texton was converted to a REIT. Consequently, no deferred tax was raised on the fair value adjustments to investment property. Section 25BB of the Income Tax Act allows for the deduction of the qualifying distribution paid to shareholders, but the deduction is limited to taxable income. To the extent that no tax will be payable in future as a result of the qualifying distribution, no deferred tax was raised on items such as the straight-line lease income adjustment.

Deferred tax recognised on the UK properties is due to change in the tax treatment of capital gains tax. On 4 April 2019, non-resident landlords were subject to capital gains taxation ("CGT").

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for the year ended 30 June 2020

19. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Financial instruments				
Trade and other payables	–	1 430	–	–
Other payables	6 253	1 190	6 251	97
Accrued expenses*	53 553	39 477	23 357	20 482
Deposits received	16 834	15 300	8 329	7 224
Non-financial instruments				
VAT payable	4 893	3 994	2 644	2 536
Income received in advance	26 390	27 238	4 758	5 276
Share appreciation rights scheme (note 43)	–	1 689	–	1 689
	107 923	90 318	45 339	37 304

* Due to the impact of COVID-19, in order to manage cash flows, management utilised extended credit terms with suppliers which resulted in an increase in accrued expenses in the current year.

20. LOANS TO/(FROM) GROUP COMPANIES AND LOAN TO GROUP ENTITY

Credit rating framework and credit loss allowance

In order to determine the credit loss allowances, management determine credit rating grades of each loan. In cases where external ratings are not available, management have determined internal grades as per the following table:

Internal rating grade	Definition
Performing	Low risk of defaults and no amounts are past due.
Doubtful low risk	30 days past due but less than 90 days past due and no history of default or where there is an impairment of the investment of the subsidiary due to a decrease in the fair value of the underlying properties.
Doubtful high risk	30 days past due but less than 90 days past due and has history of default or where there is an impairment of the investment of the subsidiary due to a significant decrease in the fair value of the underlying properties.
In default	90 days or more past due.

All loans made by Texton to its subsidiaries and group entities are classified as measured at amortised cost. The following loans' credit risk was assessed and it was determined that they are performing well, as there has not been a deterioration in credit risk since the loans were originated. Therefore, the ECL allowance was limited to the 12-month ECL. No material ECL was accounted for on these loans:

- Cheltondale Investment Holdings Limited
- Heddon Investment Holdings Limited
- Zeya Investment Holdings Limited
- Chevelon Investment Holdings Limited
- Onslow Investment Holdings Limited
- Forbesdale Investment Holdings Limited
- Ganix Investment Holdings Limited
- Malabar Investment Holdings Limited
- Texton UK Limited
- Investage Properties 183 Proprietary Limited
- Imperial Comm Props Proprietary Limited
- Nungu Trading 88 Proprietary Limited
- Texton Prop Co Proprietary Limited

20. LOANS TO/(FROM) GROUP COMPANIES AND LOAN TO GROUP ENTITY CONTINUED

Credit rating framework and credit loss allowance continued

The following loans were considered as having a significant increase in credit risk and have been categorised in the category "doubtful high risk". Therefore, the ECL allowance recognised during the period was the lifetime ECL:

- Discus House Trading Proprietary Limited
- Texton Property Fund Share Incentive Scheme Trust.

		COMPANY			
		June 2020			June 2019
	Basis of loss allowance	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost R'000	Gross carrying amount R'000
Current assets					
Vunani Property Investment Trust*	12-month ECL	–	–	–	330 698
Cheltondale Investment Holdings Limited**	12-month ECL	134 016	–	134 016	107 322
Forbesdale Investment Holdings Limited**	12-month ECL	31 137	(556)	30 581	42 226
Investage 183 Proprietary Limited*	12-month ECL	127 661	–	127 661	135 377
Onslow Investment Holdings Limited**	12-month ECL	50 966	–	50 966	43 440
Discus House Proprietary Limited*	Lifetime ECL	156 152	(6 844)	149 308	155 842
Chevelon Investment Holdings Limited*	12-month ECL	11 183	–	11 183	31 320
Imperial Comm Props Proprietary Limited*	12-month ECL	44 981	–	44 981	40 976
Chobe Investment Holdings Limited**	12-month ECL	–	–	–	24 036
Nungu Trading 88 Proprietary Limited	12-month ECL	1 201	–	1 201	1 201
Zeya Investment Holdings Limited**	12-month ECL	19 800	–	19 800	18 460
Heddon Investment Holdings Limited**	12-month ECL	14 768	–	14 768	12 699
Texton Property Fund Limited Share Incentive Scheme Trust	Lifetime ECL	115 171	(83 163)	32 008	62 915
Ganix Investment Holdings Limited**	12-month ECL	–	–	–	852
Malabar Investment Holdings Limited**	12-month ECL	7 761	–	7 761	11 847
Texton Propco Proprietary Limited	12-month ECL	45	–	45	16
Texton UK Limited	12-month ECL	1 334	–	1 334	428
		716 176	(90 563)	625 613	1 017 655
Current liabilities					
Sable Place Properties 121 Proprietary Limited*		(1 348)	–	(1 348)	(1 439)
Vunani Property Investment Trust*		–	–	–	(100 922)
Ganix Investment Holdings Limited**		(679)	–	(679)	–
		(2 027)	–	(2 027)	(102 361)
Loans to group entities		115 171	(83 163)	32 008	393 613
Loans to subsidiaries		601 005	(7 400)	593 605	624 042
Loans from subsidiaries		(2 027)	–	(2 027)	(1 439)

* The loans bear no interest and are repayable on demand.

** The loans bear interest at 6,5% and are repayable on demand.

Refer to note 40 for details of which entities are subsidiaries.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

20. LOANS TO/(FROM) GROUP COMPANIES AND LOAN TO GROUP ENTITY CONTINUED

Credit rating framework and credit loss allowance continued

Expected credit losses have been calculated in line with the group's methodology. In determining whether there has been an increase in credit risk of the borrower, the group assesses the financial records of the borrowing entity and their ability to repay the loan. Where that assessment results in an inability to repay the loan, a significant increase in risk is identified and the Expected credit loss calculation in line with life time expected credit losses is applied. The lifetime expected credit loss is effectively the sum of the 10 years expected future loss after factoring in Probability of defaults ("PDs") based on a low, moderate and high scenarios and Loss given defaults "LGDs"). The PD is based on the same 12-month PDs used in Trade Receivables due to the demand feature in the loans receivable. The PD is multiplied by a factor when there is a Significant increase in credit risk on the loan. The LGD used is based on the difference between Total Assets and Total Liabilities. Discount factor used is based on the terms of the loans. The different scenarios used have different probabilities assigned to them as well as their effects on PDs.

Loans to group companies are only written off when a borrower has defaulted on the terms of the loan or has ceased trading and has insufficient funds available to settle the loan.

Where a significant increase in credit risk is identified, the ECL is calculated based on the life time expected credit loss, otherwise a 12 month expected credit loss is determined.

Discount rates used represent the interest rate attributable to the loan as per the requirements of IFRS 9.

Changes in these discount rates do not have a material impact on the expected credit loss calculation.

Reconciliation of credit loss allowances

	Gross carrying amount R'000	12-month ECL R'000	Lifetime ECL (originated not credit impaired) R'000	Total R'000
30 June 2020				
Opening balance	1 127 017	(1)	(109 361)	1 017 655
Loans advanced	27 191	–	–	27 191
Loans repaid	(27 009)	–	–	(27 009)
Interest paid	(25 277)	–	–	(25 277)
Repayment of loan by increased capital contribution/ subscription of shares	(295 900)	–	–	(295 900)
Cession of inter-company loans from Chobe to Texton*	49 348	–	–	49 348
Foreign exchange on translation of foreign loans	70 242	–	–	70 242
Loans previously classified as liabilities that have been settled	(102 361)	–	–	(102 361)
Portion of capital loan waived*	(109 102)	–	–	(109 102)
Write off	–	–	108 318	108 318
Current year allowance	–	1	(89 520)	(89 519)
	714 149	–	(90 563)	623 586
Loans to subsidiaries				593 605
Loans to group entities				32 008
Loans from subsidiaries				(2 027)
				623 586

* Refer to note 47 for the inter-company restructure that was undertaken during the year.

20. LOANS TO/(FROM) GROUP COMPANIES AND LOAN TO GROUP ENTITY CONTINUED

Reconciliation of credit loss allowances continued

	Gross carrying amount R'000	12-month ECL R'000	Lifetime ECL (originated not credit impaired) R'000	Total R'000
30 June 2019				
Opening balance as previously stated	1 279 523	–	–	1 279 523
Adjustments on adoption of IFRS 9	–	(1)	(61 733)	(61 734)
Restated balance	1 279 523	(1)	(61 733)	1 217 789
Loans advanced	77 693	–	–	77 693
Loans repaid	(230 199)	–	–	(230 199)
Impairment allowance	–	–	(47 628)	(47 628)
	1 127 017	(1)	(109 361)	1 017 655

21. INVESTMENT PROPERTY INCOME

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Rental income	420 800	459 896	233 984	240 244
Recoveries of utilities from tenants	101 105	98 129	63 925	61 184
	521 905	558 025	297 909	301 428

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

22. PROPERTY EXPENSES

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Agents commission	125	101	–	–
Bad debts written off	8	2 141	–	865
Cleaning	3 225	3 444	1 796	1 937
Commissions amortised	7 124	4 457	4 226	2 321
Depreciation	9 376	5 783	4 195	3 913
Electricity consumption	57 586	51 135	37 944	33 638
Gardens and landscaping	2 171	2 109	889	869
Insurance	3 963	3 195	1 000	1 112
Levies	7 559	7 321	3 918	3 681
Other municipal charges	7 125	7 869	4 482	5 789
Other property-related expenses*	8 969	9 333	4 498	4 631
Property management fees	12 709	14 701	7 423	8 206
Rates and taxes	36 284	38 852	24 746	27 905
Rental paid**	3 584	4 801	–	–
Repairs and maintenance	4 391	15 655	2 659	6 102
– Recovered from tenants	268	888	48	200
– Not recovered from tenants	4 123	14 767	2 611	5 902
Security	8 695	8 702	3 856	3 769
Valuation costs	1 154	1 513	694	1 130
Water consumption	8 482	9 808	5 858	7 019
Waterproofing	1 250	2 514	383	1 515
	183 780	193 434	108 567	114 402

* Other property-related expenses include consumables, legal and professional fees, lift and air-conditioning contracts among others.

** Included in rental paid are variable lease payments, refer to note 44.

23. OTHER INCOME

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Distribution from subsidiaries and group entities*	–	–	123 955	126 632
Lease cancellation fees	4 363	9 995	802	9 995
Sundry income	352	1 005	55	228
	4 715	11 000	124 812	136 855

* Refer to note 48 for reclassification of distribution from group entity.

24. FINANCE INCOME

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
From investments in financial assets				
Bank and other cash	10 209	8 131	8 865	7 474
Interest received on swaps	75 159	82 126	74 172	80 933
Other	412	278	406	–
From loans to group and other related parties				
Subsidiaries	–	–	18 222	26 087
	85 780	90 535	101 665	114 494

Refer to note 48 for reclassification of distribution from group entity.

25. FINANCE COSTS

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Amortised cost				
Standard Bank Limited (variable)	83 471	94 551	83 072	94 551
Investec Private Bank Limited (variable)	21 993	22 213	21 993	22 213
Santander loan (fixed)	4 020	13 131	–	–
HSBC (variable)	13 281	12 990	–	–
Nedbank (variable)	–	188	–	–
Banks and other*	1 635	3 155	42	366
Amortisation of structuring costs	5 897	4 091	1 344	1 242
Lease liability*	398	405	–	–
Fair value through profit or loss				
Interest rate swaps	10 683	4 093	9 712	3 642
Interest on currency swaps	27 513	29 381	27 513	29 381
	168 891	184 198	143 676	151 395

* Interest on the lease liability was previously included under "Banks and other" is now disclosed separately.

26. FAIR VALUE ADJUSTMENTS

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Investment property	(25 973)	(690 671)	322	(421 211)
Investment property classified as held for sale	(44 079)	(3 030)	(21 900)	–
Loss on disposal of property	(1 529)	–	–	–
Share appreciation rights	1 689	(980)	1 689	(980)
Financial instruments at fair value through profit or loss				
Interest rate swap and foreign exchange contract	(37 305)	(23 039)	(32 638)	(16 396)
Currency swap	(89 652)	18 196	(89 652)	18 196
	(196 849)	(699 524)	(142 179)	(420 391)

Refer to note 48 for reclassification of impairment of investment in subsidiaries.

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for the year ended 30 June 2020

27. CAPITAL EXPENSES

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Costs incurred on PIC Put Option	–	3 807	–	3 807
Costs incurred on unsuccessful business acquisition	–	10 543	–	10 543
	–	14 350	–	14 350

28. INCOME TAX

		GROUP		COMPANY	
	Note	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
South African normal tax expense					
Current year		(59 244)	(21 697)	(63 317)	(1 098)
United Kingdom normal tax expense					
Current year		(5 554)	(8 095)	–	–
Prior year		1 206	–	–	–
Deferred tax					
Current year	18	(5 431)	–	–	–
		(69 023)	(29 792)	(63 317)	(1 098)

	GROUP		COMPANY	
	30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %
Statutory rate	(28,00)	(28,00)	(28,00)	(28,00)
Non-taxable income	(0,01)	–	(37,22)	(4,41)
Non-deductible expenses	80,98	41,77	203,97	42,64
Overprovision prior years	0,55	1,98	–	0,23
Taxable income of group entity	–	–	22,27	1,73
Section 25BB qualifying distribution	–	(12,19)	–	(11,94)
Temporary differences that will be included in future distributions	52,25	0,04	20,08	(0,03)
Capital allowances	(1,79)	–	–	–
Recoupment	–	0,11	9,23	0,02
Assessed loss brought forward	5,64	–	–	–
Income tax differential	2,66	0,80	–	–
Capital gains tax	–	0,83	–	–
Tax rate differential	–	0,51	–	–
	112,28	5,85	190,33	0,23

28. INCOME TAX CONTINUED

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Reconciliation of effective tax rate				
Loss before income tax	(61 478)	(508 146)	(33 266)	(485 790)
Income tax at statutory rate 28%	17 214	142 281	9 315	136 021
Non-taxable income				
Distribution from subsidiaries (foreign)	–	–	7 569	12 224
Share-based payment	–	–	–	–
Distribution from group entity	–	–	4 812	9 198
Non-deductible expenditure				
Revaluation investment property	(6 844)	(193 388)	90	(117 890)
Revaluation of investment property held for sale	(12 770)	–	(6 132)	–
Scrapping of assets	–	(49)	–	(49)
Fair value adjustments on swaps	(35 920)	(1 356)	(34 613)	504
Profit/(loss) on the liquidation of subsidiary	–	(2 532)	–	1 415
ECL on inter-company loans	–	–	(25 065)	(13 335)
Capital expenses	–	(4 018)	–	(4 018)
Professional fees	(2 474)	(972)	(520)	(701)
Interest and penalties	(360)	(375)	(53)	–
Profit/(loss) from joint venture	9 719	(8 841)	9 719	(8 841)
Loss on disposal of property	(428)	–	–	–
Amortisation of structuring fees	(1 144)	(362)	(376)	(348)
SAR Incentive Scheme liability	473	(274)	473	(274)
Leave pay provision	(35)	(90)	(35)	(90)
Impairment of investments	–	–	(11 343)	(63 491)
Change in recognised deductible temporary differences				
Overprovision prior years	(341)	(10 072)	–	(1 098)
Taxable income of group entity	–	–	(7 406)	(8 384)
Section 25BB qualifying distribution	–	61 919	–	58 017
Temporary differences that will be included in future distributions	(31 008)	(209)	(6 681)	140
Recoupment of wear and tear allowances	–	(576)	–	(98)
Recoupment of previously claimed foreign exchange losses	–	–	(3 071)	–
Assessed loss brought forward	(3 470)	–	–	–
Income tax differential	(1 635)	(4 081)	–	–
CGT	–	(4 229)	–	–
CGT differential	–	(2 568)	–	–
	(69 023)	(29 792)	(63 317)	(1 098)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

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28. INCOME TAX CONTINUED

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Income tax paid				
Income tax receivable at beginning of year	1 228	13 745	9 640	1 228
Income tax payable at beginning of year	(9 409)	–	(9 510)	–
Charged to profit or loss	(63 592)	(29 792)	(63 317)	(1 098)
Foreign currency translation difference	(852)	80	–	–
Income tax payable at end of year	28 599	9 409	23 904	9 510
Income tax receivable at end of year	(3 451)	(1 228)	–	(9 640)
	(47 477)	(7 786)	(39 283)	–

29. CASH GENERATED BY OPERATIONS

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Loss before tax	(61 478)	(508 146)	(33 266)	(485 790)
Adjusted for:				
Amortisation and depreciation	16 591	10 345	8 510	6 340
Impairment allowance	27 595	(1 505)	17 857	45 867
Dividends received**	–	–	(123 955)	(126 632)
Profit from joint venture	(34 711)	1 499	(34 711)	1 158
Finance income**	(85 780)	(90 535)	(101 665)	(114 494)
Straight-line adjustment	2 720	2 360	6 052	2 687
Finance costs	168 891	184 198	143 676	151 395
Fair value adjustments*	197 008	698 544	143 868	419 236
Share-based payment expense	(1 689)	980	(1 689)	980
Unrealised foreign exchange loss/(gains)	43 235	2 924	(27 858)	14 735
ECL on loans receivable	–	–	89 519	–
Assets scrapped	–	176	–	175
Forfeiture of equities deposit	–	10 543	–	10 543
Leave pay provision	125	–	125	–
Impairment of investment in joint venture	–	30 077	–	30 418
Non-cash disposals	470	–	470	–
Loss on disposal of investment property	1 529	–	–	–
Impairment of investments*	–	–	40 512	226 757
Cash generated before working capital changes	274 506	341 460	127 445	183 375
Changes in working capital:				
– (Increase)/decrease in trade and other receivables	(26 713)	6 336	(17 642)	(2 407)
– Increase/(decrease) in trade and other payables	15 086	(12 962)	9 026	(8 208)
Cash generated by operations	262 879	334 834	118 829	172 760

* In the prior year, impairment of investments was included under fair value adjustments.

** Refer to note 48 for reclassifications.

30. LIABILITIES ARISING FROM FINANCING ACTIVITIES

	GROUP								
	Non-cash changes								
	1 July 2019 R'000	Cash flows* R'000	Foreign exchange movement R'000	Changes in fair values R'000	Re- finance R'000	Re- classifi- cation R'000	Struc- turing fees amortised R'000	Interest accrual R'000	Total R'000
30 June 2020									
Non-current interest-bearing borrowings	535 301	(409 630)	151 561	–	–	1 257 975	5 708	–	1 540 915
Current interest-bearing borrowings	1 705 909	(1 867)	–	–	–	(1 258 054)	–	10 452	456 440
Assets held to hedge long-term borrowings	14 566	(73)	97	128 286	–	(57 409)	–	–	85 467
Total liabilities from financing activities	2 255 776	(411 570)	151 658	128 286	–	(57 488)	5 708	10 452	2 082 822
30 June 2019									
Non-current interest-bearing borrowings	367 109	(5 821)	(11 545)	–	466 233	(295 026)	4 091	10 260	535 301
Current interest-bearing borrowings	1 886 674	(11 425)	–	–	(466 233)	295 026	–	1 867	1 705 909
Prepaid rent long term	12 758	(12 958)	200	–	–	–	–	–	–
Prepaid rent short term	11 767	(11 951)	184	–	–	–	–	–	–
Assets held to hedge long-term borrowings	(6 286)	(445)	(486)	21 710	–	–	–	73	14 566
Share scheme liability	708	–	–	–	–	(708)	–	–	–
Total liabilities from financing	2 272 730	(42 600)	(11 647)	21 710	–	(708)	4 091	12 200	2 255 776

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30. LIABILITIES ARISING FROM FINANCING ACTIVITIES CONTINUED

	COMPANY								
	Non-cash changes								
	1 July 2019 R'000	Cash flows* R'000	Foreign exchange movement R'000	Changes in fair values R'000	Re- finance R'000	Re- classifi- cation R'000	Struc- turing fees amortised R'000	Interest accrual R'000	Total R'000
30 June 2020									
Non-current interest-bearing borrowings	–	(215 752)	38 164	–	–	1 018 260	1 344	6 398	848 414
Current interest-bearing borrowings	1 470 551	–	–	–	–	(1 018 165)	–	–	452 386
Assets held to hedge long-term borrowings	14 966	(73)	–	123 619	–	(57 583)	–	–	80 929
Total liabilities from financing activities	1 485 517	(215 825)	38 164	123 619	–	(57 488)	1 344	6 398	1 381 729
30 June 2019									
Non-current interest-bearing borrowings	–	(35 997)	(1 804)	–	466 233	(436 214)	1 242	6 540	–
Current interest-bearing borrowings	1 507 169	(6 599)	–	–	(466 233)	436 214	–	–	1 470 551
Assets held to hedge long-term borrowings	177	(445)	–	15 067	–	–	–	167	14 966
Share scheme liability	708	–	–	–	–	(708)	–	–	–
Total liabilities from financing	1 508 054	(43 041)	(1 804)	15 067	–	(708)	1 242	6 707	1 485 517

* Reconciliation of cash flows to cash flow statement:

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Proceeds from other financial liabilities	57 845	426 361	–	249 220
Repayments of other financial liabilities	(457 215)	(468 961)	(209 118)	(292 261)
Payment of prior year interest accrual [#]	(12 200)	–	(6 707)	–
	(411 570)	(42 600)	(215 825)	(43 041)

[#] Included in finance costs paid on the cash flow.

31. DIVIDENDS PAID

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Dividends	(122 952)	(270 921)	(132 338)	(291 602)

32. DIVIDENDS RECEIVED

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Dividends receivable opening balance	–	–	–	–
Dividends from subsidiaries and group entities*	–	–	123 955	126 632
Dividends receivable closing balance	–	–	(58 870)	–
Dividends received	–	–	65 085	126 632

* A portion of these dividends is a dividend in specie.

33. COMMITMENTS

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Operating leases – as lessor (income)				
Minimum lease payments receivable				
– Within one year	426 233	421 022	207 432	205 796
– Second year	385 174	355 670	182 308	157 529
– Third year	353 127	282 558	158 454	126 080
– Fourth year	325 184	250 935	136 005	100 548
– Fifth year	267 947	343 640	93 455	80 256
– Later than five years	886 304	601 261	113 335	137 594
	2 643 969	2 255 116	890 989	807 803
Contractual cash inflows				
– Straight-line rental adjustment	70 419	81 358	41 463	49 188
Future book revenue	2 714 388	2 336 474	932 452	856 991
Operating lease income represents rentals received by the group for its properties. Leases are negotiated for an average term of 3,29 years (2019: 2,86 years) in SA and 9,23 years (2019: 9,9 years) in the UK. Rentals on the properties escalate at an average rate of 5,5% per annum (2019: 4,15%).				
Capital commitments (IAS 40)				
<i>Capital improvements in respect of investment properties:</i>				
Approved and committed	757	3 996	757	3 996
Approved and uncommitted	67 144	–	17 647	–
	67 901	3 996	18 404	3 996
Operating minimum lease payments (IAS 17)				
<i>Operating lease payments represent rentals payable by the company for its office premises:</i>				
Minimum lease payments due as lessee:				
– Within one year	–	–	–	583
– Two to five years	–	–	–	3 697
– Later than five years	–	–	–	843
	–	–	–	5 123
Operating expense commitments (IAS 40)				
<i>Contractual commitments in respect of general maintenance to investment property:</i>				
– Within one year	1 558	577	1 558	167
– Two to five years	–	–	–	–
– Later than five years	–	–	–	–
	1 558	577	1 558	167

Texton is on a month-to-month lease with Investage 183 Proprietary Limited for the lease of its head office space.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

34. RELATED PARTIES

Subsidiaries comprise:

Refer to note 40 for the list of subsidiaries of Texton.

Group entities comprise:

Vunani Property Investment Trust

Texton Property Fund Limited Share Incentive Scheme Trust

Investment in joint ventures comprise:

Inception (Reading) S.à.r.l (50%)

Related through common shareholding/directorship or affiliated with related parties:

Oak Tech Trading Proprietary Limited

Inter-company transactions

	Loans* R'000	Interest received R'000	Distributions R'000	Distribution receivables R'000	Rent paid R'000
30 June 2020					
Discus House Proprietary Limited	149 308	–	24 024	7 048	–
Imperial Comm Props Proprietary Limited	44 981	–	13 013	2 852	–
Investage 183 Proprietary Limited	127 661	–	30 774	16 895	320
Nungu Trading 88 Proprietary Limited	1 201	–	7 905	1 022	–
Sable Place Properties Proprietary Limited	(1 348)	–	–	–	–
Heddon Investment Holdings Limited	14 768	658	107	107	–
Zeya Investment Holdings Limited	19 800	1 193	1 382	1 382	–
Chobe Investment Holdings Limited	–	1 466	–	–	–
Chevelon Investment Holdings Limited	11 183	3 290	3 765	3 765	–
Onslow Investment Holdings Limited	50 966	2 279	3 718	3 718	–
Cheltondale Investment Holdings Limited	134 016	5 602	6 099	6 099	–
Forbesdale Investment Holdings Limited	30 581	3 150	4 256	4 256	–
Ganix Investment Holdings Limited	(679)	27	1 967	1 967	–
Malabar Investment Holdings Limited	7 761	557	5 739	5 739	–
Texton Propco Proprietary Limited	45	–	–	–	–
Texton Property UK Limited	1 334	–	–	–	–
	591 578	18 222	102 749	54 850	320
Group entities					
Vunani Property Investment Trust	–	–	17 187	–	440
Texton Property Fund Limited Share Incentive Scheme Trust	32 008	–	4 020	4 020	–
	32 008	–	21 207	4 020	440

* Refer to note 20 for terms and conditions relating to outstanding balances.

34. RELATED PARTIES CONTINUED

Inter-company transactions continued

	Loans*	Interest received	Distributions	Asset management fees
	R'000	R'000	R'000	R'000
30 June 2019				
Discus House Proprietary Limited	155 842	–	22 371	–
Imperial Comm Props Proprietary Limited	40 976	–	8 131	–
Investage 183 Proprietary Limited	135 377	–	14 017	–
Nungu Trading 88 Proprietary Limited	1 201	–	5 608	–
Sable Place Properties 121 Proprietary Limited	(1 439)	–	–	–
Gladstone Investment Holdings Limited	–	2 233	–	(3 165)
Heddon Investment Holdings Limited	12 699	843	146	–
Zeya Investment Holdings Limited	18 460	1 529	1 084	–
Chobe Investment Holdings Limited	24 036	1 755	2 976	–
Chevelon Investment Holdings Limited	31 320	4 485	–	–
Onslow Investment Holdings Limited	43 440	2 804	5 662	–
Cheltondale Investment Holdings Limited	107 322	6 928	3 835	–
Forbesdale Investment Holdings Limited	40 226	3 902	6 666	–
Ganix Investment Holdings Limited	852	374	9 131	–
Malabar Investment Holdings Limited	11 847	1 233	14 154	–
Texton Propco Proprietary Limited	16	–	–	–
Texton Property UK Limited	428	–	–	–
	622 603	26 086	93 781	(3 165)
Group entities				
Vunani Property Investment Trust	229 776	32 750	–	–
Texton Property Fund Limited Share Incentive Scheme Trust	62 915	–	–	–
	292 691	32 750	–	–

* Refer to note 20 for terms and conditions relating to outstanding balances.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

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34. RELATED PARTIES CONTINUED

Remuneration paid to directors

	Directors' fee R'000	Salary R'000	Consulting fee R'000	Bonus R'000	Other** R'000	Total R'000
30 June 2020						
Executive directors						
PM Hack [#]	–	163	–	–	–	163
MH Muller [~]	–	2 650	–	–	1 524	4 174
IF Pick [*]	–	1 515	–	–	2 432	3 947
Non-executive directors						
MA Golding (<i>Chairman</i>)	490	–	–	–	–	490
RA Franco	453	–	–	–	–	453
Independent non-executive directors						
AJ Hannington	430	–	–	–	–	430
JR Macey	543	–	–	–	–	543
W van der Vent	120	–	–	–	–	120
S Thomas	291	–	–	–	–	291
Prescribed officer						
HSP Welleman [@]	–	1 147	–	–	–	1 147
	2 327	5 475	–	–	3 956	11 758

[#] Appointed as CFO from 12 June 2020.

[~] Resigned as CEO on 30 June 2020.

^{*} Resigned as CFO on 4 December 2019.

[@] Appointed as interim CFO on 4 December 2019 until 12 June 2020. Appointed as interim CEO on 30 June 2020.

^{**} Payment of severance packages.

	Directors' fee R'000	Salary R'000	Consulting fee R'000	Bonus R'000	Other R'000	Total R'000
30 June 2019						
Executive directors						
NV Balfour	–	975	–	200	–	1 175
MH Muller	123	883	1 638	–	500	3 144
IF Pick	–	2 080	–	122	–	2 202
Non-executive directors						
MA Golding (<i>Chairman</i>)	299	–	–	–	–	299
JA Legh	77	–	–	–	–	77
PD Naidoo	144	–	–	–	–	144
P Ntshahintshali	96	–	–	–	–	96
MJ van Heerden	96	–	–	–	–	96
Independent non-executive directors						
AJ Hannington	187	–	–	–	–	187
JR Macey	371	–	147	–	–	518
S Mia	49	–	–	–	–	49
S Thomas	191	–	–	–	–	191
TMZ Zuma	123	–	–	–	–	123
	1 756	3 938	1 785	322	500	8 301

34. RELATED PARTIES CONTINUED

Directors' holdings

	Direct R'000	Indirect R'000	Total R'000	% holding
30 June 2020				
MA Golding*	–	51 589 091	51 589 091	13,72
AJ Hannington	–	–	–	–
JR Macey	–	31 925	31 925	–
RA Franco*	–	60 267 601	60 267 601	16,03
PM Hack	–	–	–	–
S Thomas	–	–	–	–
Prescribed officer				
HSP Welleman	–	–	–	–
	–	111 888 617	111 888 617	29,8
30 June 2019				
MA Golding	–	64 257 654	64 257 654	17,1
AJ Hannington	–	–	–	–
JR Macey	4 000	26 925	30 925	–
MH Muller	–	750 000	750 000	0,2
IF Pick	23 000	3 260	26 260	–
S Thomas	–	–	–	–
	27 000	65 037 839	65 064 839	17,3

* MA Golding owns 55% and RA Franco owns 45% of Oak Tech.

Oak Tech Trading Proprietary Limited

Oak Tech Trading Proprietary Limited has 84 537 800 ordinary shares pledged as security for 30 months relating to borrowings in the amount of R55,6 million as at 30 June 2020. The shareholders of Oak Tech Trading Proprietary Limited are Kloof Capital South Africa Proprietary Limited and Geomer Investments Proprietary Limited. Robert Franco and Marcel Golding, who are non-executive directors of Texton, are the ultimate shareholders of Kloof Capital South Africa Proprietary Limited and Geomer Investments Proprietary Limited respectively.

During the year, an amount of R232 409 was paid to Oak Tech Trading for consulting fees.

There have been no other changes to the directors' interest between 1 July 2020 and the date on which these annual financial statements were approved.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

35. EARNINGS AND HEADLINE EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share was based on the loss attributable to shareholders of R130,501 million (2019: R537,938 million) and weighted average number of shares outstanding of 349 394 553 (2019: 349 394 553).

Headline earnings per share

The calculation of headline earnings per share was based on the loss (2019: earnings) attributable to shareholders of R81,586 million (2019: R194,317 million) and a weighted average number of shares outstanding of 349 394 553 (2019: 349 394 553).

Diluted basic earnings and diluted headline earnings per share

There were no dilutive instruments in issue at year-end.

Weighted average number of shares in issue

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Shares in issue	376 067	376 067
Treasury shares	(26 672)	(26 672)
Shares in issue at end of the year	349 395	349 395

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Earnings		
Loss attributable to shareholders	(130 501)	(537 938)
Headline earnings		
Loss attributable to shareholders	(130 501)	(537 938)
Gross revaluation of investment property	24 443	690 671
Gross revaluation of investment property held for sale	45 608	–
Gross revaluation of investment property recognised in equity accounted joint venture	(22 665)	11 166
Loss on sale of property held for sale	1 529	–
Impairment of investment in joint venture	–	30 418
Headline earnings attributable to shareholders	(81 586)	194 317
Weighted average number of shares in issue ('000)	349 395	349 395
Basic and diluted earnings per share (cents)	(37,35)	(153,96)
Headline earnings per share (cents)	(23,35)	55,62

36. OPERATING SEGMENTS

The group has two reportable segments based on the geographic split, which are the group's strategic business segments. These two geographic regions are then split between office, retail and industrial sectors within these regions. For each strategic business segment, the group's CEO (the chief operating decision-maker) reviews internal management reports on a monthly basis. Segments are located in SA and the UK. There are no single major customers except the SA national government.

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

	Office R'000	Retail R'000	Industrial R'000	Corporate R'000	Total R'000
30 June 2020					
South Africa					
Investment property income	331 585	62 765	41 235	–	435 584
Straight-line rental adjustment	(5 440)	(1 653)	1 293	–	(5 800)
Segment result	326 144	61 112	42 528	–	429 784
ECL on trade receivables	(20 890)	(5 140)	(1 469)	–	(27 499)
Property expenses	(135 452)	(26 437)	(17 785)	–	(179 674)
Net property income	169 802	29 535	23 274	–	222 611
Other income	2 426	–	1 992	26	4 444
Administrative expenses	(1 587)	(306)	(5)	(23 922)	(25 820)
Operating profit	170 641	29 229	25 261	(23 896)	201 235
Finance income	915	616	285	82 939	84 755
Finance costs	(114)	(1 212)	(6)	(143 625)	(144 957)
Fair value adjustments	(45 326)	(4 247)	(13 870)	(231 234)	(294 677)
Total segment result	126 116	24 386	11 670	(315 816)	(153 644)
Investment property	1 672 701	365 800	131 000	–	2 169 501
Property, plant and equipment	2 709	149	70	296	3 224
Tenant installation	4 089	–	2 000	–	6 089
Other non-current assets	3 545	632	2 101	–	6 278
Trade and other receivables	11 362	5 340	5 265	5 230	27 197
Cash and cash equivalents	40 073	8 244	5 597	30 059	83 973
Non-current assets classified as held for sale	241 692	–	84 800	–	326 492
Income tax receivable	19	–	–	3 243	3 262
	1 976 190	380 165	230 833	38 828	2 626 016
Other financial liabilities	–	–	–	1 381 727	1 381 727
Lease liability	–	3 252	–	–	3 252
Deferred tax	572	1 489	2 140	3 102	7 303
Trade and other payables	43 794	(6 592)	6 741	12 629	56 572
Income tax payable	–	–	–	23 905	23 905
	44 366	(1 851)	8 881	1 421 363	1 472 759

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for the year ended 30 June 2020

36. OPERATING SEGMENTS CONTINUED

	Office R'000	Retail R'000	Industrial R'000	Corporate R'000	Total R'000
30 June 2020					
United Kingdom					
Investment property income	14 827	29 308	42 186	–	86 321
Straight-line rental adjustment	(856)	57	3 879	–	3 080
Segment result	13 971	29 365	46 065	–	89 401
ECL on trade receivables	–	(65)	(31)	–	(96)
Property expenses	(859)	(1 506)	(1 741)	–	(4 106)
Net property income	13 112	27 794	44 293	–	85 199
Other income	26	133	112	–	271
Administrative expenses	(4 656)	(2 450)	(1 154)	(3 942)	(12 202)
Profit from joint venture	–	34 711	–	–	34 711
Foreign exchange losses	–	–	–	(90 732)	(90 732)
Operating profit	8 482	60 188	43 251	(94 674)	17 247
Finance income	7	292	717	9	1 025
Finance costs	(5 896)	(5 344)	(12 694)	–	(23 934)
Fair value adjustments	1 722	114 582	(18 476)	–	97 828
Total segment result	4 315	169 718	12 798	(94 665)	92 166
Investment property	–	256 940	722 616	–	979 556
Property, plant and equipment	–	–	–	12	12
Investment in joint venture	–	252 272	–	–	252 272
Trade and other receivables	209	5 744	11 048	24	17 025
Cash and cash equivalents	9 490	6 478	38 395	3 855	58 218
Non-current assets classified as held for sale	188 724	86 077	–	–	274 801
Income tax receivable	189	–	–	–	189
	198 612	607 511	772 059	3 891	1 582 073
Other financial liabilities	113 263	148 791	439 041	–	701 095
Deferred tax	2 020	737	2 694	–	5 451
Trade and other payables	15 978	14 393	19 971	1 009	51 351
Income tax payable	373	595	3 725	–	4 693
	131 634	164 516	465 431	1 009	762 590

36. OPERATING SEGMENTS CONTINUED

	Office R'000	Retail R'000	Industrial R'000	Corporate R'000	Total R'000
30 June 2020					
Total					
Investment property income	346 411	92 073	83 421	–	521 905
Straight-line rental adjustment	(6 296)	(1 596)	5 172	–	(2 720)
Segment result	340 115	90 477	88 593	–	519 185
ECL on trade receivables	(20 890)	(5 205)	(1 500)	–	(27 595)
Property expenses	(136 311)	(27 943)	(19 526)	–	(183 780)
Net property income	182 914	57 329	67 567	–	307 810
Other income	2 452	133	2 104	26	4 715
Administrative expenses	(6 243)	(2 756)	(1 159)	(27 864)	(38 022)
Profit from joint venture	–	34 711	–	–	34 711
Foreign exchange gains/(losses)	–	–	–	(90 732)	(90 732)
Operating profit	179 123	89 417	68 512	(118 570)	218 482
Finance income	922	908	1 002	82 948	85 780
Finance costs	(6 010)	(6 556)	(12 700)	(143 625)	(168 891)
Fair value adjustments	(43 604)	110 335	(32 346)	(231 234)	(196 849)
Total segment result	130 431	194 104	24 468	(410 481)	(61 478)
Investment property	1 672 701	622 740	853 616	–	3 149 057
Property, plant and equipment	2 709	149	70	308	3 236
Tenant installation	4 089	–	2 000	–	6 089
Investment in joint venture	–	252 272	–	–	252 272
Other non-current assets	3 545	632	2 101	–	6 278
Trade and other receivables	11 571	11 084	16 313	5 254	44 222
Cash and cash equivalents	49 563	14 722	43 992	33 914	142 191
Non-current assets classified as held for sale	430 416	86 077	84 800	–	601 293
Income tax receivable	208	–	–	3 243	3 451
	2 174 802	987 676	1 002 892	42 720	4 208 089
Other financial liabilities	113 263	148 791	437 041	1 381 727	2 082 822
Lease liability	–	3 252	–	–	3 252
Deferred tax	2 592	2 226	4 834	3 102	12 754
Trade and other payables	59 772	7 601	26 712	13 638	107 923
Income tax payable	373	595	3 725	23 905	28 598
	176 000	162 665	474 312	1 422 372	2 235 349

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36. OPERATING SEGMENTS CONTINUED

	Office R'000	Retail R'000	Industrial R'000	Corporate R'000	Total R'000
30 June 2019					
South Africa					
Investment property income	333 566	71 127	42 905	–	447 598
Straight-line rental adjustment	637	(3 591)	(3 035)	–	(5 989)
Segment result	334 203	67 536	39 870	–	441 609
Property expenses	(133 903)	(32 857)	(20 288)	–	(187 048)
Net property income	200 300	34 679	19 582	–	254 561
Other income	8 296	436	1 691	–	10 423
Administrative expenses	(223)	(967)	(634)	(3 537)	(5 361)
Foreign exchange losses	–	–	–	(9 156)	(9 156)
Operating profit	208 373	34 148	20 639	(12 693)	250 467
Finance income	678	383	315	87 814	89 190
Finance costs	(702)	(800)	(974)	(125 180)	(127 656)
Fair value adjustments	(442 202)	(121 382)	(54 434)	50 645	(567 373)
Loss on disposal of subsidiary	–	–	–	(9 041)	(9 041)
Capital items	–	–	–	(14 350)	(14 350)
Total segment result	(233 853)	(87 651)	(34 454)	(22 805)	(378 763)
Investment property	1 718 267	371 700	143 500	–	2 233 467
Property, plant and equipment	1 449	50	70	329	1 898
Tenant installation	10 417	–	1 031	–	11 448
Other non-current assets	6 606	675	2 508	–	9 789
Other financial assets	–	–	–	57 488	57 488
Trade and other receivables	28 046	5 712	4 833	3 687	42 278
Cash and cash equivalents	15 769	4 839	3 522	267 270	291 400
Investment property classified as held for sale	243 500	–	83 300	–	326 800
Income tax receivable	1 977	–	(832)	83	1 228
	2 026 031	382 976	237 932	328 857	2 975 796
Other financial liabilities	–	–	–	1 485 518	1 485 518
Lease liability	–	3 326	–	–	3 326
Deferred tax	5 309	1 489	505	–	7 303
Trade and other payables	44 475	10 070	6 313	(3 011)	57 847
Income tax payable	1 296	1 843	3 052	1 442	7 633
	51 080	16 728	9 870	1 483 949	1 561 627

36. OPERATING SEGMENTS CONTINUED

	Office R'000	Retail R'000	Industrial R'000	Corporate R'000	Total R'000
30 June 2019					
United Kingdom					
Investment property income	44 943	26 793	38 691	–	110 427
Straight-line rental adjustment	(50)	–	3 679	–	3 629
Segment result	44 893	26 793	42 370	–	114 056
Property expenses	(2 123)	(1 377)	(1 381)	–	(4 881)
Net property income	42 770	25 416	40 989	–	109 175
Other income	217	222	138	–	577
Administrative expenses	(2 195)	(2 819)	(2 351)	(21 497)	(28 862)
Loss from joint venture	–	(1 158)	–	–	(1 158)
Foreign exchange gains	–	–	–	8 651	8 651
Operating profit	40 792	21 661	38 776	(12 846)	88 383
Finance income	95	352	873	25	1 345
Finance costs	(17 639)	(18 001)	(20 902)	–	(56 542)
Fair value adjustments	(67 310)	(57 622)	6 877	(14 096)	(132 151)
Impairment of interest in joint venture	–	(30 418)	–	–	(30 418)
Total segment result	(44 062)	(84 028)	25 624	(26 917)	(129 383)
Investment property	170 030	279 166	609 253	–	1 058 449
Property, plant and equipment	–	–	–	13	13
Investment in joint venture	–	206 094	–	–	206 094
Restricted cash	12 782	–	–	–	12 782
Trade and other receivables	259	353	753	277	1 642
Cash and cash equivalents	13 317	5 635	11 713	1 920	32 585
Investment property classified as held for sale	202 723	–	–	–	202 723
	399 111	491 248	621 719	2 210	1 514 288
Other financial liabilities	233 726	199 070	337 462	–	770 258
Trade and other payables	10 579	9 298	12 145	449	32 471
Income tax payable	542	244	990	–	1 776
	244 847	208 612	350 597	449	804 505

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

36. OPERATING SEGMENTS CONTINUED

	Office R'000	Retail R'000	Industrial R'000	Corporate R'000	Total R'000
30 June 2019					
Total					
Investment property income	378 509	97 920	81 596	–	558 025
Straight-line rental adjustment	587	(3 591)	644	–	(2 360)
Segment result	379 096	94 329	82 240	–	555 665
Property expenses	(136 026)	(34 234)	(21 669)	–	(191 929)
Net property income	243 070	60 095	60 571	–	363 736
Other income	8 513	658	1 829	–	11 000
Administrative expenses	(2 418)	(3 786)	(2 985)	(25 034)	(34 223)
Profit/(loss) from joint venture	–	(1 158)	–	–	(1 158)
Foreign exchange losses	–	–	–	(505)	(505)
Operating profit	249 165	55 809	59 415	(25 539)	338 850
Finance income	773	735	1 188	87 839	90 535
Finance costs	(18 341)	(18 801)	(21 876)	(125 180)	(184 198)
Fair value adjustments	(509 512)	(179 004)	(47 557)	36 549	(699 524)
Impairment of interest in joint venture	–	(30 418)	–	–	(30 418)
Loss on disposal of subsidiary	–	–	–	(9 041)	(9 041)
Capital expenses	–	–	–	(14 350)	(14 350)
Total segment result	(277 915)	(171 679)	(8 830)	(49 722)	(508 146)
Investment property	1 888 297	650 866	752 753	–	3 291 916
Property, plant and equipment	1 449	50	70	342	1 911
Tenant installation	10 417	–	1 031	–	11 448
Investment in joint venture	–	206 094	–	–	206 094
Other non-current assets	6 606	675	2 508	–	9 789
Other financial assets	–	–	–	57 488	57 488
Restricted cash	12 782	–	–	–	12 782
Trade and other receivables	28 305	6 065	5 586	3 964	43 920
Cash and cash equivalents	29 086	10 474	15 235	269 190	323 985
Investment property classified as held for sale	446 223	–	83 300	–	529 523
Income tax receivable	1 977	–	(832)	83	1 228
	2 425 142	874 224	859 651	331 067	4 490 084
Other financial liabilities	233 726	199 070	337 462	1 485 518	2 255 776
Lease liability	–	3 326	–	–	3 326
Deferred tax	5 309	1 489	505	–	7 303
Trade and other payables	55 054	19 368	18 458	(2 562)	90 318
Income tax payable	1 838	2 087	4 042	1 442	9 409
	295 927	225 340	360 467	1 484 398	2 366 132

37. RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, interest-bearing liabilities, derivative instruments, amounts due from subsidiaries, group entities and third parties, trade and other receivables and trade and other payables.

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

- Liquidity risk
- Credit risk
- Market risk.

While risk management is the ultimate responsibility of the board of directors, the board has delegated this responsibility to the audit and risk committee which is responsible for developing and monitoring the group's risk management policies.

The group's risk management policies are established to ensure:

- Improved risk management and control
- The efficient allocating of funds to maximise returns
- The maintenance of acceptable levels of risk within the group as a whole
- Efficient liquidity management and control of funding.

The audit and risk committee reviews management's compliance with the group's risk policies and procedures and assesses the adequacy of the risk management framework. The committee reports regularly to the board of directors.

37.1 Classification of financial instruments

The table below sets out the group's accounting classification of each class of financial asset and liability.

	GROUP			
	At amortised cost		Fair value through profit or loss	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Financial assets				
Other non-current assets	–	664	–	–
Other financial assets	–	–	–	57 488
Restricted cash	–	12 782	–	–
Trade and other receivables	66 014	36 030	–	–
Cash and cash equivalents	142 191	323 985	–	–
	208 205	373 461	–	57 488
Financial liabilities				
Other financial liabilities	2 029 521	2 241 211	85 467	14 565
Trade and other payables	76 640	59 086	–	–
	2 106 161	2 300 297	85 467	14 565

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

37. RISK MANAGEMENT CONTINUED

37.1 Classification of financial instruments continued

	COMPANY			
	At amortised cost		Fair value through profit or loss	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Financial assets				
Other non-current assets	–	664	–	–
Other financial assets	–	–	–	57 488
Loans to subsidiaries	593 605	624 042	–	–
Loans to group entities	32 008	393 613	–	–
Trade and other receivables	30 913	18 326	–	–
Cash and cash equivalents	46 936	276 298	–	–
	703 462	1 312 943	–	57 488
Financial liabilities				
Other financial liabilities	1 332 964	1 470 551	80 929	14 966
Loan from subsidiary	2 027	1 439	–	–
Loan from group entity	–	100 922	–	–
Trade and other payables	37 937	29 492	–	–
	1 372 928	1 602 404	80 929	14 966

Financial instruments that are carried at amortised cost, due to the fact that interest is market-related, the amortised cost approximates the fair value.

37.2 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group ensures that it always has adequate funds available and seeks to borrow for as long as possible at the lowest cost. Liquidity requirements are managed by monitoring forecasted cash flows and the maturity profile of financial liabilities.

A maturity analysis of financial liabilities is set out in the table below.

	GROUP			
	Carrying amount R'000	Contractual cash flows R'000	Less than 1 year R'000	2 to 5 years R'000
30 June 2020				
Non-interest-bearing	76 633	76 633	76 633	–
Fixed interest rate instruments	85 467	71 705	(6 881)	78 586
Variable interest rate instruments	2 000 340	2 262 461	554 542	1 707 919
Non-derivative financial liabilities	2 162 440	2 410 799	624 294	1 786 505
30 June 2019				
Non-interest-bearing	59 086	59 086	59 086	–
Fixed interest rate instruments	249 924	259 210	259 210	–
Variable interest rate instruments	2 020 417	2 273 652	513 701	1 759 951
Non-derivative financial liabilities	2 329 427	2 591 948	831 997	1 759 951

37. RISK MANAGEMENT CONTINUED

37.2 Liquidity risk continued

	COMPANY			
	Carrying amount R'000	Contractual cash flows R'000	Less than 1 year R'000	2 to 5 years R'000
30 June 2020				
Non-interest-bearing	37 943	37 943	37 943	–
Fixed interest rate instruments	80 929	65 226	(7 852)	73 077
Variable interest rate instruments	1 303 678	1 468 933	168 770	1 300 163
Non-derivative financial liabilities	1 422 550	1 572 102	198 861	1 373 240
30 June 2019				
Non-interest-bearing	29 492	29 492	29 492	–
Variable interest rate instruments	1 485 517	1 689 233	498 515	1 190 718
Non-derivative financial liabilities	1 515 009	1 718 725	528 007	1 190 718

Impact of COVID-19

Refer to note 38 for the impact of COVID-19.

37.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rate, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising return. The group enters into derivatives and incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the audit and risk committee.

Interest rate risk

The group is exposed to interest rate risk as it borrows funds at variable interest rates.

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Fixed-rate instruments				
Financial assets	–	–	270 286	386 993
Financial liabilities	(85 467)	(249 924)	(80 929)	–
	(85 467)	(249 924)	189 357	386 993
Variable rate instruments				
Financial assets	186 414	367 905	441 932	981 396
Financial liabilities	(1 997 357)	(2 005 852)	(1 300 800)	(1 470 551)
	1 810 944	(1 637 947)	(858 868)	(489 155)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

37. RISK MANAGEMENT CONTINUED

37.3 Market risk continued

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amount shown below. This analysis assumes that all other variables remain constant.

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Effect on equity and profit or loss				
50 bps increase	(9 055)	(8 190)	(4 294)	(2 446)
50 bps decrease	9 055	8 190	4 294	2 446

The group adopts a policy of ensuring that a minimum of 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 of the audit and risk committee. As a consequence, the group 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.

Currency risk

Currency risk related to investments in foreign operations

The group has interests in entities which operate in the UK. A portion of the group's revenue is earned in the UK. The group's policy is to hedge its equity portion of investments in foreign subsidiaries.

Currency risk related to foreign transactions

The group operates predominantly within its own common monetary area and, therefore, the group has no significant currency risk with regard to operational activities. During 2019 and 2018 it was not the group's policy to hedge transactions which are denominated in a currency other than the entity's functional currency, which only occurs with loans for acquisitions in foreign countries.

Currency risk related to foreign currency-denominated loans of the company

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

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

	GROUP		COMPANY	
	30 June 2020 £'000	30 June 2019 £'000	30 June 2020 £'000	30 June 2019 £'000
Foreign loans payable	(7 500)	(10 000)	(7 500)	(10 000)
Foreign loans receivable	–	–	12 560	18 466

The following significant exchange rates applied during the year:

	2020		2019	
	Closing rate R	Average rate R	Closing rate R	Average rate R
GBP	21,52	19,76	17,87	18,46

37. RISK MANAGEMENT CONTINUED

37.3 Market risk continued

Sensitivity analysis

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

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Foreign loans payable	16 140	17 867	16 140	17 867
Foreign loans receivable	–	–	(27 029)	(33 405)

A 10% weakening of the Rand against the GBP as 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.

Impact of COVID-19

As the group enters into derivatives it was able to manage change in the market risk as a result of COVID-19.

37.4 Credit risk

Credit risk is the risk of financial loss to the group if a tenant or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the group's receivables from tenants, loans to subsidiaries, joint ventures and group entities, restricted cash and cash and cash equivalents.

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

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Other financial assets	–	57 488	–	57 488
Trade and other receivables	59 907	36 030	57 642	18 326
Cash and cash equivalents	142 191	323 985	46 936	276 298
Restricted cash	–	12 782	–	–
Other non-current assets	–	664	–	664
Loans to subsidiaries	–	–	593 605	624 042
Loans to group entity	–	–	32 008	393 613
	202 098	430 949	730 191	1 370 431

Impact of COVID-19

Refer to note 11 for the impact of COVID-19 on trade receivables.

COVID-19 had no impact on cash and cash equivalents as the cash is held with financial institutions with high credit ratings.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

37. RISK MANAGEMENT CONTINUED

37.5 Fair values

The carrying value of the assets and liabilities carried at amortised cost approximate fair value.

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

Fair value hierarchy

The group 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 group 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 as at the reporting date which would have been determined by market participants acting at arm's length.

The group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and cross-currency interest rate swaps that use only observable market data and require little 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 and cross-currency 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 the determination of fair values.

Investments at fair value in Level 3 represent 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 (note 4). All fair value adjustments were accounted for in profit or loss.

Cash and cash equivalents are not fair valued and the carrying amounts are 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.

37. RISK MANAGEMENT CONTINUED

37.5 Fair values continued

The tables below analyse financial instruments carried at fair value by valuation method.

Valuation method	GROUP			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 June 2020				
Interest rate swap	–	(53 301)	–	(53 301)
Currency swap	–	(32 164)	–	(32 164)
Investment properties	–	–	3 149 057	3 149 057
Investment property held for sale	–	–	601 293	601 293
30 June 2019				
Interest rate swap	–	(14 565)	–	(14 565)
Currency swap	–	57 488	–	57 488
Investment properties	–	–	3 291 916	3 291 916
Investment property held for sale	–	–	529 523	529 523

	COMPANY			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 June 2020				
Interest rate swap	–	(48 764)	–	(48 764)
Currency swap	–	(32 164)	–	(32 164)
Investment properties	–	–	1 511 401	1 511 401
Investment property held for sale	–	–	173 900	173 900
30 June 2019				
Interest rate swap	–	(14 966)	–	(14 966)
Currency swap	–	57 488	–	57 488
Investment properties	–	–	1 573 400	1 573 400
Investment property held for sale	–	–	140 000	140 000

Impact of COVID-19

Refer to note 5 for the impact of COVID-19 on investment property.

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for the year ended 30 June 2020

38. GOING CONCERN

The group and company has reasonably satisfied the liquidity and solvency test as required by the Companies Act and the directors have satisfied themselves that the company and group are in a sound financial position and that it has access to sufficient facilities to meet its foreseeable cash requirements.

The directors consider that the company and group have adequate resources to continue operating for the foreseeable future and realise its assets and settle its liabilities in the ordinary course of business. As such, it is appropriate to adopt the going concern basis in preparing the consolidated and separate financial statements.

Impact of COVID-19

An outbreak of COVID-19 emerged during 2019 and was declared a global pandemic by the WHO in 2020.

Immediately, Texton took decisive action to preserve cash by actively managing our working capital through the crisis. Texton is mindful that many of our tenants and suppliers are SMMEs and the lifeblood of the SA economy. Texton actively engaged with both our tenants and suppliers, adopting a solutions-oriented mindset in an effort to generate win-win outcomes for all parties.

At the same time, Texton managed expenses by negotiating terms with our suppliers that were mutually beneficial to the sustainability of our business and theirs; and accelerated pre-existing expense-cutting measures and suspended all discretionary spend

Rental collection

In the month post year-end Texton collected over 93% and 97% of rental due in SA and the UK respectively. The collection of rentals and recovery of debt remains a key focus area. Texton has committed additional resources to this given the elevated risk levels in this area and the expected strain consumers may experience in the coming months.

Banking facilities

Texton was able to refinance all debt that expired in the current financial year on favourable terms and tenures. Texton refinanced R932 million of Standard Bank debt in the current year. The new debt was split into four different tranches:

	Rate	Term
Standard Bank tranche A	JIBAR + 1,95%	12 months
Standard Bank tranche B (RCF)	Prime -60bps	18 months
Standard Bank tranche C	JIBAR + 235bps	30 months
Standard Bank tranche D	JIBAR + 245bps	36 months

In the UK, Texton refinanced £1,7 million of debt expiring with Santander with a new five-year facility with HSBC. At the same time, Texton refinanced all its debt with HSBC totalling £32 million on a five-year facility with HSBC at a margin of 2,25% above LIBOR. The margin decreases to 2,10% when the LTV on the portfolio reduces to 55%, which is expected to be completed by December 2020.

Texton is negotiating with its funders regarding the refinancing of its Investec facilities, as per discussions with the bank it is more likely than not, that the facilities will be refinanced next year.

Sale of non-core properties

We identified 14 properties valued at R529,5 million as at 30 June 2019 for disposal. Two of these properties (valued at R209,0 million) were sold and transferred by 30 June 2020. The COVID-19 pandemic resulted in delays in the transfer process due to the closing of municipalities and deeds offices during the last quarter of the financial year. As at 30 June 2020, we identified 16 properties valued at R601,2 million for disposal. Eight of these properties (valued at R154,6 million) have been contracted for and we expect sales to be completed by 31 December 2020.

Conclusion

Notwithstanding the challenges and risks that the COVID-19 pandemic may present, both the group and company are well capitalised with sufficient access to cash resources and borrowing facilities.

The impact of cash flow, solvency and liquidity on going concern has been reviewed in detail on a daily basis post year-end. Cash flow analysis has been performed to stress test the cash flows for 12 months post year-end. This includes a range of scenarios of tenant collections and creditor requirements, and management is positive that the company has sufficient cash resources available for the foreseeable future to meet all obligations as they become due.

The directors consider that the company and group have adequate resources to continue operating for the foreseeable future and realise its assets and settle its liabilities in the ordinary course of business. As such, it is appropriate to adopt the going concern basis in preparing the consolidated and separate financial statements.

39. EVENTS AFTER THE REPORTING DATE

Transfer of investment property

Standard Bank Ladysmith and a portion of Wale Street Chambers that was held for sale as at 30 June 2020, subsequently transferred to the purchasers on 13 August 2020 and 18 September 2020 respectively

Lease cancellation

Texton was notified by the business rescue practitioners of Edcon Limited on 18 September 2020, that Edcon will be cancelling the lease at 12 Laub Street, Edcon Park, effective 1 November 2020.

The board is not aware of any other events that have a material impact on the results or disclosures of the group and which have occurred subsequent to the end of the reporting period.

40. INVESTMENTS IN SUBSIDIARIES AND GROUP ENTITIES

The following table lists the entities which are controlled by the company, either directly or indirectly through subsidiaries.

		Percentage holding		Carrying amount	
		30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %
Incorporation	Place of incorporation				
Subsidiaries					
Discus House Proprietary Limited	South Africa	100	100	29 635	71 534
Imperial Comm Props Proprietary Limited	South Africa	100	100	65 868	67 899
Investage 183 Proprietary Limited	South Africa	53,89	100	38 191	59 684
Nungu Trading 88 Proprietary Limited	South Africa	100	100	48 174	48 174
Sable Place Properties 121 Proprietary Limited	South Africa	100	100	585	585
Texton Propco Proprietary Limited	South Africa	100	100	–	–
Texton Property UK Limited	United Kingdom	100	100	–	–
Chevelon Investment Holdings Limited	United Kingdom	100	100	–	–
Chobe Investment Holdings Limited	United Kingdom	100	100	26 950	135 839
Heddon Investment Holdings Limited	United Kingdom	100	100	1 872	1 872
Zeya Investment Holdings Limited	United Kingdom	100	100	–	11 558
Forbesdale Investment Holdings Limited	United Kingdom	100	100	–	12 967
Onslow Investment Holdings Limited	United Kingdom	100	100	17 074	17 074
Cheltondale Investment Holdings Limited	United Kingdom	100	100	39 294	39 294
Ganix Investment Holdings Limited	United Kingdom	100	100	39 023	39 023
Malabar Investment Holdings Limited	United Kingdom	100	100	11 567	39 487
Controlled entities					
Texton Property Fund Limited Share Incentive Trust*	South Africa				
Vunani Property Investment Trust	South Africa				
				318 233	544 989

* Less than R1 000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

40. INVESTMENTS IN SUBSIDIARIES AND GROUP ENTITIES CONTINUED

	Carrying amount	
	30 June 2020 %	30 June 2019 %
Incorporation		
Increase/(decrease) in investment in subsidiaries	211 885	–
– Heddon Investment Holdings Limited [®]	4 398	–
– Zeya Investment Holdings Limited [®]	17 785	–
– Chevelon Investment Holdings [®]	44 579	–
– Investage 183 Proprietary Limited [#]	194 473	–
– Chobe Investment Holdings Limited [®]	(49 350)	–
Increase in Capital contribution to controlled entities	35 452	–
– Vunani Property Investment Trust [#]	35 452	–
Less: Impairment on investments	(62 909)	(226 757)
– Imperial Comm Props Proprietary Limited	(9 692)	(2 031)
– Discus House Proprietary Limited	(29 635)	(41 899)
– Investage 183 Proprietary Limited	–	(21 493)
– Chevelon Investment Holdings Limited	(570)	–
– Malabar Investment Holdings Limited	(11 566)	(27 919)
– Sable Place Proprietary Limited	–	–
– Heddon Investment Holdings Limited	–	–
– Zeya Investment Holdings Limited	(11 446)	(11 558)
– Chobe Investment Holdings Limited	–	(108 889)
– Forbesdale Investment Holdings Limited	–	(12 967)
Chobe restructure gain [®]	22 397	–
Carrying value	525 058	318 233

[®] Refer to note 47.1 for restructure undertaken during the year.

[#] Refer to note 47.2 for restructure on undertaken day and year.

	Cost R'000	Accum- mulated impairments R'000	Carrying amount R'000
30 June 2020			
Investments in subsidiaries and group entities	940 795	(415 737)	525 058
30 June 2019			
Investments in subsidiaries and group entities	671 061	(352 828)	318 233

40. INVESTMENTS IN SUBSIDIARIES AND GROUP ENTITIES CONTINUED

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Reconciliation of movement in investments during the year		
Balance at the beginning of the year	318 233	616 143
Increase in investment	211 885	–
Increase in capital contribution	35 452	–
Current year impairments	(62 909)	(226 757)
Disposal of investment	–	(71 153)
Restructure gain	22 397	–
	525 058	318 233

The investments are tested annually for impairment. The impairment is calculated by comparing the NAV of each entity (the recoverable amount) to the carrying amount of the investment. The impairments are a result of a decrease in underlying property values in the subsidiaries. The impairment has been accounted for in profit or loss.

The company has no sponsored entities and has no interest in unconsolidated entities.

41. INVESTMENT IN JOINT VENTURE: INCEPTION (READING) S.A.R.L – BROAD STREET MALL

	GROUP AND COMPANY	
	Carrying amount 30 June 2020 R'000	Carrying amount 30 June 2019 R'000
Accumulated cost*	266 188	119
Share of post-acquisition profits/(losses)	24 670	(10 039)
Loan to joint venture reclassified as equity	–	254 600
Impairment of interest in joint venture	(38 586)	(38 586)
	252 272	206 094

The group has a 50% (2019: 50%) interest in Broad Street Mall and Texton exercises joint control. This interest is accounted for using the equity method. The company's principal place of business is in the UK and is a company incorporated in Luxembourg.

* Reconciliation of movement:

	R'000
Opening cost	254 719
Additional investment in joint venture	11 469
	266 188

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

41. INVESTMENT IN JOINT VENTURE: INCEPTION (READING) S.A.R.L – BROAD STREET MALL CONTINUED

Summarised statement of financial position as at 30 June

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Non-current assets	1 527 229	1 159 753	1 527 229	1 159 753
Current assets	68 566	79 767	68 566	79 767
Trade and other receivables	50 831	26 110	50 831	26 110
Prepayments	3 399	7 607	3 399	7 607
Cash and cash equivalents	14 336	46 050	14 336	46 050
Non-current liabilities	(942 694)	(785 274)	(942 694)	(785 274)
Other financial liabilities	(929 488)	(777 378)	(929 488)	(777 378)
Deferred tax	(13 206)	(7 896)	(13 206)	(7 896)
Current liabilities	(43 477)	(42 059)	(43 477)	(42 059)
Net assets excluding shareholder loans (100%)	609 624	412 187	609 624	412 187
Proportionate share of net assets excluding shareholder loans (50%)	304 825	206 094	304 825	206 094
Carrying amount of investment	252 272	206 094	252 272	206 094

This information was extracted from Broad Street Mall's summarised unaudited financial statements for the 12 months ended 30 June 2020.

Summarised statement of comprehensive income for the year ended 30 June

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Revenue	85 198	83 207	85 198	83 207
Depreciation	(735)	(649)	(735)	(649)
Finance costs before amortisation	–	(2 390)	–	(2 390)
Profit before net finance costs	99 505	28 960	99 505	28 960
Finance costs*	(31 432)	(28 173)	(31 432)	(28 173)
Profit before income tax expense	68 073	787	68 073	787
Income tax expense	(1 937)	(3 102)	(1 937)	(3 102)
Loss for the period	66 136	(2 315)	66 136	(2 315)
Other comprehensive income	3 285	–	3 285	–
Total comprehensive income	69 421	(2 315)	69 421	(2 315)
Equity accounted loss (50%)	34 711	(1 158)	34 711	(1 158)

* Excludes interest on shareholder loans.

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

42. SHARE INCENTIVE SCHEME

Texton had historically created a scheme to attract quality employees, retain top performers and align the interests of those running the group with that of its shareholders. The scheme was formed in 2015 on the basis of a discretionary trust ("the Trust") that acquired shares on a 100% geared basis with financial assistance granted by the group. 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 group and are payable to shareholders. The shares are awarded to the employees at cost price.

In total, 10 428 348 shares were issued to the Trust at an average cost of R11,31 per share. These shares will be issued to participants in the share incentive scheme when options granted to them are exercised. The shares are currently reflected as treasury shares.

Due to the share incentive scheme not fulfilling its intended objectives given the significant decline in the share price since 2015. The board voted to wind down the existing share scheme and replace it with a share appreciation rights scheme.

43. SHARE APPRECIATION RIGHTS SCHEME

In November 2017, the board approved a share appreciation rights ("SAR") scheme for Texton to replace the existing scheme which was not meeting the required objectives. This scheme is cash-settled and only employees and executive directors can be participants therein. The object and purpose of the SAR scheme is to grant awards to employees to enable them to acquire the cash equivalent of the growth in Texton shares, so as to retain and motivate employees and align their interests with those of stakeholders through exposure to the benefit in any increased market value in Texton shares upon their realisation of their award and, as a consequence, to benefit from an increase in their personal wealth.

The nominations and remuneration committee set the strike price for the SARs by taking the volume weighted average price for the previous 30 trading days and deducting the present value of distributions. SAR holders are only entitled to exercise their rights if they are in the employment of the group in accordance with the terms referred to hereafter, unless otherwise authorised by the board. The appreciation amount, which is calculated as the number of SARs multiplied by the difference between the market value on settlement date and the strike price, will be settled in cash.

The number and weighted average exercise prices of share appreciation rights are:

	GROUP		COMPANY	
	30 June 2020 Number of options	30 June 2019 Number of options	30 June 2020 Number of options	30 June 2019 Number of options
Beginning of year	714 500	1 925 250	714 500	1 925 250
Granted	–	–	–	–
Forfeited during the year	(714 500)	(1 210 750)	(714 500)	(1 210 750)
End of year	–	714 500	–	714 500
SARs outstanding as at 30 June by year of grant are:	–	714 500	–	714 500

The SARs outstanding as at 30 June 2019 have an exercise price in the range of R1,42 to R3,17 per share and a weighted average contractual life of three to five years. The average value of a Texton share during the year was R4,79 per share.

There were no SARs allotted during the current year.

The scheme is no longer in place and has been terminated.

	Tranche 1	Tranche 2	Tranche 3
2019			
Fair value at measurement date	3,70	4,49	5,19
Exercise price (Rand)	3,17	2,28	1,42
Expected volatility (%)	34,60	33,80	33,80
Option life (years)	2,00	3,00	4,00
Risk-free interest rate (based on the Rand bond static yield curve)	7,67	7,67	7,67

The volatility is based on the recent historical volatility.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

44. STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME AS AT 30 JUNE 2020

The standards, amendments and interpretations effective for the first time in the current financial year have been summarised below. The impact of the adoption of these standards have been considered.

IFRS 16

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.

The group has adopted IFRS 16 from 1 July 2019, and comparatives have not been restated, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing guidance are therefore recognised in the opening balances as at 1 July 2019.

Lessor accounting

The group acts as lessor over all of its leases over its Investment property. The leases are classified as operating leases at lease inception.

The group recognises lease payments received under an operating leases as income on a straight-line basis over the lease term as part of revenue.

The group did not make any adjustment to the accounting for assets held under operating leases under IFRS 16.

Lessee accounting

The group recognises a right-of-use asset and a lease liability at commencement date. The right-of-use asset is measured at the initial amount of the lease liability adjusted for any lease payments made in advance any initial direct costs incurred less any lease incentives received. A right-of-use asset in relation to leased land is recognised in investment property.

A right-of-use asset recognised in investment property is subsequently measured at fair value.

The lease liability is initially measured at the present value of the future lease payments discounted using the group's incremental borrowing rate. Lease payments included in the measurement of the finance lease liability comprise:

- Fixed payments
- Variable lease payments dependent on an index or a rate, initially measured using the index or rate as at the lease commencement date.

Transition

The following practical expedients were applied on adoption of IFRS 16:

Short-term leases	The group elected to apply the practical expedient to account for leases with a remaining lease term of less than 12 months as at 1 July 2019 in lease expenses. The exemption is applied per class of underlying asset.
Initial direct costs	The group elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence on adoption of the standard.
Lease term	Use of hindsight for determining the lease term when considering options to extend or terminate leases.
Impairment review of right-of-use assets	Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review.
Discount rate	The group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment and same entity within the group).

The group has elected not to reassess whether a contract is, or contains, a lease on adoption of the standard. Instead, for contracts entered into before the adoption date, the group relied on its assessment made, applying IAS 17 along with the three interpretations. The group also elected to apply the recognition exemption relating to low value assets.

44. STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME AS AT 30 JUNE 2020 CONTINUED

Transition continued

Lease liabilities are presented in the statement of financial position as a separate line item as follows:

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Current liabilities				
Lease liabilities	85	–	–	–
Non-current liabilities				
Lease liabilities	3 167	3 326	–	–

Variable lease payments are presented in the statement of comprehensive income under property expenses.

	GROUP		COMPANY	
	30 June 2020 R'000	30 June 2019 R'000	30 June 2020 R'000	30 June 2019 R'000
Rental paid	3 584	4 801	–	–

With the adoption of IFRS16, no changes have been made to the measurement and recognition of leased assets where the group is the lessee.

45. DISPOSAL OF A SUBSIDIARY

In the 2019 financial year, the only property held by Gladstone Investment Holdings Limited, being Talk Talk, Warrington, was disposed of on 16 November 2018. On that date, the liabilities owing to Santander were settled. The entity was liquidated after the sale on 25 June 2019.

	COMPANY
	30 June 2019 R'000
Cash and cash equivalents	76 208
Loan from holding company	(70 708)
Trade and other receivables	–
Trade and other payables	–
Net assets derecognised	5 500

46. INTERESTS IN UNCONSOLIDATED ENTITIES

The group has no interests in unconsolidated entities. In the prior year, it was reported that there was an interest in a B-BBEE SPV, however, once the PIC Put Option was voted down by shareholders on 28 December 2018, the agreements linking Texton to the B-BBEE SPV were no longer of any further force and effect. Texton no longer has any interest in the B-BBEE SPV.

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for the year ended 30 June 2020

47. RESTRUCTURE OF INTER-COMPANY LOANS AND WINDING DOWN OF CHOBE INVESTMENT HOLDINGS LIMITED ("CHOBE")

47.1 Transaction steps to unwind Chobe Investment Holdings Limited ("Chobe")

In order to unwind Chobe in due course, the interest-bearing loan owing by Chobe to Texton (approximately R16,6 million) ("Texton loan claim") and the interest-free loans owing by Zeya Investment Holdings Limited (approximately R21,4 million) ("Zeya" and "Zeya loan claim"), Chevelon Investment Holdings Limited (approximately R40,2 million) ("Chevelon" and "Chevelon loan claim") and Heddon Investment Holdings Limited (approximately R4,4 million) ("Heddon" and "Heddon loan claim") to Chobe were settled and repaid in full in terms of the following transaction steps that were entered into and implemented during the financial year:

Step 1: In order to restore Zeya and Chevelon to solvency prior to the settlement of the Zeya loan claim and Chevelon loan claim under Step 3, Texton waived such portion of its interest-bearing loan claim against each of Zeya and Chevelon to the extent required to restore each of them to solvency. The total waiver amounted to R71,3 million.

Step 2: Texton and Chobe then entered into a Loan repayment and share repurchase agreement in terms of which, subject to and following Step 1, (i) Chobe repaid and settled the Texton loan claim in full by ceding an equivalent portion of the Zeya loan claim to Texton and (ii) Chobe repurchased all (but one) of its shares held by Texton for a repurchase consideration equal to the aggregate face value of the Chevelon loan claim, Heddon loan claim and remaining portion of the Zeya loan claim, which repurchase consideration Chobe settled in full by ceding the aforesaid loan claims to Texton.

This resulted in a decrease in investments of R49,3 million. The repurchase of shares resulted in a restructuring gain of R22,4 million.

Step 3: Texton then entered into a loan repayment and subscription agreement with each of Zeya, Chevelon and Heddon (each a "Subco"), in terms of which, subject to and immediately following the acquisition by Texton of the Chevelon loan claim, Heddon loan claim and Zeya loan claim (each a "Subco loan claim") under Step 2, Texton subscribed for further shares in each Subco for a subscription consideration equal to the face value of the relevant Subco loan claim, whereafter that Subco's obligation to repay that Subco loan claim to Texton, and Texton's obligation to pay the said subscription consideration to that Subco, were fully settled and discharged by way of automatic set-off of such obligations against each other.

This resulted in an increase in investments of R65,9 million. Refer to note 40.

Shareholders were notified in terms of section 45(5) of the financial assistance granted by Texton.

47.2 Transfer of properties from Vunani Property Investment Trust ("VPIT") to Investage Properties 181 Proprietary Limited ("Investage")

In order to simplify the group structure, Texton embarked on an internal restructure whereby the properties owned by VPIT will be transferred to Investage in terms of section 42 of the Income Tax Act.

Investage is a subsidiary of Texton and VPIT is a controlled entity of Texton, where Texton is 100% beneficiary of the Trust.

Texton had an interest free loan owing from VPIT which consisted of three debts:

- firstly, an amount of approximately R194 473 568,60 of such loan claim, the proceeds of which the VPIT used to acquire and/or refinance all or some of the Properties (such debt is hereinafter referred to as "the Loan Claim")
- secondly, an amount of approximately R35 434 375,68 of such loan claim, which arose pursuant to the VPIT declaring, from time to time, the distribution of its net income to Texton (as a beneficiary of the Trust), some of which distributions were left outstanding on loan account as a result of the Trust not being in a position to settle same due to its operational requirements (such debt is hereinafter referred to as "the Distribution Loan Claim")
- thirdly, an amount of approximately R974 218,16 of such loan claim, which arose pursuant to Texton settling from time to time, on behalf of the Trust, certain working capital requirements of the Trust (such debt is hereinafter referred to as "the Working Capital Loan Claim").

In order to achieve the restructure the following transactions were entered into and implemented:

Step 1: VPIT and Investage entered into a disposal agreement whereby VPIT disposed of its properties to Investage in exchange for the assumption of the loan claim and the issue of 445 ordinary shares in Investage to VPIT ("the Consideration shares").

Step 2: Texton and Investage entered into a Loan Repayment and Subscription agreement ("the LRS agreement"), in terms of which, immediately following the assumption of the loan claim by Investage but prior to the issue of the Consideration shares to VPIT under the Disposal agreement, Texton subscribed for 420 ordinary shares in Investage for an aggregate subscription consideration in an amount equal to the loan claim. In terms of the LRS Agreement, the obligation of Investage to repay the Loan Claim to Texton and the obligation of Texton to pay the Subscription Consideration to Investage was fully discharged by way of automatic set-off of such obligations against each other, and such settlement will constitute due and proper discharge of such obligations.

Step 3: Texton and VPIT entered into a loan repayment and capital contribution agreement ("the LRCC agreement"), whereby Texton made a capital contribution to the Trust in an aggregate amount equal to the Distribution loan claim ("the Capital contribution"). In terms of the LRCC Agreement, the obligation of the Trust to repay the Distribution Loan Claim to Texton and the obligation of Texton to pay the Capital Contribution to the Trust will be fully discharged by way of automatic set-off of such obligations against each other, and such settlement will constitute due and proper discharge of such obligations.

Step 4: VPIT will, in due course, settle the Working Capital Loan Claim in full by paying the amount thereof in cash to Texton.

48. REPRESENTATIONS AND RESTATEMENTS

48.1 Representation of investment property held for sale

Following a review of the assets disclosed in the group and company statement of financial position during the current financial year, the following assets have been represented in the current year:

		GROUP			COMPANY		
		Previously reported 30 June 2019 R'000	Repre- sentation 30 June 2019 R'000	Restated 30 June 2019 R'000	Previously reported 30 June 2019 R'000	Repre- sentation 30 June 2019 R'000	Restated 30 June 2019 R'000
Statement of financial position	Note						
Current assets	48.1.1	911 438	(529 523)	381 915	1 454 333	(140 000)	1 314 333
Investment property held for sale	48.1.1	–	529 523	529 523	–	140 000	140 000

48.1.1 Representation of Investment property held for sale

Investment property held for sale was previously classified under current assets, this has now been disclosed separately on the statement of financial position.

48.2 Reclassification of income and expenses

Following a review of the income and expenses disclosed in the group and company statement of comprehensive income during the current financial year, the following income and expenses have been reclassified in the current year:

		GROUP			COMPANY		
		Previously reported 30 June 2019 R'000	Reclas- sification 30 June 2019 R'000	Restated 30 June 2019 R'000	Previously reported 30 June 2019 R'000	Reclas- sification 30 June 2019 R'000	Restated 30 June 2019 R'000
Statement of comprehensive income	Note						
Property expenses	48.2.1	(191 929)	(1 505)	(193 434)	(114 228)	(174)	(114 402)
Impairment loss on trade receivables	48.2.1	–	1505	1 505	–	174	174
Finance income	48.2.2	(184 198)	–	(184 198)	147 343	(32 849)	114 494
Other income	48.2.2	11 000	–	11 000	104 006	32 849	136 855
Fair value adjustments	48.2.3	(699 524)	–	(699 524)	(647 148)	226 757	(420 391)
Impairment of investments in subsidiaries	48.2.3	–	–	–	–	(226 757)	(226 757)

48.2.1 Impairment loss on trade receivables

Impairment loss on trade receivables of R1,5 million (group) and R0,1 million (company) was previously included under property expenses, has now been disclosed separately on the statement of comprehensive income due to IFRS 9 disclosure.

48.2.2 Distribution from group entities

Distributions from group entities of R32,8 million were previously included under finance income. This has now been included under other income as it more accurately presents the distributions.

48.2.3 Impairment of investment in subsidiaries

Impairments of investments in subsidiaries of R226 million were previously included under fair value adjustments. This has now been disclosed separately on the statement of comprehensive income as required in IAS 1.29 to separately present material items.

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for the year ended 30 June 2020

48. REPRESENTATIONS AND RESTATEMENTS CONTINUED

48.3 Restatement of statement of cash flow statement

The statement of cash flows for the company has been restated to reflect:

- Distributions from group entities of R32,8 million were previously included under finance income, this has now been included under other income as it more accurately presents the distributions
- The dividends received from subsidiaries and group entities previously disclosed as cash generated from operations and as repayment of subsidiary and group entity loans to being separately disclosed on the statement of cash flows as "dividends received" as it more accurately represents the cash flow. The statement of financial position was not impacted by the error and hence the opening balances of assets, liabilities and equity for the earliest prior period was not presented.

	COMPANY		
	Previously reported 30 June 2019 R'000	Adjustment 30 June 2019 R'000	Restated 30 June 2019 R'000
Cash flows from operating activities			
Cash generated by operations	216 418	(43 658)	172 760
Dividends received	–	126 632	126 632
Net cash outflow from operating activities	(133 060)	82 974	(50 086)
Cash flows from investing activities			
Loans repaid by subsidiaries	292 614	(50 125)	242 489
Loans repaid by group entities	86 921	(32 849)	54 072
Net cash inflow from investing activities	406 404	(82 974)	323 430

49. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

In terms of IFRS, the company is required to include in its annual financial statements disclosure about the future impact of standards and interpretations issued but not yet effective as at the issue date.

At the date of authorisation of the annual financial statements of the company for the year ended 30 June 2020, the following standards and interpretations were in issue but not yet effective which are applicable to the company:

Statement	Effective for accounting periods beginning on or after	Summary of key points	Impact on the company
Amendments to IFRS 3: <i>Definition of a Business</i>	Annual periods beginning on or after 1 January 2020	This amendment is aimed at resolving difficulties that arise when an entity determines whether it has acquired a business or a group of assets.	As the company is a property company, we will apply the concentration test as required by IFRS 3 on any new acquisitions.
Amendment to IAS 1 and IAS 8: <i>Definition of Material</i>	Annual periods beginning on or after 1 January 2020	The amendment clarifies the definition of material and to align the definition used in the conceptual framework.	The changes are not expected to have a material impact on the financial statements and the group will apply the amendments prospectively.
Amendment to IFRS 16: <i>COVID-19 Related rent concessions</i>	Annual periods beginning on or after 1 June 2020	The amendment to the standard is to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.	The group is a lessee in long-term land leases, however, the amendments are not expected to have a material impact on the financial statements of the group.
Amendments to References to the Conceptual Framework in IFRS Standards	Annual periods beginning on or after 1 January 2020	Revised definitions of an asset and a liability and new guidance on measurement and derecognition, presentation and disclosure.	The changes are not expected to have a material impact on the financial statements and the group will apply the amendments prospectively.
Annual Improvements to IFRS Standards 2018 – 2020 (May 2020)	Annual periods beginning on or after 1 June 2022	The pronouncement contains amendments to four IFRS as result of the IASB's annual improvements project.	The changes are not expected to have a material impact on the group financial statements.
Amendments to IFRS 3 (May 2020): <i>Reference to the Conceptual Framework</i>	Annual periods beginning on or after 1 June 2022	The amendment seeks to updated an outdated reference in IFRS 3 without significantly changing the its requirements.	The changes are not expected to have a material impact on the financial statements and the group will apply the amendments prospectively.
Amendments to IAS 1: <i>Classification of Liabilities as Current or Non-current</i>	Annual periods beginning on or after 1 January 2023	The amendment aims at providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.	The changes will not have a material impact on the financial statements and the group will apply the amendments prospectively.

SCHEDULE OF PROPERTIES

Property name	Geographic location	Gross lettable area m ²	Weighted average rental per m ² R	Acquisition date
SOUTH AFRICA				
INDUSTRIAL				
Hermanstad Business Park	Gauteng	43 988	28,56	31 December 2014
Alrode Industrial Park	Gauteng	16 557	36,62	10 June 2015
42 Press Avenue	Gauteng	6 462	46,75	24 July 2014
89 Ridder Street	North West	3 720	37,17	15 December 2011
28 Press Avenue	Gauteng	3 957	27,16	24 July 2014
Total South African industrial		74 684		
OFFICES				
Foretrust	Western Cape	26 780	151,35	14 February 2012
Bryanston Gate Office Park	Gauteng	16 651	92,50	1 April 2014
Wellington Road	Gauteng	10 019	125,97	17 March 2014
151 Katherine Street	Gauteng	8 621	127,94	11 August 2011
Belvedere Place	Gauteng	10 873	96,09	2 October 2006
12 Laub Street	Gauteng	27 450	58,85	30 October 2014
The Grid	Gauteng	4 528	165,54	18 January 2016
Investment Place	Gauteng	6 326	116,16	2 October 2006
377 Rivonia Boulevard	Gauteng	4 886	150,44	6 November 2012
Wale Street Chambers	Western Cape	6 982	103,77	29 September 2006
Scott Street	Gauteng	4 329	117,63	18 September 2014
1 Osborne Lane	Gauteng	3 865	112,93	12 September 2014
Quintiles	Free State	3 404	117,16	18 September 2014
Greenstone Hill Office Park Building 11	Gauteng	3 236	167,79	1 August 2013
Lion Roars	Eastern Cape	4 027	105,89	6 December 2011
Rynlal	Gauteng	5 882	92,57	29 September 2006
14 Loop Street	Western Cape	2 323	155,42	11 August 2011
Greenstone Hill Office Park Building 10	Gauteng	2 275	125,76	1 August 2013
Greenstone Hill Office Park Building 2	Gauteng	2 391	154,24	30 October 2013
35 Morsim Road	Gauteng	2 038	115,55	15 November 2006
Greenstone Hill Office Park Building 12	Gauteng	2 326	182,54	1 August 2013
Greenstone Hill Office Park Building 4	Gauteng	2 627	–	1 August 2013
66 Wierda Road East	Gauteng	1 806	160,39	31 December 2014
Greenstone Hill Office Park Building 9	Gauteng	1 822	106,28	11 August 2011
Standard Bank Springs	Gauteng	1 916	47,67	30 November 2006
Greenstone Hill Office Park Building 13	Gauteng	974	95,49	1 August 2013
370 Rivonia Boulevard	Gauteng	1 743	121,24	2 October 2006
St George's Mall	Western Cape	1 104	–	18 September 2014
54 Bompas Road	Gauteng	750	121,22	31 December 2014
Greenstone Hill Office Park Building 15	Gauteng	1 126	163,05	1 August 2013
Greenstone Hill Office Park Building 14	Gauteng	1 128	94,60	1 August 2013
Greenstone Hill Office Park Building 5	Gauteng	789	160,78	1 August 2013
Standard Bank Harrismith	KwaZulu-Natal	1 086	96,82	15 November 2006
Greenstone Hill Office Park Building 6	Gauteng	635	–	11 August 2011
Standard Bank Stanger	KwaZulu-Natal	1 253	–	30 November 2006
Greenstone Hill Office Park Coffee Shop	Gauteng	107	86,99	1 August 2013
Total South African offices		178 077		

Purchase price R'000	Valuation R'000	Address
148 074	131 000	Hermanstad, Pretoria
51 138	37 300	Alrode, Johannesburg
32 708	28 000	Selby, Johannesburg
28 982	9 200	Rustenburg
20 029	10 300	Selby, Johannesburg
280 931	215 800	
249 500	340 000	Roggebaai, Cape Town
174 000	183 000	Bryanston, Johannesburg
102 500	133 700	Parktown, Johannesburg
104 000	120 200	CBD, Cape Town
70 400	122 000	Sunninghill, Johannesburg
153 948	92 500	New Centre, Johannesburg
105 400	93 700	Rivonia, Johannesburg
48 000	79 600	Hyde Park, Johannesburg
64 500	67 700	Rivonia, Johannesburg
14 100	58 692	CBD, Cape Town
107 805	54 500	Waverley, Johannesburg
48 326	53 000	Bedfordview, Johannesburg
47 500	45 500	Bloemfontein
47 376	46 000	Greenstone Hill, Edenvale
52 100	37 700	Walmer, Port Elizabeth
16 950	33 000	Lynnwood, Pretoria
37 100	35 100	CBD, Cape Town
33 305	38 300	Greenstone Hill, Edenvale
54 348	34 500	Greenstone Hill, Edenvale
23 800	30 500	Hyde Park, Johannesburg
34 059	33 000	Greenstone Hill, Edenvale
38 460	26 600	Greenstone Hill, Edenvale
40 696	22 200	Wierda Valley, Johannesburg
18 000	24 200	Greenstone Hill, Edenvale
8 700	12 000	Springs
14 260	9 700	Greenstone Hill, Edenvale
6 800	11 000	Rivonia, Johannesburg
21 130	5 900	CBD, Cape Town
10 061	12 200	Dunkeld, Johannesburg
16 485	13 900	Greenstone Hill, Edenvale
16 516	12 600	Greenstone Hill, Edenvale
11 551	10 300	Greenstone Hill, Edenvale
2 500	8 000	Harrismith, KwaZulu-Natal
14 180	5 800	Greenstone Hill, Edenvale
8 700	6 500	Stanger, KwaZulu-Natal
1 565	1 300	Greenstone Hill, Edenvale
1 818 621	1 914 392	

SCHEDULE OF PROPERTIES CONTINUED

Property name	Geographic location	Gross lettable area m ²	Weighted average rental per m ² R	Acquisition date
SOUTH AFRICA CONTINUED				
RETAIL				
Golddurb	KwaZulu-Natal	13 331	103,19	22 February 2016
Kempstar Mall	Gauteng	6 018	215,70	31 December 2014
Woodmead Commercial Park	Gauteng	13 197	89,54	31 December 2014
Total South African retail		32 856		
Total South African portfolio		285 308		
UNITED KINGDOM				
INDUSTRIAL				
DHL, Doncaster	England	25 294	65,47	10 December 2015
Caterpillar	England	10 117	80,42	4 February 2016
Gainsborough	England	7 912	82,67	17 August 2016
Heddon Booker Warehouse	England	3 960	44,78	27 February 2015
Total United Kingdom industrial		47 283		
OFFICE				
Browne Jacobson, Nottingham	England	5 360	209,62	17 August 2016
Total United Kingdom offices		5 360		
RETAIL				
B&Q, Camborne	England	4 465	213,36	8 January 2016
Chevelon	England	1 737	434,54	27 May 2015
Parc Pensarn	Wales	1 789	180,53	27 May 2015
Total United Kingdom retail		7 992		
Total United Kingdom portfolio		60 634		
Total property portfolio		345 942		

Purchase price R'000	Valuation R'000	Address
190 000	134 800	CBD, Durban
107 454	124 000	Kempton Park, Johannesburg
146 280	107 000	Woodmead, Johannesburg
443 734	365 800	
2 543 286	2 495 992	
368 220	391 650	Tickhill, England
180 703	174 952	Peterlee, England
112 116	156 015	Gainsborough, England
29 160	40 026	Burton-on-Trent, England
690 199	762 642	
169 920	188 724	Nottingham, England
169 920	188 724	
224 200	167 205	Camborne, England
129 511	86 077	Nottingham, England
57 355	49 709	Carmarthen, Wales
411 066	302 991	
1 271 185	1 254 357	
3 814 471	3 750 349	

SHAREHOLDERS' ANALYSIS

for the year ended 30 June 2020

SHAREHOLDER SPREAD	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 10 000 shares	1 148	59,39	3 853 403	1,02
10 001 – 100 000 shares	631	32,64	18 762 465	4,99
100 001 – 1 000 000 shares	124	6,41	39 438 327	10,49
1 000 001 – 3 000 000 shares	13	0,67	28 280 695	7,52
More than 3 000 000 shares	17	0,88	285 731 876	75,98
	1 933	100,00	376 066 766	100,00

DISTRIBUTION OF SHAREHOLDERS	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance companies	4	0,21	1 382 641	0,37
Close corporations	21	1,09	2 339 063	0,62
Collective investment schemes	34	1,76	60 671 690	16,13
Custodians	6	0,31	3 471 544	0,92
Foundations and charitable funds	19	0,98	4 156 787	1,11
Investment partnerships	6	0,31	36 844	0,01
Managed funds	10	0,52	1 295 243	0,34
Medical aid funds	7	0,36	927 579	0,25
Organs of state	1	0,05	71 426 884	18,99
Private companies	81	4,19	121 035 844	32,18
Public companies	1	0,05	622	0,00
Retail shareholders	1 503	77,75	35 272 989	9,38
Retirement benefit funds	31	1,60	9 218 738	2,45
Scrip lending	1	0,05	284 230	0,08
Stockbrokers and nominees	8	0,41	8 236 559	2,19
Treasury	2	0,10	26 672 213	7,09
Trusts	198	10,24	29 637 296	7,88
	1 933	100,00	376 066 766	100,00

SHAREHOLDER TYPE	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	9	0,47	209 987 717	55,84
Directors and associates of the company (direct shareholding)	3	0,16	5 000	0,00
Directors and associates of the company (indirect shareholding)	3	0,16	111 883 620	29,75
Shareholder >10% of the shares in issue: government employees				
Pension fund	1	0,05	71 426 884	18,99
Treasury	2	0,10	26 672 213	7,09
Public shareholders	1 924	99,53	166 079 049	44,16
	1 933	100,00	376 066 766	100,00

BENEFICIAL SHAREHOLDERS WITH A HOLDING GREATER THAN 3% OF THE ISSUED SHARES	Number of shares	% of shares issued
Oak Tech Trading Proprietary Limited	84 537 800	22,48
Government Employees Pension Fund	71 426 884	18,99
Coronation Fund Managers	20 991 034	5,58
Nedbank Group	17 670 657	4,70
Kloof Capital South Africa Proprietary Limited	17 439 181	4,64
Discus House Proprietary Limited	16 243 865	4,32
Ninety One	14 671 705	3,90
	242 981 126	64,61
Total number of shareholdings	1 933	
Total number of shares in issue	376 066 766	

CORPORATE INFORMATION

TEXTON PROPERTY FUND LIMITED

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

PHYSICAL AND REGISTERED ADDRESS

Block C, Investment Place
10th Road, Hyde Park 2196
PO Box 653129, Benmore 2010

BOARD OF DIRECTORS

MA Golding (*non-executive chairman*)
MH Muller** (*chief executive officer*)
IF Pick*^s (*chief financial officer*)
AJ Hannington (*independent non-executive*)
JR Macey (*lead independent non-executive*)
S Thomas (*independent non-executive*)
RA Franco[^] (*non-executive*)
W van der Vent[^] (*independent non-executive*)
PM Hack*[&]

* *Executive director.*

Resigned as CEO effective 31 March 2020.

^s *Resigned as CFO on 4 December 2019.*

[^] *Appointed on 29 November 2019.*

[&] *Appointed as CFO on 12 June 2020.*

COMPANY SECRETARY

Motif Capital Partners
The Link, 1st Floor, 173 Oxford Road
Rosebank 2196

AUDITOR

SizweNtsalubaGobodo Grant Thornton Inc.
20 Morris Street East
Woodmead 2191

SPONSOR

Investec Bank Limited
100 Grayston Drive
Sandton

TRANSFER SECRETARY

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
PO Box 61051, Marshalltown 2107

SHAREHOLDERS' DIARY

Financial year-end	30 June
Publication of audited results	23 September 2020
Summarised consolidated financial statements and notice of annual general meeting posted to shareholders	30 October 2020
Annual general meeting	30 November 2020

TEXTON

PROPERTY FUND

WWW.TEXTON.CO.ZA

