TRADEHOLD LTD

TRADEHOLD LIMITED (Registration number: 1970/009054/06) | Incorporated in the Republic of South Africa
JSE Ordinary Share code: TDH ISIN: ZAE000152658 | JSE B Preference Share code: TDHBP ISIN: ZAE000253050 | ("Tradehold" or "the Group")

INTERIM CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS OF THE TRADEHOLD GROUP FOR THE SIX MONTHS TO 31 AUGUST 2019

KEY INFORMATION

- **Total assets: £916.4 million (2018: £843.7 million)**
- **Revenue: £47.7 million (2018: £48.6 million)**
- **Ordinary shareholders' equity: £285.7 million (2018: £278.3 million)**
- **Loss attributable to shareholders: £0.4 million (2018: profit £5.7 million).**
- **Headline earnings per share: 6.9 pence (2018: 2.3 pence)**
- **Tangible net asset value per share: 116.8 pence / R21.70 (2018: 119 pence / R22.73).**

Tradehold's net assets at the reporting date were split across the United Kingdom in pound sterling (42.7%), United States dollar assets in Africa (8%), and the balance in South African rand (49.3%). In South Africa it owns 74.3% of the Collins Property Group (after the investment by I-Group). In the UK it holds 100% of the Moorgarth Property Group, including a 90% stake in Boutique (previously known as The Boutique Workplace Company), a provider of serviced office accommodation in Greater London. Moorgarth owns a number of Boutique's sites.

FINANCIAL PERFORMANCE

Total assets now amount to £916.4 million (2018: £843.7 million). Revenue was £47.7 million (2018: £48.6 million) while total loss attributable to shareholders stood at £0.4 million (2018: profit of £5.7 million). The decrease is mainly due to the loss in the fair-value adjustment of its investment properties of £14.8 million during the reporting period, compared to a fair value loss of £2.1 million in the corresponding period, and profit from discontinued operations of £0.3 million in the prior period.

Headline earnings per share was 6.9 pence, up from 2.3 pence and tangible net asset value per share (as defined by management) was 116.8 pence / R21.70, compared to 119 pence / R22.73 in the corresponding period.

The sum-of-the-parts valuation per share (as defined by management) was 119.6 pence / R22.22, compared to 125.8 pence / R24.03 in the corresponding period.

BUSINESS ENVIRONMENT

The difficult business conditions under which Tradehold's subsidiaries operated in South Africa and the UK last year, persisted during the reporting period to 31 August 2019. In South Africa, business confidence remained fragile, plunging to its lowest level since 1999, given concerns about the poor health of the economy and perceptions of the inability of Government to address the constraints that continue to impede growth. High levels of unemployment, ongoing labour disputes, civil unrest across the country and political in-fighting in especially the governing party have all contributed to the prevailing negative sentiment.

In the UK, the uncertainty surrounding the outcome of Brexit has severely hampered business confidence, with investment in future growth virtually coming to a standstill. Media reports reflect a continuing decline in consumer confidence with growth slowing to its lowest levels in six years. Retail has been particularly hard hit.

Against this background, Tradehold's management teams in both the UK and Southern Africa have adopted a defensive stance, preserving cash, reducing debt, minimising non-core assets and managing assets astutely.

COLLINS GROUP

Collins Group owns a property portfolio comprising mainly industrial and commercial buildings that collectively accounts for some 1.6 million square metres of gross lettable area (GLA). Its major focus remains on quality industrial and distribution centres that together represent about 91% of total space available for rent. Political uncertainty has led many corporates to postponing investments. Consequently, there has been little opportunity to grow the size of the industrial portfolio. The focus has therefore been on retaining tenants and vacancies remained low at just 1.55% at the end of the reporting period. The weighted average lease expiring profile remains at over seven years.

Management sought to focus on enhancing the quality of the portfolio and protecting its current income stream. To strengthen the company's financial position, I-Group Holdings (Pty) Ltd (I-Group) subscribed for a 25.7% shareholding in Collins Group for R833 million in a transaction finalised early in the reporting period. The capital raised was used to reduce gearing thereby lowering the company's loan to value (LTV) from 67.5% to 61.2%, while also allowing the company to start a process of restructuring remaining debt more efficiently.

In the face of such depressed market conditions, Collins continued its defensive strategy of disposing of non-core assets. This process started during the 2019 financial year when 37 mainly smaller commercial buildings were identified for sale. Of these, ten were sold in that year and six in the period to end August, with the transfer of a further two to new owners now underway. However, as most other property funds were also shedding non-core assets, the number of buildings coming on to the market placed downward pressure on valuations. This led to Collins suffering a loss of R16.5 million to book value on these sales, with R15 million resulting from three vacant properties.

For the foreseeable future management's focus will in the main be on the following:

- To grow the Group's industrial portfolio with quality acquisitions
- To further reduce exposure to Government-tenanted properties which fortunately constitute just 2.5% of the portfolio's lettable space; and
- To restructure remaining debt thereby reducing overall cost of finance.

The total value of the Collins portfolio was £466.7 million (R8 673 million) at end August, compared with £464.7 million (R8 634 million) as at 28 February 2019. It contributed net profit of £4.8 million (2018: £4.6 million) to the group's net loss after minorities while its total contribution to tangible net asset value per share was 55.4 pence (R10.30).

MOORGARTH

The significance of the impact on the British economy of the continuing uncertainties surrounding Brexit should not be underestimated. Across the board investment decisions have been postponed, cancelled and, in some instances, diverted to mainland Europe. The property industry has been particularly hard hit, with tenants increasingly defaulting through insolvency or company voluntary arrangements (CVAs), the UK version of business rescue. While all property segments have suffered, retail which constitutes about 50% by value of Moorgarth's portfolio, has been especially vulnerable.

In the light of major changes in consumer purchasing patterns, particularly fast-growing online shopping, management has continued its focus on repurposing its four large shopping malls to give them wider appeal while reducing their reliance on retail. This is being done, inter alia, by expanding the tenant mix to include quality restaurants, bars, cinemas, gyms, dentists' and doctors' surgeries to transform these spaces into one-stop meeting places for the community.

To reduce the focus on retail and reach consumers in other ways, asset management initiatives have included other forms of hospitality. Plans are underway to build a hotel and 493 residential apartments on or adjacent to the property on which the group's Broad Street Mall in Reading outside London is located. Planning permission has been obtained for the new hotel that is to be leased to the Premier Inn hotel group.

Full planning consent has been obtained from the Edinburgh City Council for the extensive redevelopment of the historic Waverley Mall, including that of the rooftop area, a famous landmark in the heart of the old city centre. Improvements to the entrances have already increased footfall through the centre which adjoins the city's principal railway station.

A fire in the St Catherine's Retail Park in Perth Scotland, thought to be arson according to media and other reports, virtually destroyed the centre a week before the balance-sheet date. Rebuilding of the fully insured property is expected to start in 2020.

Moorgarth's Market Place mall in Bolton, Greater Manchester, was particularly hard hit by the slump in retail sales in the UK. The financially troubled Debenhams chain, an anchor tenant, has entered into a company voluntary arrangement (though which rental is automatically reduced to 63% of the agreed contract price) while several other tenants were declared insolvent and moved out. Although negotiations with potential tenants to take up the vacant space are ongoing, management has nevertheless obtained an external valuation for Market Place. This necessitated a £5.3 million write-down to its valuation of £60 million. The fire in Perth necessitated an additional write-down of £1.7 million net after taking into account the insurance claim proceeds.

Moorgarth's share of the group net loss amounted to £7.1 million, against a net profit of £145 000 in 2018. The value of its portfolio reduced to £244.6 million from £256.7 million if its interest in joint ventures (not reflected in the balance sheet) is included. This was mainly due to fair-value losses of £14.6 million on investment properties.

Moorgarth's contribution to tangible net asset value per share is 44.8 pence (R8.32).

BOUTIQUE

Moorgarth continues to drive business at Boutique (previously known as The Boutique Workplace Company or TBWC) in acquiring suitable properties which are then refurbished for flexible office space lets. A recent acquisition is Connolly Works, a building in Euston that has been leased to Boutique, which is in turn sub-letting the entire building for five years to the London motoring business Cazoo.

Boutique performed well during the reporting period and for the first time exceeded income of £2 million in a single month. Occupancy averaged 91% in an extremely challenging market and it now offers more than 4 500 work stations spread across 31 buildings in Greater London.

Its early entry into the flexible-office environment has enabled it to establish a presence ahead of a number of highly aggressive competitors in the market. Management continues its investigations into expanding Boutique's services into regional markets, including the UK's major university cities.

Boutique's EBITDA (earnings before interest, tax, amortisation and depreciation) for the six months to end August was £5 million, boosted by the new IFRS 16 reporting requirements. Excluding IFRS 16, EBITDA would have been £1.4 million (2018: £714,000).

NGUNI GROUP (NAMIBIA)

The Namibian portfolio consists of a selection of mainly retail but also commercial buildings, offering a total of 92 000 square metres of gross lettable space in the country's main centres. The period under review saw the completion of the second and final phase of a new mall in Gobabis, a major town strategically located on the Trans-Kalahari Highway. The mall, which is anchored by the Shoprite Group, offers about 10 000 square metres of trading space. The company is at present in negotiations with a major corporate with a view to developing an office block as part of its own Steps development in the capital, Windhoek.

The value of the Nguni Group's portfolio was £41.3 million (R767 million) at the reporting date, compared with £40.8 million (R757 million) on 28 February 2019. It reported a net profit after minorities of £409,000 (2018: net profit of £403,000) while its total contribution to tangible net asset value per share is 9.6 pence (R1.78).

TRADEHOLD AFRICA GROUP (MOZAMBIQUE, BOTSWANA AND ZAMBIA)

In line with the Group's strategy of withdrawing from all the countries in Africa outside of South Africa and Namibia, it has sold, or is in the process of selling, all its properties in Zambia. It is also finalising the sale of the last property in Botswana. All that remains of the existing portfolio are three properties in Mozambique.

The value of the portfolio decreased by £0.8 million to £25.7 million from £26.5 million at the end of February 2019, mainly due to the disposal of the Lusaka Hotel in Zambia, offset by the strengthening of the USD against the GBP during the period under review. The company contributed £1.7 million to total group profits, compared to a net profit of £2.4 million for the corresponding period. The decrease is due to the disposal of properties in Mozambique and Zambia.

Tradehold Africa's contribution to tangible net asset value per share is 7.8 pence (R1.45).

DIVIDEND

The board has decided not to declare an interim dividend.

OUTLOOK

The stalemate in British politics continues with a general election now scheduled for 12 December 2019. On the positive side, with the EU's decision to grant the UK's request for a further three-month extension, one can assume that a no-deal Brexit with its potentially disastrous consequences for the British economy is no longer on the table. Whatever the outcome of the election, we believe that in the coming months the British economy will start recovering as certainty about the country's future grows.

In the case of South Africa, the country's economic future now appears much bleaker following Finance Minister Mboweni's ominous description in his medium-term budget policy statement of the sharp deterioration in the country's finances and the looming debt trap it faces. It is obvious that it will take years to return the country to a strong and consistent growth path, even with the implementation of far-reaching turn-around strategies which at this stage are completely absent.

In the light of the above and until there are clear indications of recovery in the economies of both South Africa and the UK, we shall continue our present defensive strategy. We shall focus relentlessly on our core business; on upgrading and maintaining our portfolio, keeping it in prime condition to assure full occupancy; and on reducing debt by selling off non-core assets. At the same time, we shall remain sensitive to changes in the market to benefit from any opportunities that may arise. Conditions will undoubtedly remain difficult during all of the second half of the year, but we are confident we have the capabilities to continue to achieve acceptable results.

C H WIESE
Chairman

K L NORDIER
Director

Malta
12 November 2019

FULL ANNOUNCEMENT

The contents of this announcement is the responsibility of the directors of Tradehold Limited. It is only a summary of the information contained in the full announcement. Any investment decisions by investors and shareholders should be based on consideration of the full announcement published on SENS on Thursday, 14 November 2019; https://senspdf.jse.co.za/documents/2019/jse/isse/tdh/int2019.pdf and on Tradehold's website at www.tradehold.co.za. Copies of the full announcement are available for inspection and may be requested at no charge from Tradehold's registered office at 36 Stellenberg Road, Parow Industria, or from that of its sponsor, Exchange Sponsors (2008) (Pty) Ltd, 44a Boundary Road, Inanda, Sandton, at no charge, from Monday to Friday during office hours.

DIRECTORS AND ADMINISTRATION

Executive directors: T A Vaughan, F H Esterhuyse, D A Harrop, K L Nordier
Non-executive directors: C H Wiese (alternate J D Wiese), H R W Troskie, M J Roberts, K R Collins, L L Porter
Independent non-executive directors: H R W Troskie, M J Roberts, L L Porter
Company secretary: P J Janse van Rensburg
Transfer secretary: Computershare Investor Services (Pty) Ltd
Sponsor: Exchange Sponsors (2008) (Pty) Ltd