TOWER

SUMMARISED CONSOLIDATED ANNUAL RESULTS

FOR THE YEAR ENDED 31 MAY 2020

START

FINANCIAL HIGHLIGHTS

- Loan to value of **39.1%** (34.1% at 31 May 2019)
- Portfolio Vacancy of **7.9%** (5.6% at 31 May 2019)
- Average collections of **85%** after relief granted (April – July)
- Sale of **Euro 12.4 million** of Croatian properties during the year (Euro 9.1 million after year-end)
- Sale of **R189.2 million** of South African properties
- Dividend pay-out ratio of **75%** for the financial year
- Refinancing of **Euro 31.5 million** debt secured by South African properties with Rand debt after year-end

BASIS OF PREPARATION

The summarised audited consolidated annual financial statements (summarised results) for the year ended 31 May 2020, have been prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and contains the information required by IAS 34 *Interim Financial Reporting*. The results comply with the JSE Listings Requirements and the Companies Act, 71 of 2008, as amended (Companies Act).

Mazars, the group's independent auditor, has audited the consolidated annual financial statements of Tower for the year ended 31 May 2020, and has expressed an unqualified audit opinion thereon. These summarised results have been extracted from the audited consolidated annual financial statements for the year ended 31 May 2020, but are not themselves audited. The audited consolidated annual financial statements and a copy of the audit opinion are available for inspection at the company's registered office. Mazars' audit was conducted in accordance with International Standards on Auditing and the applicable requirements of the Companies Act. The auditor's report does not necessarily report on all information contained in these results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the underlying audited annual financial statements from the registered office of the company.

These summarised results were prepared under the supervision of Mrs J Mabin CA(SA) in her capacity as chief financial officer. The company secretary changed during the period from Ovland Management Services Proprietary Limited to Statucor Proprietary Limited.

The directors take full responsibility for the preparation of the summarised results for the year ended 31 May 2020, and for ensuring that the financial and other information contained in the summarised results has been correctly extracted from the underlying audited consolidated annual financial statements for the year ended 31 May 2020. The directors are not aware of any matters or circumstances arising subsequent to 31 May 2020 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement.

The accounting policies and methods of computation applied in the preparation of these summarised consolidated annual financial results are in terms of IFRS and consistent with those applied in the most recently issued audited annual financial statements except for the adoption of IFRS 16 *Leases* as outlined below:

STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

The group adopted IFRS 16 *Leases* in the current financial period for the first time on the mandatory adoption date. No standard, amendment or interpretation has been early adopted by the group. IFRS 16 was adopted using the modified retrospective approach, and comparative information has not been restated and complies with the requirements of IAS 17 *Leases*.

IFRS 16 *LEASES*

IFRS 16 provides the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single accounting model for lessees building on the principle that all leases result in the lessee being entitled to use an asset and, if lease payments are made over time, obtaining financing. The standard eliminates the distinction of operating and financing leases for lessees resulting in a more accurate representation of the lessee's assets and liabilities and improved transparency regarding the lessee's financial leverage and capital employed. Lessor accounting is left largely unchanged from its predecessor (IAS 17 *Leases*). The group does not have material commitments to operating lease payments. No material adjustments have been made to the group's results in this announcement.

SIGNIFICANT ESTIMATES

Fair value measurement of investment property recognised in the statement of financial position

Valuations of all properties were performed by either the directors or an independent valuer, and have resulted in a net downward re-valuation adjustment of R429.3 million (2019: net upward revaluation adjustment of R77.2 million). Independent external valuations are carried out on a rotational basis to ensure each property is valued independently at least every three years. Conservative valuation assumptions have been applied to take account of weakening market conditions. The valuations are based either on the discounted cash flow method or the capitalisation rate of net income method or a combination of these methods, which is consistent with the basis used in prior years.

The fair value measurement for investment property has been categorised as a level 3 fair value based on the inputs to the valuation techniques used.

Significant unobservable inputs used were as follows:

- A capitalisation rate, ranging between 6.8% and 11.5% (2019: 7% and 11%) has been used; and
- The discount rate applied ranges between 13.7% and 15.5% (2019: 13.2% and 16.5%).
- Default escalation rates ranging between 1.06% and 7.0% (2019: 1.05% and 7 %)
- Default vacancy factor ranging between 0% and 5% (2019: 0% and 5 %)

BASIS OF PREPARATION CONTINUED

SIGNIFICANT ESTIMATES CONTINUED

Fair value measurement of investment property recognised in the statement of financial position continued

While the range of inputs applied in the valuations have not increased as compared to the prior year, on average the discount rates and capitalisation rates applied have increased, resulting in a net downwards fair value adjustment to investment properties in the statement of profit or loss.

Going concern assessment due to the impact of Covid-19

The Covid-19 pandemic situation is uncertain and rapidly evolving and management shall continue to monitor the anticipated impacts on Tower as circumstances change. The group has performed additional stress testing of its cash flow forecast and should have sufficient cash resources under all of the scenarios tested for the forecast period of 14 months.

Impairment of goodwill

Management has assessed the recoverable amount of goodwill, and the assessment at the end of the period resulted in goodwill impairments of R214.5 million (2019: R10.7 million). The sale of two properties during the year (Vukovarska and Meadowbrook) also resulted in goodwill disposals of R9.0 million (2019: R3.5 million).

The goodwill that arose from the internalisation of TAM was proportionately allocated to the investment properties owned by the group at the effective date. The goodwill allocated to the underlying properties was not material on an individual basis, but in aggregate made up a material balance.

The goodwill was tested for impairment at year-end by comparing the carrying amount to the fair value less costs to sell of the cash-generating units, which is consistent with the prior year method. The fair value less cost to sell was less than the carrying amount for all cash-generating units, which resulted in the TAM goodwill being impaired in full in the current financial period. An impairment of R115.3 million was recognised in the statement of profit or loss and other comprehensive income as a result of the decrease in the property values, due to the depressed market and the impact of the COVID-19 lockdown. The allocation of the impairment per segment has been disclosed in the segmental report.

For the assumptions used in determining the recoverable amount, refer to the disclosures included under the fair value measurement heading.

The goodwill in Sub Dubrovnik arose mainly as a result of the twelve-year headlease entered into with Agrokor. The difference between the headlease rental and the base rental has reduced resulting in the impairment of R99.2 million of the goodwill. The recoverable amount of the Sub Dubrovnik cash-generating unit was based on value in use using a discount rate of 9.8%, and amounts to R1.1 billion.

Fair value of financial instruments recognised in the statement of financial position

The group measures fair values using the fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Interest rate swaps

The valuation of interest rate swaps uses observable market data and requires management judgement and estimation. The availability of observable market data and model inputs reduces the need for management's judgement and estimation and also reduces uncertainty associated with the determination of fair values.

The fair value of each interest rate swap is determined by the bank using a valuation technique that maximises the use of observable market inputs. Interest rate swaps are valued by discounting future cash flows using the interest rate yield curve. Interest rate swaps are classified as level 2 financial instruments.

The interest rate has been fixed on R500 million of borrowings at 7.57%, expiring on 21 August 2023. The fair value of the swap at 31 May 2020 was –R44.9 million. The company has entered into the following Euro denominated swaps:

Key metrics	Notional amount (Euro '000)	Fair Value 31 May 2020 (Rand '000)
Contract 1: 0.45% maturing 3 August 2020	7 000	(247)
Contract 2: 0.05% maturing 18 March 2021	2 540	(205)
Contract 3: -0.05% maturing 21 June 2021	30 514	(2 514)
Contract 4: 0.09% maturing 13 January 2022	13 199	(2 170)
Contract 5: -0.2% maturing 14 February 2025	13 537	(1 954)
Contract 6: -0.2% maturing 14 February 2025	3 446	(497)

DIVIDEND DECLARATION

A dividend declaration announcement in respect of the dividend for the six months ended 31 May 2020 and containing information relating to the tax treatment of the dividend and the dividend payment timetable will be released separately on SENS.

By order of the board

Tower Property Fund Limited
21 August 2020

Tower Property Fund Limited
Incorporated in the Republic of South Africa
Registration number: 2012/066457/06
JSE share code: TWR
ISIN: ZAE000179040
(Approved as a REIT by the JSE)
("Tower" or the "group" or the "fund")

Registered address	6th Floor, Sunclare Building, Protea Road, Claremont, 7708 (PO Box 155, Rondebosch 7701)
Contact details	+27 (0)21 659 5948/info@towerpropertyfund.co.za
Company secretary	Statucor Proprietary Limited
Auditor	Mazars
Sponsor	Java Capital
Transfer secretaries	Link Market Services South Africa Proprietary Limited
Directors	A Dalling* (chairman), M Edwards (chief executive officer), J Bester*, M Evans*, J Mabin (chief financial officer), A Magwentshu*, N Milne*, R Naidoo*

** Non-executive*

PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 42 convenience retail, office and industrial properties valued at R4.8 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropoles with 47% by value in Cape Town, 41% in Gauteng and 12% in KwaZulu-Natal. The five Croatian properties represent 37% of the fund's total value. Tower currently has a sectoral spread by value of 46% convenience retail, 46% office, 7% industrial and inventory 1%.

The objective of Tower is to deliver attractive, growing, total returns by (i) investing in properties in strong nodes with growth potential, (ii) active property asset management of our existing portfolio, with a particular focus on unlocking available profits, (iii) prudent balance sheet management in order to manage risk and create capacity to unlock value, (iv) accepting variances in income where these can be shown to add sustainable value, (v) selling non-core and ex-growth properties to realise capital for re-investment, and (vi) cost containment, with a focus on "greening" initiatives.

Tower's near-term focus remains (i) to do all things necessary to ensure that the company and its tenants weather the current worldwide crisis caused by the Covid-19 pandemic, (ii) the redevelopment of the Old Cape Quarter, including the completion of the development of the fifty five new residential units, (iii) the sale of non-core properties in South Africa, and (iv) the unlocking of additional value and income growth in the Croatian portfolio through its shareholding in TPF International.

As announced on SENS on 17 July 2020, Tower's short-term objective of reducing Euro debt secured by South African properties in order to reduce currency risk, has been achieved, after year-end, through the repayment of Euro 6.5 million debt from the proceeds of the sale of Vukovarska and the refinancing of Euro 31.5 million of debt with Rand denominated debt.

IMPACT OF COVID-19

Although only impacting on two months (April and May) of the current period, the Covid-19 crisis (and national lock downs) in both South Africa and Croatia have created unprecedented challenges, reducing growth and adding to the pressures facing our tenants. The steps taken over the last twelve months to strengthen our balance sheet, through the disposal of properties and the reduction of debt, proved well timed and have assisted, and will continue to assist Tower to weather this storm.

Tower's cash reserves were strong pre-lockdown, assisting Tower in managing these turbulent times.

The lockdown affected certain sectors more than others, with our convenience retail (in both Croatia and South Africa) and certain of our better located office properties in South Africa proving most defensive. More detail on the monthly collections and tenant relief per sector (both before and after year-end) are set out in the table below.

	Total billing (Rm)	Relief granted (Rm)	Collections (Rm)	Total collections %
April	34.5	5.3	25.2	86
May	33.9	3.9	23.7	79
June	32.2	1.8	26.5	87
July	31.4	0.4	27.6	89

Tower has followed the lead of the Property Industry Group, in association with the SA REIT organisation, in trying to ensure the survival of tenants and the retention of jobs throughout its portfolio. Tower has focused its attention on the most vulnerable tenants, which include highly impacted tenants such as hairdressers, gyms, restaurants and coffee shops. Relief offered to tenants is dependent on how impacted they have been by the national lockdowns and is offered in either rental concessions for those most impacted, or deferrals. Rental deferrals are typically repayable over a six to twelve month period. To date, Tower has offered R6.2 million in concessions and R5.2 million in deferrals.

FINANCIAL PERFORMANCE

Property performance was stable over the past year but has been negatively affected by certain factors elaborated on below. The SA total property return for the past year was -5.0% (retail -9.9%, office -4.5% and industrial -3.3%). Total property return in Croatia, in Euro, was 6.0% (retail 5.5%, office 6.4% and industrial 8.5%). Property return is calculated as the income return plus the capital return of the properties.

Revenue decreased by 16.1% to R395.6 million as a result of the recognition of the R55.1 million of revenue arising from sale of the Napier Street residential units in the prior year and the reduction of the current year rental income as a result of the sale of non-core properties during the year. This is partially offset by the acquisition of Yazaki Block B in Croatia and the weakening of the Rand.

Net property income decreased by 3.5% from the prior year to R361.2 million. This is predominately as a result of the sale of properties and the impact of Covid-19 related lockdowns, which was partially offset by the weakening of the Rand. On a like-for-like basis, property net income in SA was 3.2% down for the year, with the Croatian net income being 1.9% down in Euros. Property income excludes the straight-line lease accrual and currency fluctuations, and is measured on a like-for-like basis, excluding acquisitions and disposals of property and once-off rates and electricity credits received.

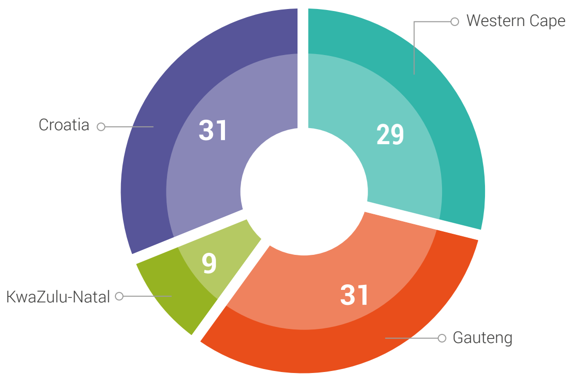
The decrease in net property operating expenses from R44.6 million to R34.4 million is as a result of the properties sold in the current year and the write-off of the pre-9 April 2017 outstanding Konzum debt in the prior year (R8.1 million).

Other items that impacted negatively on Tower's distributable income for the period included increased interest on debt incurred to fund capital expenditure, debt cancellation fees on certain refinanced facilities (which we have not amortised over the period of the new facility) and the sale of assets at yields higher than the cost of debt.

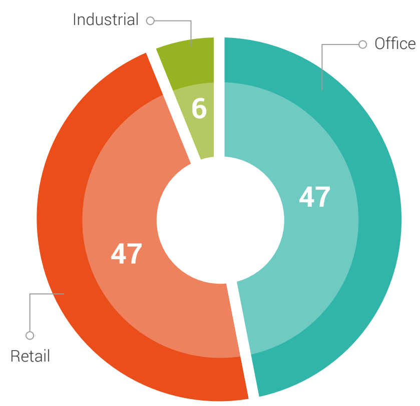
As a result of these factors, Tower's income available for distribution for the financial year is 61.6 cents per share (a 11.6% reduction on the prior year). This reduces to 59.4 cents per share after taking into account tax payable as a result of Tower's decision, detailed below, to reduce its pay-out ratio for the year to 75% of distributable income.

The combined results of these factors, as well as the decision, in the current environment, to no longer add back and distribute rental income lost on developments, means that total dividends for the financial year have reduced by 40% to 44.5 cents per share (35.0 cents interim and 9.5 cents final).

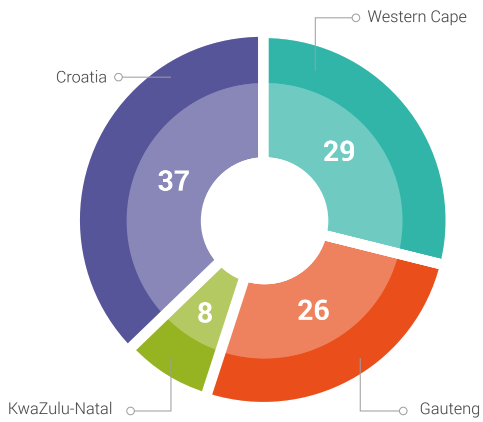
Geographic spread by revenue (%)



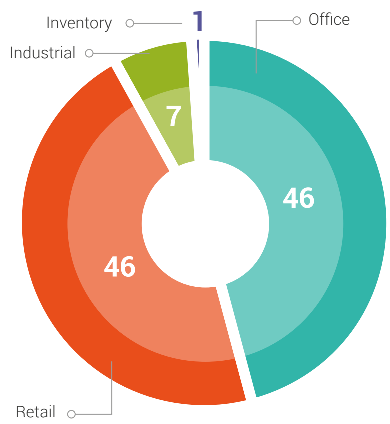
Sectoral spread by revenue (%)



Geographic spread by value (%)



Sectoral spread by value (%)



OPERATING PERFORMANCE

Key metrics	SA (Rand)	Croatia (Euro)
WALE (years) GLA	**2.8**	**7.2**
WALE (years) Revenue	2.5	7
Vacancy totals	**9.5%**	**1.7%#**
Retail	1.5%	1.7%
Office	7.8%	0%
Industrial	0.2%	0%
Rental reversions	**1.7%**	**n/a**
Retail	-5.2%	n/a
Office	5.2%	n/a
Industrial	8.9%	n/a
Average rentals	**127.24**	**13.04**
Retail	127.24	12.85
Office	147.02	15.81
Industrial	52.61	9.63
Trading densities (per m² per month)	**3 149**	**310**
Trading density growth	**3.9%**	**2.3%**
Rental as a percentage of turnover	**6.7%**	**3.5%**

Physical vacancies. No income vacancies due to head leases.

SOUTH AFRICA

Tower was pleased to renew 19 122m² of space and signed new leases totaling 24 421m². The total space let of 43 543m² equates to 20% of total GLA.

Non-core properties sold in the period were:

1. Meadowbrook DC, Edenvale, Johannesburg – R91.7 million (net R90.3 million);
2. Medscheme Office Block, Florida North, Johannesburg – R97.5 million (net R95.9 million)

The sale of these assets provides security against the Old Cape Quarter development ensuring that our loan to value remains at acceptable levels. The proceeds from these sales was used to reduce debt in the portfolio. Tower's continued focus is on the completion of the Old Cape Quarter redevelopment including the completion of 55 new residential units.

Despite difficult trading conditions, certain properties have performed well. Evagold Convenience Retail Centre continues to perform well, with its revitalised tenant mix that has brought a new maturity to the center. The centre is now fully let and trading well. The anchor, Cambridge Foods, boasts trading densities of between R3 800 and R4 800/m², per month. The center has shown positive growth of over 12% year-on-year. The valuation is based on a 10.7% capitalisation rate.

The relaunch of the old Shoprite Modimolle took place at the opening of the new Pick n Pay store in November 2019. Pick n Pay signed a 15-year lease and is trading ahead of initial projected turnover. Renewed interest has resulted in new leases being signed with Auto-Zone, Ocean Basket, Auto Pedigree and other local tenants. The centre has been fully refurbished and has increased its occupancy to 95%. The growth in income has resulted in a valuation increase of 30% year-on-year. The valuation is based on a 10% capitalisation rate.

The overall vacancies in the portfolio are 7.9% (5.6% at 31 May 2019). SA vacancies are currently 9.5% (1.5% retail, 7.8% office and 0.2% industrial). The weighted average lease expiry (WALE) of the SA portfolio by revenue is 2.5 years and the WALE by GLA is 2.8 years.

Total investment property valuations decreased by R429.3 million predominantly due to the downward revaluations of Cape Quarter (mainly due to the 8 000m² Deloitte and Pernod Ricard expiring leases reverting to market rentals), Sturdee Avenue in Rosebank and the Upper Grayston office blocks in Sandton.

97% of Tower's SA portfolio was valued by independent external valuers.

OPERATING PERFORMANCE CONTINUED

CROATIA

The sale of Vukovarska in Croatia for Euro 12.4 million, against a valuation of Euro 11.2 million, highlights the desirability of Tower's Croatian portfolio. Tower has also sold (post the financial year-end) the non-core, Velika Gorica, stand-alone supermarket property, at current value, for Euro 9.1 million. The properties within the portfolio performed well leading up to Covid-19 lockdown.

During lockdown, TPF International Limited, Tower's subsidiary indirectly owning the Croatian properties, approved a 15% reduction at the VMD property for April and May and a 50% reduction, for the same period, in the Konzum portfolio. The Konzum reduction was only for line shop tenants and did not include the anchor tenants.

The performance of the Croatian portfolio has been pleasing. We do not have income vacancies in the properties given the head leases over the retail and office properties. Actual vacancies have reduced in the portfolio to 1.7% at year-end (6.7% at 31 May 2019) and income has grown.

Yazaki, Block B, was acquired in February and transferred in April of this year.

CAPE QUARTER AND OLD CAPE QUARTER

A major project for the company is the redevelopment of the Old Cape Quarter property, previously known as The Piazza. The refurbishments involve the renovation of two floors of commercial space (one retail and one office) and the addition of fifty-five residential apartments.

The intention is to sell the apartments. Seven apartments have been sold to date representing a total of R68 million including VAT. These sales were achieved at an average of R73 000/m^2 including VAT. Sales have slowed this year with buyers adopting a "wait and see" approach to market recoveries post Covid-19.

Given fundamental market changes as a result of Covid-19, Tower is reducing prices on the remaining units to reflect these market changes. It remains our goal to sell all units prior to the completion of the development in Q3, 2021. However, should any units remain unsold, we will continue to actively market them and they will be leased on short-term rentals. Demand for rentals in the area is high and success is being achieved in the current units owned at Cape Quarter Square, where a combination of short- and long-term lets is being marketed.

Leasing of the renovated commercial space has been slow with downward market pressure on rentals. We have strong interest from national tenant supermarkets and have offers for 63% of the space. We aim to bring a "wellness" element to the property which we believe is missing from the area.

Cape Quarter Square was unsuccessful in its tender for the renewal of Deloitte, our existing tenant, which occupies 6 000m^2, and they will be vacating the premises on the 31st of October. We have marketed the property with a number of different users, being office, hotel, shared work space and residential.

BORROWINGS

	Total debt	Rand debt	Euro debt
Loan facilities (R'000)	**2 214 605**	740 779	1 473 826
Weighted cost of funding (%)	**4.90**	8.55	3.07
Debt expiry profile (years)	**2.5**	2.1	2.7
Percentage hedged (%)	**87**	67	98
Hedging expiry profile (years)	**2.2**	3.2	1.8

Based on a property portfolio valued at R4.8 billion, the loan to value (LTV) ratio of the group has increased to 39.1% at the end of the year (45.6% in South Africa and 28.2% in Croatia). The LTV is calculated as interest bearing nominal debt less cash, divided by investment property plus inventory. The LTV has increased during the year as a result of the increase in the exchange rate, the reduction in the valuation of the properties and the Old Cape Quarter development.

The Rand debt net percentage hedged has reduced as Tower transferred its funds out of its access facilities and placed them in a call account in March 2020.

In July 2019, R159 million of Rand debt was refinanced for three years at the 3 month jibar plus 1.85%. In August 2019, the R500 million swap was extended until August 2023 at a 0.02% interest saving.

Tower has successfully refinanced all its Croatian Euro loans (except for the loan related to Velika Gorica, which is in the process of sale) from amortising to interest only. This has had a positive impact on the company's cash flow. Tower successfully refinanced the bank loan for the VMD building on an interest-only basis at the 3 month euribor plus 3.5% (a saving of 1.0% on the previous facility). In January 2020, the bank loan for the Sub Dubrovnik Shopping Centre was refinanced on an interest only basis at the 3-month euribor plus 2.7% (a saving of 1.65% on the previous facility).

BORROWINGS CONTINUED

As previously stated, a strategic intention of the company was to reduce its Standard Bank Euro loans which are secured over Tower's South African properties. This strengthens the company's balance sheet which is a key priority in order to de-risk Tower and position it to take full advantage of the growth potential in the portfolio. Tower used its attributable portion (74% of the net proceeds) of the Vukovarska sale, amounting to Euro 6.5 million after the settlement of the mortgage bond and other costs, to reduce this Euro debt. The cash was received in the group's bank account on 31 May 2020, and the debt was settled on 1 June 2020. Tower refinanced Euro 31.5 million debt with Rand debt from Standard Bank with a loan maturity of 31 July 2022. The interest rate on the Euro debt was 3.2% and the interest rate on the Rand debt is 3-month jibar plus 2.42%. The debt has been refinanced at a currency rate of R19.06. A three year interest rate swap of R600 million was taken out at 4.6%, expiring on 20 July 2023. Two Euro swaps amounting to Euro 43.7 million were unwound, with the cost thereof incorporated in the three year interest rate swap of 4.6%.

Tower used its attributable portion (74% of the net proceeds) of the Velika Gorica sale, amounting to Euro 3.6 million after the settlement of the mortgage bond and other costs, to reduce this Euro debt further.

As announced on SENS on 17 July 2020, the balance of the Euro Standard Bank debt will be settled by the new loan which the company is seeking for Meridijan Shopping Centre in Croatia which is currently ungeared.

PROSPECTS AND DIVIDEND

As the major shareholder of TPF International, Tower will be focused on assisting TPF International's management in growing its property income through 'sweating' its Croatian properties by increasing rentals and turnover and recycling capital into higher growth opportunities.

We expect South African growth to suffer in the current environment, and vacancies to rise over the short- to medium-term. Our focus is on protecting value for our shareholders in these difficult times. The recycling of capital through the sale of properties that have reached their potential or are insufficiently defensive, will remain a key focus, although we recognise the challenges in disposing of properties at reasonable prices in the current environment, and we will remain disciplined sellers.

Our balance sheet is strong which has assisted us in weathering the storm of Covid-19. We do believe that, going forward, there will be areas of good growth for our business, most especially in Croatia and surrounds. Cape Quarter and Old Cape Quarter will remain our focus in the short-term as we finalise the development, dispose of residential units and let up the vacant space.

As announced in previous reports, Tower has for some time considered whether the payment of 100% of its distributable income to shareholders is sustainable, given the need to preserve cash for defensive capital expenditure on its portfolio. Given the particular challenges facing the company in the current environment, we have, for the 2020 financial year, decided to reduce our payout ratio to the minimum payout ratio in terms of the JSE Listing requirements, being 75% of distributable income. The board will assess this ratio from time to time, however, we do not expect to distribute more than 90% of our distributable income going forward.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Audited 12 months ended 31 May 2020 R'000	Audited 12 months ended 31 May 2019 R'000
Revenue			
Contractual rental income		**395 901**	413 775
Straight-line lease accrual		**(322)**	2 858
Sale of inventory	3	**–**	55 107
		395 579	471 740
Net property operating expenses	4	**(34 406)**	(44 518)
Cost of sales	3	**–**	(53 036)
Net property income		**361 173**	374 186
Administration expenses	6	**(25 970)**	(24 648)
Gain/(loss) on disposal on investment property	7	**18 545**	(3 150)
Disposal of goodwill		**(8 982)**	(3 490)
Impairment of goodwill		**(214 495)**	(10 659)
Inventory write-down		**(11 273)**	–
Foreign exchange (loss)/gain	8	**(28 149)**	(22 204)
Net operating profit		**90 849**	310 035
Fair value gains on investment properties		**39 019**	245 191
Fair value losses on investment properties		**(468 356)**	(167 944)
Fair value adjustments on interest rate derivatives		**(37 174)**	(7 777)
Fair value gain on rental guarantee	9	**22 924**	–
Profit/(Loss) from operations		**(352 738)**	379 505
Finance income		**5 585**	3 348
Finance costs		**(105 353)**	(102 383)
Profit/(Loss) before taxation		**(452 506)**	280 470
Taxation	10	**(16 674)**	(5 650)
Profit/(Loss) for the period		**(469 180)**	274 820
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Exchange difference on foreign operations		**54 962**	35 367
Total comprehensive profit/(loss) for the period		**(414 218)**	310 187
Profit/(Loss) for the period attributable to:			
Equity shareholders of Tower Property Fund Limited		**(494 956)**	246 400
Non-controlling interest	11	**25 776**	28 420
		(469 180)	274 820
Total comprehensive income/(loss) attributable to:			
Equity shareholders of Tower Property Fund Limited		**(487 960)**	266 962
Non-controlling interest	11	**73 742**	43 225
		(414 218)	310 187
Basic and diluted earnings/(loss) per share (weighted average shares in issue) (cents)		**(146.8)**	72.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited 12 months ended 31 May 2020 R'000	Audited 12 months ended 31 May 2019 R'000
Assets			
Non-current assets			
Investment property		**4 507 386**	4 594 668
Straight-line lease accrual		**50 684**	37 934
Property, plant and equipment		**144**	150
Goodwill		**–**	223 477
		4 558 214	4 856 229
Current assets			
Inventories	12	**54 411**	28 232
Trade and other receivables	13	**149 977**	108 921
Cash and cash equivalents	14	**336 678**	94 948
Straight-line lease accrual		**12 414**	–
		553 480	232 101
Assets held for sale	15	**176 646**	521 819
		730 126	753 920
Total assets		**5 288 340**	5 610 149
Equity and liabilities			
Equity			
Stated capital		**3 035 344**	3 035 344
Treasury capital	16	**(14 085)**	(14 085)
Foreign currency translation reserve		**19 789**	12 793
Share-based payment reserve		**896**	327
Retained income		**(470 838)**	268 046
Shareholders' interest		**2 571 106**	3 302 425
Non-controlling interest	11	**339 000**	312 770
Total equity		**2 910 106**	3 615 195
Liabilities			
Non-current liabilities			
Other financial liabilities		**2 246 609**	1 699 243
Loan payable to shareholder		**33 342**	25 881
		2 279 951	1 725 124
Current liabilities			
Other financial liabilities		**20 510**	162 313
Trade and other payables	17	**69 085**	83 109
Tax payable	10	**7 504**	–
Rental guarantee	9	**1 184**	24 408
		98 283	269 830
Total equity and liabilities		**5 288 340**	5 610 149
Net asset value per share (shares in issue at period end) (cents)		**762**	979

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Audited 12 months ended 31 May 2020 R'000	Audited 12 months ended 31 May 2019 R'000
Cash generated from operations		247 111	397 245
Finance income		5 585	3 348
Finance costs		(105 182)	(99 530)
Tax paid		(6 317)	(4 430)
Net cash from operating activities		141 197	296 633
Investment property acquired		–	(83 758)
Cost capitalised to investment property		(92 664)	(43 591)
Property, plant and equipment acquired		(57)	(42)
Proceeds on sale of investment property		276 732	16 899
Net cash from investing activities		184 011	(110 492)
Proceeds from the sale of interest to non-controlling shareholders		–	183 020
Acquisition of treasury shares		–	(14 085)
Local loans raised		505 190	275 422
Local loans repaid		(255 701)	(328 039)
Foreign loans raised		394	–
Foreign loans repaid		(35 321)	(32 612)
Debt-raising fee paid		(4 721)	–
Oryx rental guarantee payment		(300)	–
Non-controlling interest loan raised		2 188	–
Dividends paid		(256 306)	(268 083)
Return of capital to non-controlling interest		(35 134)	–
Net cash from financing activities		(79 711)	(184 377)
Net movement in cash and cash equivalents		245 497	1 764
Cash and cash equivalents at beginning of period		94 948	92 775
Foreign exchange differences on cash balances		(3 767)	409
Cash and cash equivalents at end of period		336 678	94 948

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Treasury capital R'000	Foreign currency translation reserve R'000	Share-based payment reserve R'000	Retained earnings R'000	Share-holders' interest R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 June 2018	3 035 344	–	(7 769)	–	260 933	3 288 508	27 307	3 315 815
Acquisition of treasury shares	–	(14 085)	–	–	–	(14 085)	–	(14 085)
Sale of interest in Tower International	–	–	–	–	21 751	21 751	249 283	271 034
Profit for the year	–	–	–	–	246 400	246 400	28 420	274 820
Share-based payment	–	–	–	327	–	327	–	327
Foreign currency translation differences	–	–	20 562	–	–	20 562	14 805	35 367
Dividends paid	–	–	–	–	(261 038)	(261 038)	(7 045)	(268 083)
Balance at 31 May 2019	**3 035 344**	**(14 085)**	**12 793**	**327**	**268 046**	**3 302 425**	**312 770**	**3 615 195**
Loss for the year	**–**	**–**	**–**	**–**	**(494 956)**	**(494 956)**	**25 776**	**(469 180)**
Share-based payment	**–**	**–**	**–**	**569**	**–**	**569**	**–**	**569**
Foreign currency translation differences	**–**	**–**	**6 996**	**–**	**–**	**6 996**	**47 966**	**54 962**
Return of capital to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**(35 134)**	**(35 134)**
Dividends paid	**–**	**–**	**–**	**–**	**(243 928)**	**(243 928)**	**(12 378)**	**(256 306)**
Balance at 31 May 2020	**3 035 344**	**(14 085)**	**19 789**	**896**	**(470 838)**	**2 571 106**	**339 000**	**2 910 106**

RECONCILIATION OF EARNINGS AND HEADLINE EARNINGS

	Notes	Audited 12 months ended 31 May 2020 R'000 Gross	Net	Audited 12 months ended 31 May 2019 R'000 Net
Profit/(Loss) attributable to ordinary equity holders			(494 956)	246 400
Adjusted for:				
Change in fair value of investment properties net of non-controlling interests		429 338	435 662	(66 618)
Disposal of goodwill		8 982	8 982	3 490
Impairment of goodwill		214 495	214 495	10 659
(Gain)/Loss on disposal on investment property		(18 545)	(11 567)	3 150
Headline earnings			152 616	197 081
Weighted average number of shares in issue			337 244 093	338 589 340
Headline and diluted headline earnings per share (weighted average shares in issue) (cents)			45.3	58.2

RECONCILIATION OF HEADLINE EARNINGS TO DISTRIBUTABLE EARNINGS (NON-IFRS MEASURE)

Distributable earnings is a key performance measure by South African REITs. There is no IFRS standard that governs the calculation of distributable earnings, and the following reconciliation is in line with the prior year and the SA REIT association best practice recommendations.

	Notes	Audited 12 months ended 31 May 2020 R'000 Gross	Audited 12 months ended 31 May 2020 R'000 Net	Audited 12 months ended 31 May 2019 R'000 Net
Headline earnings			152 616	197 081
Adjusted for:				
Straight-line lease accrual			322	(2 858)
Equity-settled share-based payment reserve			569	327
Change in fair value of interest rate derivatives		37 174	36 524	7 777
Change in fair value of rental guarantee	9		(22 924)	–
Distributable profit			167 107	202 327
Adjusted for:				
Realised foreign exchange loss	8	28 149	15 114	20 200
Transaction costs	18		5 861	–
Profit on sale of inventory			–	(2 072)
Inventory write-down			11 273	–
TPF International set up costs			–	4 685
Konzum arrears			–	8 056
Amortisation of debt raising fees			908	1 776
Distributable earnings			200 263	234 972
Development income lost	19		6 259	15 691
Distribution paid			150 197	250 663
Distribution paid			150 197	250 663
Taxable dividend (declared on 21 August 2020)			32 134	–
Taxable dividend (declared on 28 February 2020)			118 063	–
Taxable dividend (declared on 30 August 2019)			–	126 010
Taxable dividend (declared on 28 February 2019)			–	124 653
Number of shares in issue at year-end (including treasury shares)			339 549 647	339 549 647
Number of shares in issue at year-end (excluding treasury shares)			337 244 093	337 244 093
Distribution per share			44.5	74.2
Six months ended 31 May			9.5	37.4
Six months ended 30 November			35.0	36.8
Distributable earnings per share (weighted average shares in issue) (cents)			59.4	69.4

SEGMENTAL ANALYSIS

	SOUTH AFRICA					CROATIA (INCLUDING MAURITIUS)				
R'000	Retail	Office	Industrial	Inventory	Total	Retail	Office	Industrial	Total	Grand Total
For the year ended 31 May 2020										
Property assets*	1 128 482	1 685 452	154 980	54 411	3 023 325	1 062 850	547 056	168 454	1 778 360	4 801 684
Additions to non-current assets and inventory	56 863	38 948	874	35 341	132 026	–	–	55 563	55 563	187 589
Straight-line lease accrual	34 858	26 806	1 434	–	63 098	–	–	–	–	63 098
Segment liabilities**	690 877	936 237	81 933	54 234	1 763 281	323 975	180 906	67 362	572 243	2 335 524
Fair value adjustment to investment properties	(138 991)	(301 602)	(7 222)	–	(447 815)	3 031	10 273	5 174	18 478	(429 337)
Revenue (excluding straight-line lease adjustments)	103 144	154 054	16 386	–	273 584	80 874	33 418	8 025	122 317	395 901
Net operating costs	(19 271)	(13 133)	(787)	–	(33 191)	–	(1 087)	(128)	(1 215)	(34 406)
Segment profit	83 873	140 921	15 599	–	240 393	80 874	32 331	7 897	121 102	361 496
Straight-line lease adjustment	–	–	–	–	–	–	–	–	–	(322)
Non-property related expenses	–	–	–	–	–	–	–	–	–	(25 970)
Other income	–	–	–	–	–	–	–	–	–	18 545
Disposal of goodwill – Tower Asset Managers Proprietary Limited	–	–	(2 794)	–	(2 794)	(6 188)	–	–	(6 188)	(8 982)
Impairment of goodwill – Tower Asset Managers Proprietary Limited	(29 736)	(46 608)	(4 160)	–	(80 504)	(25 047)	(9 782)	–	(34 829)	(115 333)
Impairment of goodwill – Sub Dubrovnik d.o.o.	–	–	–	–	–	(99 162)	–	–	(99 162)	(99 162)
Inventory write-down	–	–	–	(11 273)	(11 273)	–	–	–	–	(11 273)
Foreign exchange gain/(loss)	–	–	–	–	–	–	–	–	–	(28 149)
Net operating profit	–	–	–	–	–	–	–	–	–	90 850
For the year ended 31 May 2019										
Property assets*	1 285 727	1 979 451	247 500	28 232	3 540 910	1 095 575	462 250	84 068	1 641 893	5 182 803
Additions to non-current assets and inventory	26 742	12 862	6 190	24 703	70 497	–	–	83 758	83 758	154 255
Straight-line lease accrual	9 843	26 586	1 505	–	37 934	–	–	–	–	37 934
Segment liabilities**	523 850	802 298	98 844	17 129	1 442 121	333 602	168 442	139	502 183	1 944 304
Fair value adjustment to investment properties	5 551	23 549	13 831	–	42 931	22 801	11 515	–	34 316	77 247
Revenue (excluding straight-line lease adjustments)	107 333	170 405	22 636	55 107	355 481	78 153	32 496	2 752	113 401	468 882
Net operating costs	(17 926)	(16 093)	(1 410)	(53 036)	-88 465	(8 056)	(1 033)	–	(9 089)	(97 554)
Segment profit	89 407	154 312	21 226	2 071	267 016	70 097	31 463	2 752	104 312	371 328
Straight-line lease adjustment	–	–	–	–	–	–	–	–	–	2 858
Non-property related expenses	–	–	–	–	–	–	–	–	–	(24 648)
Other income	–	–	–	–	–	–	–	–	–	(3 150)
Disposal of goodwill	–	–	(3 490)	–	(3 490)	–	–	–	–	(3 490)
Impairment of goodwill	–	(10 141)	(518)	–	(10 659)	–	–	–	–	(10 659)
Foreign exchange gain/(loss)	–	–	–	–	–	–	–	–	–	(22 204)
Net operating profit	–	–	–	–	–	–	–	–	–	310 035

* *Property assets*
** *Segment liabilities*

NOTES

		Audited 12 months ended 31 May 2020 R'000	Audited 12 months ended 31 May 2019 R'000
1)	**Segmental analysis**		
	Investment property	4 507 386	4 594 668
	Straight-line lease accrual	63 098	37 934
	Property, plant and equipment	144	150
	Inventories	54 411	28 232
	Investment property held for sale	176 646	521 819
	* Property assets	4 801 685	5 182 803
	** Segment liabilities	2 335 524	1 944 304
	Non-segment liabilities		
	– Trade and other payables	680	361
	– Loan to non-controlling interests	33 342	25 881
	– Tax payable	7 504	–
	– Oryx guarantee	1 184	24 408
	Total liabilities	2 378 234	1 994 954
2)	**Related party transactions included:**		
	Fees paid to Spire Property Management Proprietary Limited	17 216	21 742
	Relationship: Spire Property Management Proprietary Limited is responsible for the provision of property management services to Tower. Marc Edwards, CEO of Tower, is a director and shareholder of Spire Property Group Proprietary Limited (ultimate shareholder of Spire Property Management Proprietary Limited).		
	The fees charged for property management services by Spire Property Management Proprietary Limited to Tower are made up of:		
	> Property management fees which are calculated as a % of collections		
	> Project fees on capital spent are calculated on a sliding scale (where relevant); and		
	> Letting and renewal commissions which are based on a % of rental income.		
	Share based payments	569	327
	During the prior year, share options were offered to the directors and senior management of the company. These options will vest in equal tranches in three to five years, subject to the achievement of agreed upon vesting conditions contained in the rules of the scheme.		
3)	Sale of inventory and cost of sales relate to the sale of the Napier Street units in the prior year. These were classified as inventory.		
4)	**Net property operating expenses**		
	Insurance	2 339	2 297
	Letting commission	6 366	6 680
	Municipal expenses	102 804	107 868
	Other operating expenses	17 654	25 514
	Property management fees	13 085	14 269
	Repairs and maintenance	8 232	7 960
	Security and cleaning	21 211	20 839
	Gross property expenses	171 691	185 427
	Operating expense recoveries	(137 285)	(140 909)
	Net property operating expenses	34 406	44 518

Operating expenses are lower in the current year partially due to the write-off of the pre-9 April 2017 outstanding Konzum debt of R8.1 million in the prior year and the reversal of the 31 Beacon Road electricity accrual (R 4 million) in the current year.

NOTES CONTINUED

	Audited 12 months ended 31 May 2020 R'000	Audited 12 months ended 31 May 2019 R'000
5) Property ratios		
Net property expense ratio	**17%**	19%
Gross property expense ratio	**32%**	33%
Tenant retention ratio	**94%**	93%
6) Administration and corporate costs		
Salaries	**15 039**	11 397
Professional service fees	**3 537**	7 652
Other	**7 394**	5 599
Total	**25 970**	24 648
Administrative cost-to-income ratio	**5%**	4%

The increase in salaries in the current year is predominately as a result of the short-term incentives paid to management, which have been the first short-term incentives paid since the inception of Tower. Annual cost to company increased by 7% for the year.

The reduction in professional fees is as a result of the fees paid to set up TPF International and the sale of 26% thereof to Oryx in the prior year.

7) Profit on the disposal of investment property in the current year relates to the sales of Vukovarska and the Meadowbrook Distribution Centre. This is partially offset by the loss made on the sale of Medscheme. The prior year loss relates to the sales of Nampak and the Pick n Pay Distribution Centre.

8) The foreign exchange loss is as a result of the forex movement on the Croatian bank loans and shareholder loans from Euro to Kuna. The prior year gain and loss have been combined.

9) Oryx paid Tower Euro 1.6 million (R24 million) for Tower to guarantee any shortfall in the difference between the contracted rental and the rental received from the Agrokor portfolio for a period of two years, ending 31 May 2020. For the year ending 31 May 2019, Tower had to reimburse Oryx R0.3 million of the guarantee due to the Vukovarska rental reduction. For the year ended 31 May 2020, Tower had to reimburse Oryx R1.2 million of the guarantee due to the Vukovarska rental reduction and the COVID concessions granted. The remainder of the guarantee has been released as a fair value adjustment through profit and loss.

10) R7.5 million of tax has been provided for in the current year as a result of less than 100% of the taxable profit being distributed. The tax expense in the current year included R9.2 million of tax paid in Croatia and Mauritius. The tax in Croatia arose due to taxable foreign exchange gains made between the Euro and the Kuna and the tax deductible shareholder interest rate being reduced by the Croatian tax authorities. Included in the above is R5.3 million tax that was paid in Croatia on the sale of Vukovarska.

11) Non-controlling interests relates to the Oryx 26% holding in TPF International and the VMD Grupa d.o.o. 20% holding in Tower Europe d.o.o. TPF International returned capital from the proceeds of sale of Vukovarska, to its shareholders (Tower International Treasury and Oryx) according to their respective shareholdings during the year. There was no dilution in % holding. Tower Treasury is a 100% subsidiary of Tower Property Fund Limited.

12) Inventory relates to the Napier Street residential units which are currently for sale as well as costs incurred to date on the development of the Old Cape Quarter residential units.

13) Trade and other receivables has increased predominantly as a result of prepayments made in respect of the Old Cape Quarter development, VAT receivable on the Old Cape Quarter development and an increase in trade debtors as a result of COVID. The impact of Covid-19 on the financial position of tenants required increased expected loss rates and therefore an increased loss allowance for debtors.

NOTES CONTINUED

14) Cash and cash equivalents has increased from the prior year as all cash was kept in a call account at year-end, whereas it was held in access facilities previously. The cash from the sale of Vukovarska (R125 million) was in the process of transfer from TPF International to Tower International Treasury Proprietary Limited at 31 May 2020.

15) Velika Gorica has been classified as held for sale at year-end. De Ville Centre and Evagold Shopping Centre were reclassified from investment property held for sale to investment property during the year due to management taking these properties off the market.

16) A 100% held subsidiary of Tower acquired 2.3 million Tower shares during the 2019 financial year. The shares were acquired at an average price of R6.09 per share.

17) Trade and other payables has decreased in the current year as a result of the VAT payable on the sale of the Napier Street residential units in the prior period and the accrual of the Napier Street development costs in the prior period, as well as the reduction of municipal accruals in the current period.

18) The transaction costs relate to sale of Vukovarska. Included in this amount is R5.3 million income tax paid in Croatia and the debt cancellation fee of R0.6 million as a result of the sale. These costs are added back in terms of the SA REIT Best Practice Guide version 2.

19) Development income lost relates to untenanted properties under development during the year.

20) **Subsequent events**

Cash from the sale of Vukovarska received before year-end was used to settle Standard Bank Euro debt after year-end. The cash (post settling Croatian debt) was received into Tower International Treasury at year-end, but only used to settle Euro 6.5 million Standard Bank Euro debt on 1 June 2020.

On 16 July 2020 Tower finalised the refinancing of Euro 31.5 million of its remaining Euro debt into ZAR debt of R600.4 million. The debt has been swapped at a currency rate of Euro 1.00 : R19.06, with a loan maturity of 31 July 2022. The interest rate on the ZAR debt is 3-month JIBAR plus 2.42%. The interest rate on the Euro debt was 3-month Euribor plus 3.20%. Shareholders are further advised that, on 16 July 2020, Tower has taken out a three-year interest rate swap on R600 million of JIBAR debt, fixing at 4.6%. Tower has further unwound two Euro swaps amounting to Euro 43.7 million, the cost of which has been incorporated in the three year interest rate swap rate of 4.6%. The balance of the Euro debt will be settled using the proceeds from the sale of Velika Gorica and a new asset backed Euro loan against Meridijan Shopping Centre in Croatia, which was previously ungeared.

An agreement has been concluded for the sale of its Velika Gorica retail property in Zagreb, Croatia at a price of Euro 9.1 million. The sale of Velika Gorica is unconditional. The effective date of the disposal is the first day following payment of the full purchase price, which occurred on 30 July 2020.

The financial impact of COVID-19 after year-end cannot be fully quantified at this stage due to uncertainty about the duration of different levels of the lock down. The company is making steady progress with rent collection under these difficult circumstances and debtors are being monitored closely by management. The lockdown is affecting certain sectors more than others, with our convenience retail (in both Croatia and South Africa) and certain of our better located office properties in South Africa proving most defensive. Our weighting to these sectors means that Tower is faring relatively well. The group has performed additional stress testing of its cash flow forecast and should have sufficient cash resources under all of the scenarios tested for the forecast period. The group is still in a strong liquidity position and holds enough cash (R337 million) to fund operational expenses and debt commitments in the immediate future, with existing cash resources, for all the companies in the group.

No significant rental reductions were required after year-end due to the lifting of lock down regulations and no further adjustments were required to the fair value of investment property after year-end.

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