# SUMMARISED CONSOLIDATED ANNUAL RESULTS

## FOR THE YEAR ENDED 31 MAY 2021

# BASIS OF PREPARATION

The summarised audited consolidated annual financial statements (summarised results) for the year ended 31 May 2021, 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 2021, 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 2021, 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 directors take full responsibility for the preparation of the summarised results for the year ended 31 May 2021, 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 2021. The directors are not aware of any matters or circumstances arising subsequent to 31 May 2021 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 change listed below:

## STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

The group adopted the new SA REIT Best Practice Guide 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.

## SA REIT BEST PRACTICE GUIDE

The SA REIT Best Practice Guide has been updated to improve the transparency, comparability and relevance of reporting in the REIT sector. Mandatory SA REIT branded metrics have been introduced, providing a framework that sets out the detailed calculation of these metrics and recommending disclosures which are key to the users of a REIT's financial statements. The reporting of these metrics should go a long way in providing additional comfort to investors, financiers and other users of the financial information of REITs. The adoption of this standard does not have an impact on its financial position or results as it mainly changes the way earning per share measures are disclosed as well as other SA REIT branded metrics.

## 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 revaluation adjustment of R444 million (2020: net downward revaluation adjustment of R429.3 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. Refer to note 3 for the ranges of valuation inputs applied and analysis of valuation sensitivity to the most significant inputs.

Variation in the input assumptions resulted 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 has affected the business and continues to do so with tightening and easing of restrictions as infection rates rise and fall. The impact thereof has been significantly less severe in Croatia. However, the possibility of future rental concessions and vacancies as a result of economic casualties among tenants must be considered when applying the going concern assumption. Factors supporting the application of the assumption include the strength of the company's financial position, and the relative stability of the Croatian outlook with respect to the virus.

# BASIS OF PREPARATION CONTINUED

## SIGNIFICANT ESTIMATES CONTINUED

### 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 group has entered into the following ZAR-denominated swaps:

| Key metrics | Notional amount (Rand '000) | Fair Value 31 May 2021 (Rand '000) |
|---|---|---|
| Contract 1: 7.57% maturing 21 August 2023 | 500 000 | (32 248) |
| Contract 2: 4.6% maturing 20 July 2023 | 600 000 | (1 566) |

The company has entered into the following Euro-denominated swaps:

| Key metrics | Notional amount (Euro '000) | Fair Value 31 May 2021 (Rand '000) |
|---|---|---|
| Contract 1: -0.2% maturing 14 February 2025 | 13 537 | (1 722) |
| Contract 2: -0.2% maturing 14 February 2025 | 3 446 | (438) |

# DIVIDEND DECLARATION

A dividend declaration announcement in respect of the dividend for the year ended 31 May 2021 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**
20 August 2021

**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<br>(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** | JSE Investor Services Proprietary Limited |
| **Directors** | A Dalling* (chairman), M Edwards (chief executive officer), J Bester*, I Brodie*, M Evans*, C Hansen*, 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 40 convenience retail, office and industrial properties valued at R4 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropoles with 51% by value in the Western Cape, 37% in Gauteng and 12% in KwaZulu-Natal. The four Croatian properties represent 34% of the fund's total value. Tower currently has a sectoral spread by value of 46% convenience retail, 45% office, 7% industrial and inventory 2%.

The objective of Tower is to deliver attractive, total return growth 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 properties to realise capital for re-investment, and (vi) cost containment, with a focus on "greening" initiatives.

Tower's near-term focus remains (i) the leasing of vacancies in Gauteng through our dedicated team, (ii) the sale of non-core assets in Gauteng and KwaZulu-Natal (iii) to do all things necessary to ensure that the company and its tenants continue to weather the crisis caused by the Covid-19 pandemic, (iv) the completion of the redevelopment of the Old Cape Quarter, including the completion of the development of the fifty-five new residential units by end August 2021, and (v) the unlocking of additional value and income growth in the Croatian portfolio through its shareholding in TPF International Limited.

## ON-GOING IMPACT OF COVID-19

The past financial year has been extremely challenging as South Africa continues to manage the various Covid-19 waves. Gauteng offices have been particularly hard-hit with vacancies at historic highs. SAPOA states that national vacancies at end May 2021 are at 15% nationally across all property sectors with offices in Sandton and Bryanston, as high as 35%. Our Western Cape properties have recovered strongly with Cape Quarter being virtually fully let and our new large office tenant, Rain (Pty) Ltd, having a positive impact on the smaller retail tenants in the centre. A positive trend to emerge from the various lockdowns, is the demand for our Neighbourgood branded shared workspace at Cape Quarter which is 90% let.

The steps taken to strengthen our balance sheet, through the disposal of properties and the reduction of Euro denominated debt, proved well timed and have assisted Tower to weather this storm.

To date R14.6 million has been given as concessions and R6.4 million as rental deferrals.

## FINANCIAL PERFORMANCE AND YEAR-END DIVIDEND

In our recent interim results, the board felt that given the uncertainty around tenant performance due to the Covid-19 second wave, it was prudent to defer the interim distribution to the financial year-end. Tower's income available for distribution for the financial year is 29.9 cents per share (a 49.6% reduction on the prior year). As per the prior year, Tower will distribute 75% of its distributable income, resulting in a dividend per share of 22.4 cents being declared for the year.

In our interim results for the period ended 30 November 2020, we stated that we expected distributions to be negatively impacted by trading conditions for the short term and that a more normalised distributable income for that period was 23 cents per share as opposed to the 19 cents distributable income earned. Trading conditions have not improved in most sectors with the third wave of Covid-19 resulting in further lockdowns affecting the economy via increasing vacancy levels. Tower's distributable income is down in the second half of the 2021 financial year. The property net income is down by R28 million on a like-for-like basis given vacancies, negative rental reversions and an increase in bad debt write offs of R11 million. Cape Quarter Square's rental income decreased by R12 million due to reduced market-related rentals for new tenants (now virtually fully let), including space take-up in the new Rain (Pty) Ltd lease. Other factors contributing to the reduction of distributable income is the settlement of Euro debt and the strengthening of the Rand affecting inflows from our Croatian investments. Our Western Cape and Croatian portfolios (accounting for 59% of our income and 68% of our value) have performed well operationally despite the tough economic conditions. Our Gauteng portfolio (accounting for 32% of our income and 24% of our value) has performed poorly given the weighting of decentralised offices.

# FINANCIAL PERFORMANCE AND YEAR-END DIVIDEND CONTINUED

South African total property return for the past year was -6.7% (retail: 2.5%; office: -16.4% and industrial -9.2%). Total property return in Croatia was significantly higher than South Africa. In Euro, the return was 6.1% (retail: 6.1%; office: 6.1% and industrial 6.9%). Total property return is calculated as the income return plus the capital return of the properties.

Revenue decreased by 18.4% from R395.6 million to R323 million and net property operating expenses increased from R34.4 million to R55.1 million.

On a like-for-like basis, property net income in South Africa was 32.7% down for the year. This is predominantly as result of increased vacancies to 19.9% (the highest ever figure), Covid-19 concessions given, negative rental reversions, increased bad debts written off and the reduction in recoveries due to increased vacancies.

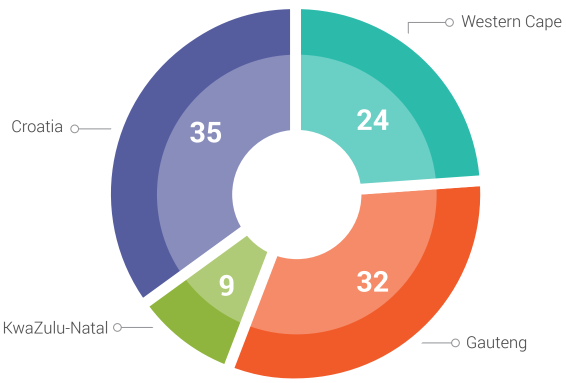
Cape Quarter, our largest South African property, experienced a large net income reduction due to the anchor office tenant Deloitte's lease expiring and the replacement tenant taking up its full premises on a stepped basis over two years. We successfully replaced Deloitte with an outstanding tenant, Rain (Pty) Ltd, on 1 April 2021; however, we were unable to achieve the gross rental paid by Deloitte. Deloitte had been in occupation for a 10-year period which meant that on expiry its rental had escalated considerably above market-related rentals. The income in Cape Quarter is therefore down for the year under review as Deloitte's space was vacant for five months in the period, equating to a drop of R9.1 million net property income for this tenancy. The Pernod Ricard space was vacant for nine months, equating to approximately R4.5 million net property income lost for the period. We have successfully refurbished this space into 1 850m$^2$ of shared workspace and have achieved rentals 60% higher than traditional office rentals (R190/m$^2$ net rental against R120/m$^2$ for traditional office space). Cape Quarter is now fully let and the net income will therefore improve going forward.

On a like-for-like basis, property net income in Croatia is down 1.2% in Euros. The decrease is due to the VMD headlease which expired on 31 July 2020. The net property income from VMD is down Euro 25 581 per month as a result thereof (Euro 10 699 reduction in rental income and Euro 14 882 additional property management fees). We have retained the services of VMD Group to manage these two properties in Croatia. Excluding VMD, the Croatian like-for-like net property income has increased by 3.8%. 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.

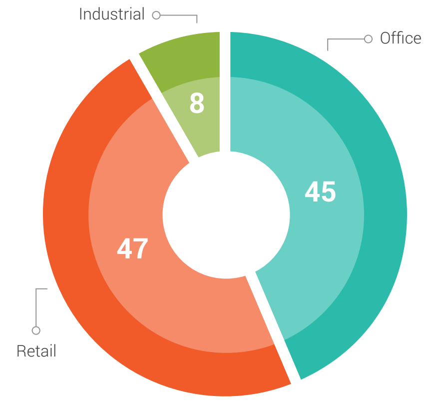
As announced on SENS on 17 July 2020, Tower's short-term objective of reducing Euro debt secured by South African properties in order to reduce currency risk has been achieved through the repayment of Euro 11.6 million debt from the proceeds of the sales of Vukovarska and Velika Gorica and the refinancing of Euro 31.5 million of debt with Rand-denominated debt. We have therefore reduced this Euro debt from Euro 47 million to Euro 3.9 million. This has had a negative impact on distributable earnings, but significantly de-risks the balance sheet.

# OPERATING PERFORMANCE

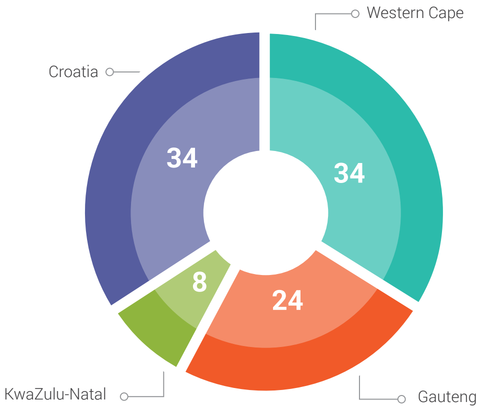
Geographic spread by revenue (%)



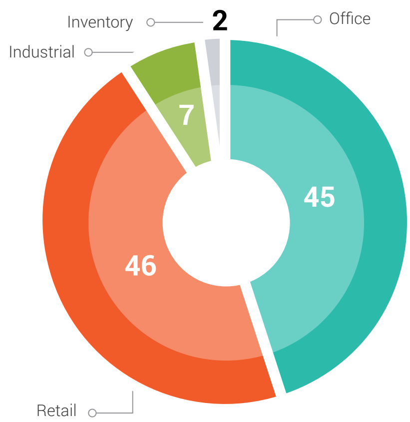

Sectoral spread by revenue (%)




Geographic spread by value (%)




Sectoral spread by value (%)




| Key metrics | SA (Rand) | Croatia (Euro) |
|---|---|---|
| **WALE (years) GLA** | **3.0** | **5.7** |
| **WALE (years) Revenue** | **2.9** | **5.5** |
| **Vacancy totals** | **19.9%** | **5.6%#** |
| Retail | 2.6% | 1.9% |
| Office | 16.8% | 3.7% |
| Industrial | 0.4% | 0% |
| **Rental reversions** | **(15.4%)** | **n/a** |
| Retail | (24.9%) | n/a |
| Office | (9.9%) | n/a |
| Industrial | (1.3%) | n/a |
| **Average Gross Rentals** | **107** | **12.98** |
| Retail | 126 | 13.60 |
| Office | 110 | 13.95 |
| Industrial | 55 | 9 |
| **Weighted Average Escalations** | **6.3%** | **0.5%** |
| Retail | 6.9% | 1.1% |
| Office | 7.2% | 0% |
| Industrial | 5.5% | 0% |
| **Food anchor Trading densities (per m² per month)** | **3 442** | **252** |
| **Trading density growth** | **(4.7%)** | **(7.3%)** |
| **Rental as a % of turnover** | **8.2%** | **4.6%** |

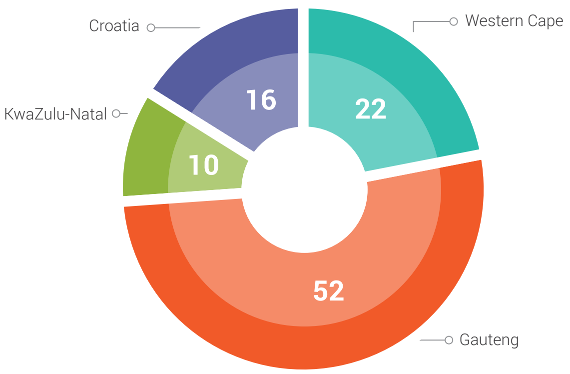
# *Physical vacancy covered by head lease*

# OPERATING PERFORMANCE CONTINUED

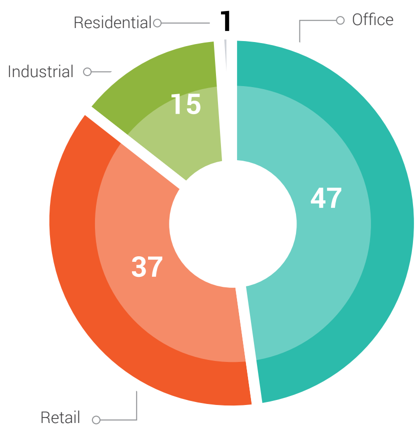
| Key metrics | SA (Rand) | Croatia (Euro) |
|---|---|---|
| **Number of properties by subsector** | | |
| Retail | 4 | 2 |
| Office | 23 | 1 |
| Industrial | 4 | 1 |
| Mixed Use | 5 | 0 |
| **Average Lease Length (Years)** | | |
| Retail | 4.8 | 7 |
| Office | 3.2 | 3.5 |
| Industrial | 2.9 | 7 |
| **GLA Weighted Average Lease Length by Sector (years)** | | |
| Retail | 4 | 7 |
| Office | 2.4 | 2.9 |
| Industrial | 2.1 | 7 |
| **Gross Rent Weighted Average Lease Length by Sector (years)** | | |
| Retail | 3.5 | 7 |
| Office | 2.5 | 3 |
| Industrial | 1.7 | 7 |

## VALUATIONS: 63% OF PROPERTIES BY VALUE WERE EXTERNALLY VALUED AT YEAR-END

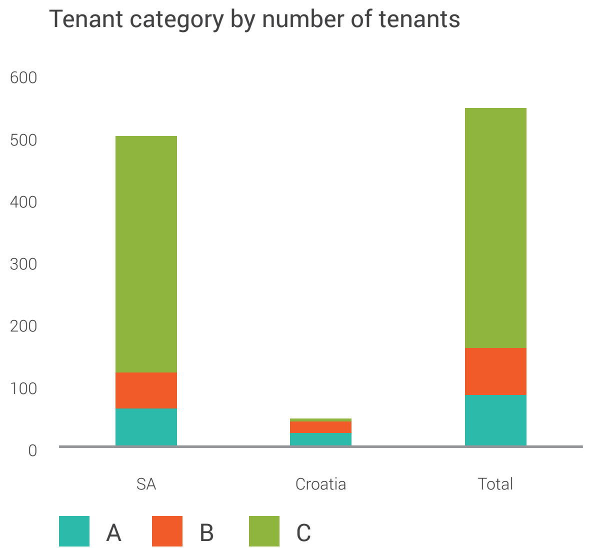
Portfolio geographic spread by GLA (%)

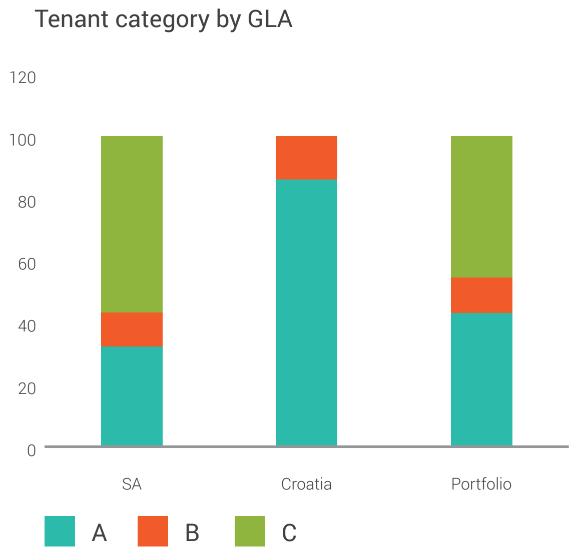


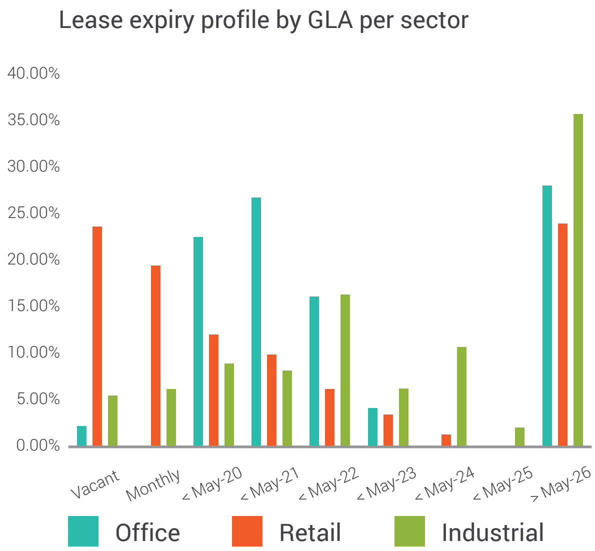

Portfolio sectoral spread by GLA (%)

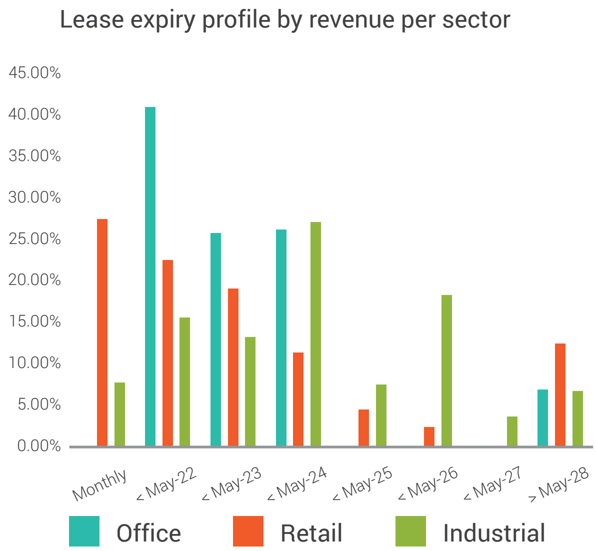


# OPERATING PERFORMANCE CONTINUED



## SOUTH AFRICA

Tower was pleased to renew 41 003m² of space and signed new leases totalling 25 781m². The total space let of 66 784m² equates to 33% of total GLA.

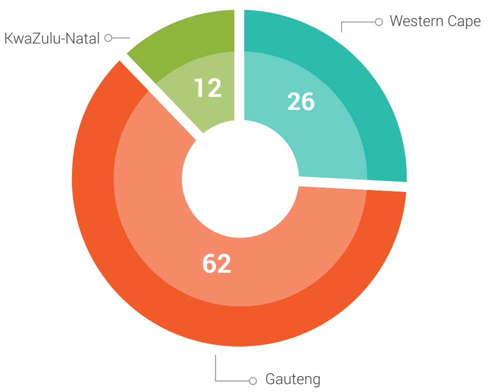
Non-core properties sold in the period were:

1. Shoprite Ennerdale, Ennerdale, Gauteng – R77 million;

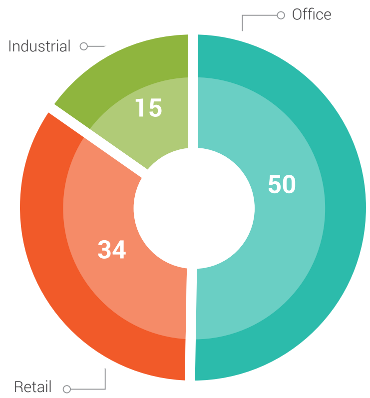
2. Unit 2, Upper Grayston Block D, Sandton- Johannesburg – R3 million

The sale of these assets is in line with Tower's strategy of selling non-core properties and re-investing the proceeds into debt and growth assets. These sales provide security against the Old Cape Quarter development ensuring that our loan to value remains at acceptable levels. The immediate proceeds from these sales were 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.

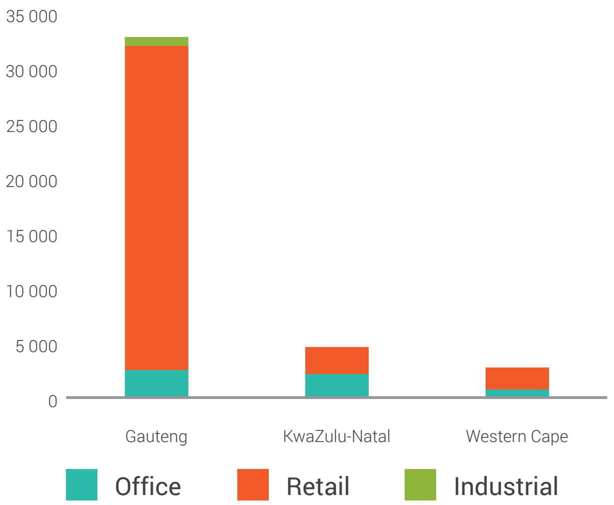
Geographic spread by GLA (%)



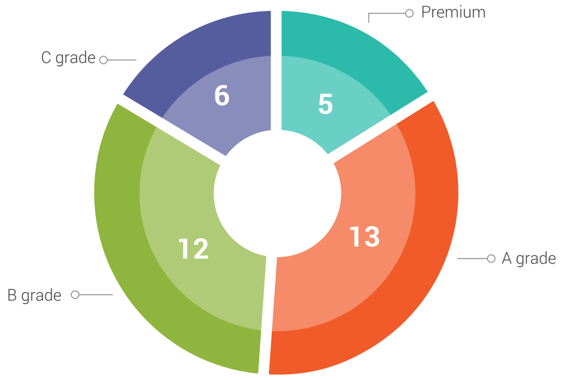

Sectoral spread by GLA (%)

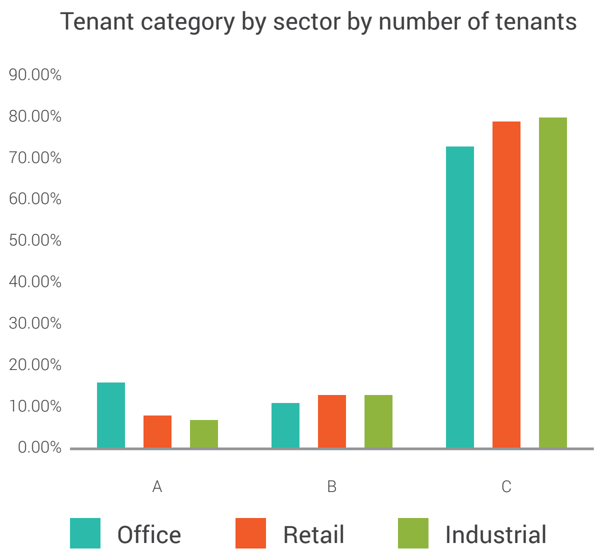


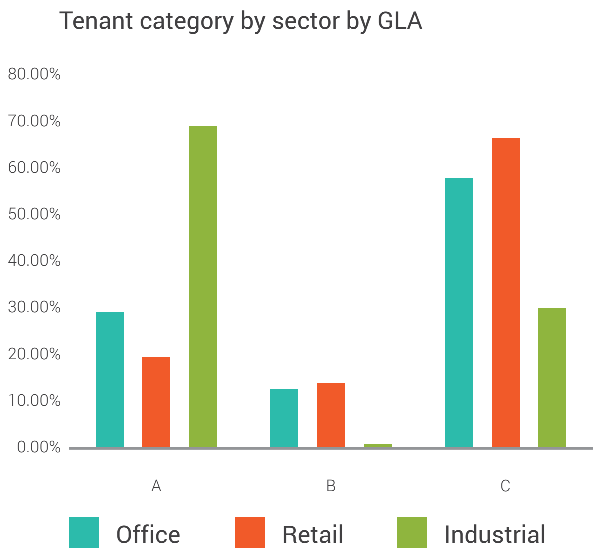

Vacancies (GLA)




Building grade profile (number of properties)






The weighted average lease expiry of the SA portfolio by revenue is 3 years and by GLA is 2.9 years.

Tenant profile, based on existing leases, graded as:

A. Large national tenants, large, listed tenants, government, and major franchises. "Large" refers to top tier nationals and listed tenants. "Major" refers to top tier franchises recognised as industry leaders.

B. Medium national tenants, listed tenants, franchises, medium to large professional firms. "Medium to large" refers to industry leaders in their respective fields (law, accounting, and advertising).

C. Small and medium-sized tenants, non-listed tenants and privately held small to medium-sized businesses.

Despite difficult trading conditions, certain properties have performed well. Cape Quarter's shared workspace is obtaining rental levels far in excess of those being generated on traditional office rentals.

The other Western Cape assets, Sunclare and De Ville, have remained largely resilient over the past year with a small uptick in office vacancies.

Gauteng offices bore the brunt of weak market fundamentals mentioned below but its retail assets proved to be resilient over the period.

The overall vacancies in the portfolio increased to 17.6% (7.9% at 31 May 2020). South African vacancies are currently 19.9% (2.6% retail, 16.8% office and 0.4% industrial). The weighted average lease expiry (WALE) of the South African portfolio by revenue is 2.9 years and the WALE by GLA is 3 years.

Property valuations have decreased by R444 million as vacancies and negative reversions weighed heavily on the office sector. South Africa's office vacancies have increased by 800 000sqm (SAPOA Q2 Office Report) since the start of the pandemic reaching a national all time high of 15%. Sandton, Bryanston and Parktown vacancies range between 25% and 35% depending on building grade. The majority of Tower's Gauteng office properties are located in these nodes.

Many tenants remain sceptical to commit to office leases as they weigh up the cost benefit effects of continuing with the flexibility of working from home on a permanent or rotational basis.

Together with experienced property professionals we have re-valued the following properties to reflect the negative impact that vacancies and rental reversions have had on the valuations of these assets.

### CAPE QUARTER SQUARE, Western Cape: -18%

The office component at Cape Quarter has been impacted following the expiry of both Deloitte and Pernod Ricard that vacated approximately 8 000m$^2$ at rental levels above market due to many years of rental escalations. As previously detailed, the full vacancy has been let with the anchor office tenant, Rain (Pty) Ltd, taking up the majority of the space. Given the lease structure of the Rain lease agreement, we expect above normal income growth in the property for the 2023 financial year.

### SUNCLARE, Claremont, Western Cape: -12%

An increase in vacancies together with a few crucial reversions at renewal has impacted the value in the short-term. Demand for offices in Claremont remains strong with new leases being negotiated at pre-Covid-19 levels.

### 15 WELLINGTON ROAD, Parktown, Gauteng: -64%

The single office tenant vacated following its liquidation in Q2 2020 and with Parktown vacancies at 30%, rentals have plummeted. The offices are currently vacant.

### 308 KENT ROAD, Randburg, Gauteng: -33%

The building is occupied by a single tenant and we are currently in negotiations to renew the lease. Office demand in the area is low and therefore the downward valuation reflects the anticipated rent reversion anticipated on renewal of the lease.

## OLD CAPE QUARTER DEVELOPMENT

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.

Pre-sales have increased during winter months which bucks the typical Cape Town trend of reducing sales in the colder months. This seems to be due to a change in buying behaviour as a result of Covid-19. We have pre-sold 7 additional apartments in the past few months with 14 apartments now pre-sold (R106 million). Selling prices remain at R50 000/m$^2$.

We will be renting 27 apartments on a short-term basis from 1 September 2021. The demand for our owned residential units at Cape Quarter Square has been very strong with the apartments being fully let from July 2020 and we will be replicating the same model at Old Cape Quarter. It remains our intention to sell the apartments as reasonable offers arise.

## TOP TEN TENANTS

- Continuity SA
- Pick n Pay Retailers (Pty) Ltd, Sparrow Centre
- Vodacom
- BC Cape Town 16 (Pty) Ltd, Regus
- Pick n Pay Retailers Ltd, De Ville
- Cape Quarter Food Spar
- OMNIGO (Pty) Ltd
- Virgin Active South Africa (Pty) Ltd
- Massmart Retail (Pty) Ltd, Cambridge Foods
- Vikela Investments (Pty) Ltd

# CROATIA

Croatia's gross domestic product relies heavily on its tourism and has experienced a better than expected tourist season with over one million tourists recorded on 8 August 2021. As a comparison, it is only down 9% on overnight stays compared to its record season in 2019.

Croatia's consumption expenditure hit a record high this year recording a 113 billion Kuna increase compared to its pre-pandemic record in 2019.

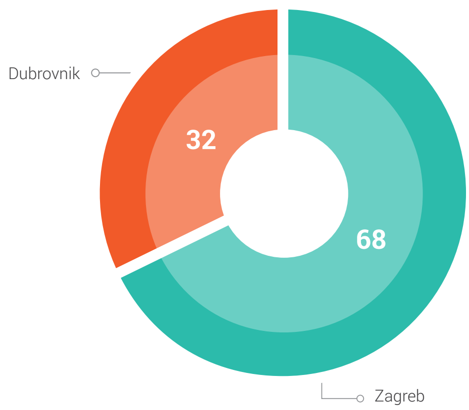
Trading densities at Tower's two Konzum stores are, however, down 7.3% on the prior year, but with tourism returning strongly we expect to see trading densities increase in the next reporting period. Both shopping centres are located in areas where trade improves with strong tourist activity.

The VMD offices are fully let and continue to operate well, and we are hoping that with the stronger economy, we will see our tenant Yazaki expand in to the balance of the industrial property.

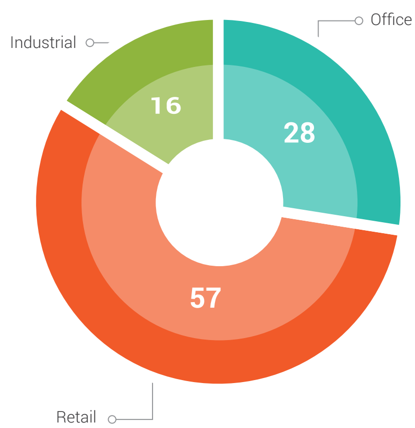
Tower has sold Velika Gorica, stand-alone supermarket property, at current value, for Euro 9.1 million.

The weighted average lease expiry is 5.5 years (revenue) and 5.7 years (GLA).

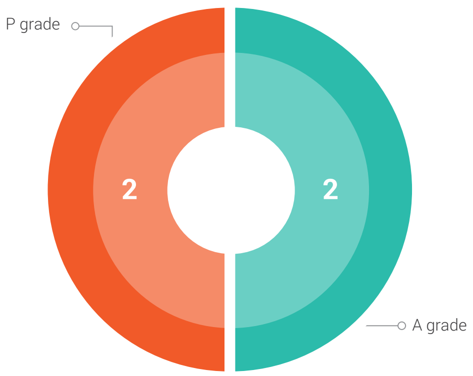
Geographic spread by GLA (%)



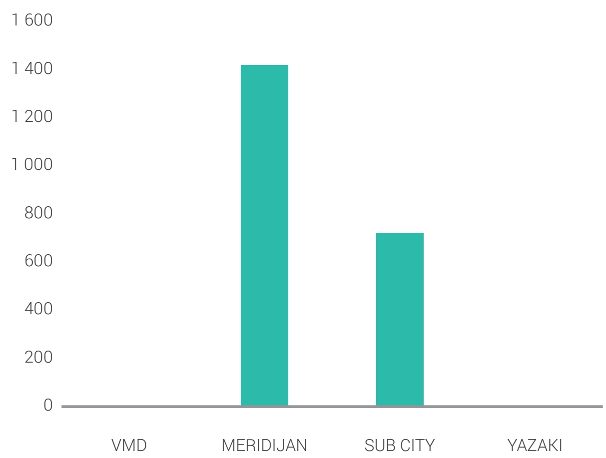

Sectoral spread by GLA (%)




Building grade profile (number of properties)




Vacancies (GLA)



Tenant category by sector by number of tenants


Tenant category by sector by GLA


## BORROWINGS

| | Total debt | Rand debt | Euro debt |
|---|---|---|---|
| Loan facilities (R'000) | **1 837 424** | 1 310 331 | 527 093 |
| Weighted cost of funding (%) | **6.7** | 8.1 | 3.3 |
| Debt expiry profile (years) | **2.3** | 1.3 | 3.4 |
| Percentage hedged (%) | **77** | 86 | 54 |
| Hedging expiry profile (years) | **2.5** | 2.2 | 3.7 |

Based on a property portfolio valued at R4 billion, the SA REIT loan to value (LTV) ratio of the group has increased to 42.3% at the end of the year (49.1% in South Africa and 29.1% in Croatia). The LTV remains within covenant levels. 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 reduction in the valuation of the properties and the Old Cape Quarter development which is 100% debt funded.

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 Tower's balance sheet which is a key priority in order to de-risk Tower. 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. On 16 July 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 three-month JIBAR plus 2.42%. 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 5.1 million after the settlement of the mortgage bond and other costs, to reduce this Euro debt further. On 1 July 2021, the remaining Standard Bank Euro facility of Euro 3.9 million was refinanced at Euribor plus 2.50%, expiring on 30 June 2023.

The LTV covenant in South Africa and Croatia is 50%. Tower has not breached any covenants during the year. As the South African LTV is close to the covenant, Tower has used the full net proceeds from all asset sales to reduce debt. It will continue to do so until the LTV reduces below 40%.

Tower's cash reserves remain strong which continues to assist the company.

# PROSPECTS

As announced on SENS on 27 May 2021, Tower has received a non-binding expression of interest from RDC Properties Limited (RDC), in terms of which RDC has proposed a potential transaction in terms of which it will acquire all the shares in Tower for a consideration of R4 per share, less the dividend declared elsewhere in these results. The parties remain in discussions and further announcements in regard to this proposed transaction will be made as soon as possible.

We do feel that we have reached the bottom of a difficult market and expect growth to come from our Western Cape and Croatian properties. Gauteng remains very challenging with increasing municipal charges, decreasing rentals and increasing vacancies. Added to this is the recent looting violence which occurred in KwaZulu-Natal and Gauteng. Tower's Evagold Shopping Centre was severely damaged by looting resulting in a SASRIA insurance claim being lodged for damages and loss of income. Assessors have been appointed and repairs will be effected as soon as possible. Shops that were not damaged will begin trading as soon as viably possible. We have employed additional resources in Gauteng to assist us with the management of our portfolio and the team there has done excellently in the past few months. Non-core sales are being realised and vacant space is being let. Our focus remains on using excess capital to reduce debt with our LTV target being below 40% in South Africa.

Our balance sheet remains strong which has assisted us in weathering the storm of Covid-19.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Audited 12 months ended 31 May 2021 R'000 | Audited 12 months ended 31 May 2020 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment property | 2 | **3 873 034** | 4 507 386 |
| Straight-line lease accrual | 4 | **48 633** | 50 684 |
| Property, plant and equipment | 5 | **1 677** | 144 |
| | | **3 923 344** | 4 558 214 |
| **Current assets** | | | |
| Inventories | 6 | **106 326** | 54 411 |
| Trade and other receivables | 7 | **128 460** | 149 977 |
| Tax receivable | 16 | **2 151** | – |
| Cash and cash equivalents | 8 | **129 256** | 336 678 |
| Straight-line lease accrual | 4 | **8 808** | 12 414 |
| | | **375 001** | 553 480 |
| Assets held for sale | 9 | **–** | 176 646 |
| | | **375 001** | 730 126 |
| **Total assets** | | **4 298 345** | 5 288 340 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Stated capital | | **3 035 344** | 3 035 344 |
| Treasury capital | | **(14 085)** | (14 085) |
| Foreign currency translation reserve | 10 | **10 358** | 19 789 |
| Share-based payment reserve | 11 | **1 140** | 896 |
| Retained loss | | **(921 144)** | (470 838) |
| Shareholders' interest | | **2 111 613** | 2 571 106 |
| Non-controlling interest | 12 | **258 101** | 339 000 |
| Total equity | | **2 369 714** | 2 910 106 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other financial liabilities | 13 | **1 383 842** | 2 246 609 |
| Loan payable to shareholder | 14 | **29 126** | 33 342 |
| | | **1 412 968** | 2 279 951 |
| **Current liabilities** | | | |
| Other financial liabilities | 13 | **453 582** | 20 510 |
| Trade and other payables | 15 | **58 239** | 69 085 |
| Tax payable | 16 | **3 842** | 7 504 |
| Rental guarantee | 17 | **–** | 1 184 |
| | | **515 663** | 98 283 |
| **Total equity and liabilities** | | **4 298 345** | 5 288 340 |
| Net asset value per share (shares in issue at period end) (cents)* | | **614** | 733 |

* *The method of calculating the net asset value changed as compared to prior period with the adoption of the SA REIT best practice recommendations in the current period. The differences are that the dividend to be declared is removed from shareholder's interest as per the statement of changes in equity and the fair value of derivative financial liabilities is added back.*

# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Audited 12 months ended 31 May 2021 R'000 | Audited 12 months ended 31 May 2020 R'000 |
|---|---|---|---|
| **Revenue** | | | |
| Contractual rental income | 18 | **325 975** | 395 901 |
| Straight-line lease accrual | 4 | **(3 015)** | (322) |
| | | **322 960** | 395 579 |
| Net property operating expenses | 19 | **(55 134)** | (34 406) |
| **Net property income** | | **267 826** | 361 173 |
| Administration expenses | 20 | **(26 341)** | (25 970) |
| Gain/(loss) on disposal on investment property | | **(3 371)** | 18 545 |
| Disposal of goodwill | 21 | **–** | (8 982) |
| Impairment of goodwill | | **–** | (214 495) |
| Inventory write-down | | **(14 007)** | (11 273) |
| Foreign exchange loss | | **(68 532)** | (28 149) |
| **Net operating profit** | | **155 575** | 90 849 |
| Fair value gains on investment properties | 23 | **30 972** | 39 019 |
| Fair value losses on investment properties | 23 | **(474 964)** | (468 356) |
| Fair value adjustments on interest rate derivatives | 24 | **15 991** | (37 174) |
| Fair value gain on rental guarantee | 17 | **–** | 22 924 |
| **Loss from operations** | | **(272 426)** | (352 738) |
| Finance income | | **3 844** | 5 585 |
| Finance costs | 25 | **(113 870)** | (105 353) |
| **Profit/(Loss) before taxation** | | **(382 452)** | (452 506) |
| Taxation | 16 | **(19 478)** | (16 674) |
| **Loss for the period** | | **(401 930)** | (469 180) |
| **Other comprehensive loss – items that may subsequently be reclassified to profit and loss** | | | |
| Exchange difference on foreign operations | | **(56 987)** | 54 962 |
| **Total comprehensive loss for the period** | | **(458 917)** | (414 218) |
| **Loss for the period attributable to:** | | | |
| Equity shareholders of Tower Property Fund Limited | | **(418 211)** | (494 956) |
| Non-controlling interest | 12 | **16 281** | 25 776 |
| | | **(401 930)** | (469 180) |
| **Total comprehensive loss attributable to:** | | | |
| Equity shareholders of Tower Property Fund Limited | | **(427 642)** | (487 960) |
| Non-controlling interest | 12 | **(31 275)** | 73 742 |
| | | **(458 917)** | (414 218) |
| Basic and diluted earnings/(loss) per share (weighted average shares in issue) (cents) | | **(124.0)** | (146.8) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Audited 12 months ended 31 May 2021 R'000 | Audited 12 months ended 31 May 2020 R'000 |
|---|---|---|
| Cash generated from operations | 193 981 | 247 111 |
| Finance income | 3 844 | 5 585 |
| Finance costs | (115 513) | (105 182) |
| Tax paid | (18 274) | (6 317) |
| **Net cash from operating activities** | **64 038** | 141 197 |
| Cost capitalised to investment property | (90 328) | (92 664) |
| Property, plant and equipment acquired | (1 670) | (57) |
| Proceeds on sale of investment property | 149 664 | 276 732 |
| **Net cash from investing activities** | **57 666** | 184 011 |
| Local loans raised | 206 272 | 505 190 |
| Local loans repaid | (237 054) | (255 701) |
| Foreign loans raised | – | 394 |
| Foreign loans repaid | (198 735) | (35 321) |
| Debt-raising fee paid | (1 537) | (4 721) |
| Oryx rental guarantee payment | (1 184) | (300) |
| Non-controlling interest loan raised | – | 2 188 |
| Dividends paid | (53 755) | (256 306) |
| Return of capital to non-controlling interest | (27 963) | (35 134) |
| **Net cash from financing activities** | **(313 956)** | (79 711) |
| Net movement in cash and cash equivalents | (192 252) | 245 497 |
| Cash and cash equivalents at beginning of period | 336 678 | 94 948 |
| Foreign exchange differences on cash balances | (15 170) | (3 767) |
| Cash and cash equivalents at end of period | 129 256 | 336 678 |

# 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/ (loss) R'000 | Share-holders' interest R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 June 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** |
| Loss for the year | **–** | **–** | **–** | **–** | **(418 211)** | **(418 211)** | **16 281** | **(401 930)** |
| Share-based payment | **–** | **–** | **–** | **244** | **–** | **244** | **–** | **244** |
| Foreign currency translation differences | **–** | **–** | **(9 431)** | **–** | **–** | **(9 431)** | **(47 556)** | **(56 987)** |
| Return of capital to non-controlling interest | **–** | **–** | **–** | **–** | **–** | **–** | **(27 963)** | **(27 963)** |
| Dividends paid | **–** | **–** | **–** | **–** | **(32 095)** | **(32 095)** | **(21 661)** | **(53 756)** |
| **Balance at 31 May 2021** | **3 035 344** | **(14 085)** | **10 358** | **1 140** | **(921 144)** | **2 111 613** | **258 101** | **2 369 714** |

# EARNINGS AND HEADLINE EARNINGS PER SHARE

Earnings per share is calculated in terms of IAS33 Earnings per share and SAICA Circular 1/2021 for the group.

| | Notes | Audited 12 months ended 31 May 2021 R'000 Gross | Audited 12 months ended 31 May 2021 R'000 Net | Audited 12 months ended 31 May 2020 R'000 Net |
|---|---|---|---|---|
| **Profit/(Loss) attributable to ordinary equity holders** | | | (418 211) | (494 956) |
| *Adjusted for:* | | | | |
| Change in fair value of investment properties net of non-controlling interests | | 443 993 | 438 599 | 435 662 |
| Disposal of goodwill | | – | – | 8 982 |
| Impairment of goodwill | | – | – | 214 495 |
| (Gain)/Loss on disposal on investment property | | 3 371 | 3 032 | (11 567) |
| **Headline earnings** | | | 23 420 | 152 616 |
| Weighted average number of shares in issue ('000) | | | 337 244 | 337 244 |
| Headline and diluted headline earnings per share (weighted average shares in issue) (cents) | | | 6.9 | 45.3 |

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

Distributable earnings is a key performance measure for South African REITs. There is no IFRS standard that governs the calculation of distributable earnings.

| | Notes | Audited 12 months ended 31 May 2021 R'000 Gross | Audited 12 months ended 31 May 2021 R'000 Net | Audited 12 months ended 31 May 2020 R'000 Net |
|---|---|---|---|---|
| **Headline earnings** | | | **23 420** | 152 616 |
| *Adjusted for:* | | | | |
| Straight-line lease accrual | 4 | | **3 015** | 322 |
| Equity-settled share-based payment reserve | 11 | | **244** | 569 |
| Change in fair value of interest rate derivatives | 24 | **(15 991)** | **(16 089)** | 36 524 |
| Change in fair value of rental guarantee | 17 | | **–** | (22 924) |
| **Distributable profit** | | | **10 590** | 167 107 |
| *Adjusted for:* | | | | |
| Unrealised foreign exchange loss | 22 | **67 600** | **70 614** | 15 114 |
| Transaction costs | 26 | | **5 693** | 5 861 |
| Inventory write-down | | | **14 007** | 11 273 |
| Amortisation of debt raising fees | | | **–** | 908 |
| **Distributable earnings** | | | **100 904** | 200 263 |
| Development income lost | 27 | | **–** | 6 259 |
| **Distribution paid** | | | **75 678** | 150 197 |
| Distribution paid | | | **75 678** | 150 197 |
| Taxable dividend (declared on 20 August 2021) | | | **75 678** | – |
| Taxable dividend (declared on 21 August 2020) | | | **–** | 32 134 |
| Taxable dividend (declared on 28 February 2020) | | | **–** | 118 063 |
| Number of shares in issue at year-end (including treasury shares) ('000) | | | **339 550** | 339 550 |
| Number of shares in issue at year-end (excluding treasury shares) ('000) | | | **337 244** | 337 244 |
| Distribution per share (cents) | | | **22.4** | 44.5 |
| Six months ended 31 May | | | **22.4** | 9.5 |
| Six months ended 30 November | | | **–** | 35.0 |
| Distributable earnings per share (weighted average shares in issue) (cents) | | | **29.9** | 59.4 |

# SEGMENTAL ANALYSIS

| | SOUTH AFRICA | | | | | CROATIA (INCLUDING MAURITIUS) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Retail | Office | Industrial | Inventory | Total | Retail | Office | Industrial | Total | Grand Total |
| **For the year ended 31 May 2021** | | | | | | | | | | |
| Property assets* | 1 083 272 | 1 341 810 | 128 132 | 106 326 | 2 659 540 | 760 919 | 472 679 | 145 340 | 1 378 938 | 4 038 478 |
| Additions to non-current assets and inventory | 62 439 | 27 628 | 261 | 55 067 | 145 395 | – | – | – | – | 145 395 |
| Straight-line lease accrual | 32 025 | 23 342 | 2 074 | – | 57 441 | – | – | – | – | 57 441 |
| Segment liabilities*** | 612 660 | 670 378 | 55 742 | 114 917 | 1 453 697 | 229 810 | 153 196 | 58 243 | 441 249 | 1 894 946 |
| Fair value adjustment to investment properties | (118 885) | (273 179) | (33 732) | – | (425 796) | (12 126) | (4 476) | (1 594) | (18 196) | (443 992) |
| Revenue (excluding straight-line lease adjustments) | 87 513 | 110 452 | 14 261 | – | 212 226 | 66 418 | 35 393 | 11 938 | 113 749 | 325 975 |
| Net operating costs | (26 709) | (22 237) | (1 498) | – | (50 444) | – | (3 903) | (787) | (4 690) | (55 134) |
| Segment profit | 60 804 | 88 215 | 12 763 | – | 161 782 | 66 418 | 31 490 | 11 151 | 109 059 | 270 841 |
| Straight-line lease adjustment | – | – | – | – | – | – | – | – | – | (3 015) |
| Non-property related expenses | – | – | – | – | – | – | – | – | – | (26 341) |
| Other income | – | – | – | – | – | – | – | – | – | (3 371) |
| Inventory write-down | – | – | – | (14 007) | (14 007) | – | – | – | – | (14 007) |
| Foreign exchange gain/(loss) | – | – | – | – | – | – | – | – | – | (68 532) |
| Net operating profit | – | – | – | – | – | – | – | – | – | 155 575 |
| **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 | 4 801 685 |
| Additions to non-current assets and inventory** | 57 116 | 34 049 | 731 | 32 961 | 124 857 | – | 766 | 55 563 | 55 563 | 181 186 |
| 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 |

# NOTES

| | Audited 12 months ended 31 May 2021 R'000 | Audited 12 months ended 31 May 2020 R'000 |
|---|---|---|
| **1) Segmental analysis** | | |
| Investment property | **3 873 034** | 4 507 386 |
| Straight-line lease accrual | **57 441** | 63 098 |
| Property, plant and equipment | **1 677** | 144 |
| Inventories | **106 326** | 54 411 |
| Investment property held for sale | **–** | 176 646 |
| * Property assets | **4 038 478** | 4 801 685 |
| ** The additions to non-current assets and inventory figures disclosed have been changed from the prior year to be consistent with the investment property reconciliation by sub-sector per note 2 below. | | |
| *** Segment liabilities | **1 894 946** | 2 335 524 |
| Non-segment liabilities | | |
| – Trade and other payables | **717** | 680 |
| – Loan to non-controlling interests | **29 126** | 33 342 |
| – Tax payable | **3 842** | 7 504 |
| – Oryx guarantee | **–** | 1 184 |
| Total liabilities | **1 928 631** | 2 378 234 |

**2) Investment property reconciliation by sub-sector**

| | SOUTH AFRICA | | | CROATIA (INCLUDING MAURITIUS) | | | |
|---|---|---|---|---|---|---|---|
| | Retail | Office | Industrial | Retail | Office | Industrial | Total |
| **Balance as at 31 May 2019** | 1 285 727 | 1 979 301 | 247 500 | 1 095 575 | 462 250 | 84 068 | 5 154 421 |
| Acquisitions | – | – | – | – | – | 55 563 | 55 563 |
| Capital expenditure | 57 116 | 34 049 | 731 | – | 766 | – | 92 662 |
| Transfers between sub-sectors due to changes in tenancy | (73 888) | 73 888 | – | – | – | – | – |
| Tenant Installations | (96) | (314) | (18) | – | – | – | (428) |
| Transfers to inventory | (2 111) | – | – | – | – | – | (2 111) |
| Straight line movement | 2 267 | (2 518) | (71) | – | – | – | (322) |
| Capitalised interest | 2 549 | 1 473 | – | – | – | – | 4 022 |
| Disposals | – | (103 000) | (86 000) | (179 426) | – | – | (368 426) |
| Net exchange differences on translation | – | – | – | 143 670 | 73 768 | 23 648 | 241 086 |
| Fair value adjustment | (143 082) | (297 571) | (7 162) | 3 031 | 10 272 | 5 175 | (429 337) |
| **Balance as at 31 May 2020** | **1 128 482** | **1 685 308** | **154 980** | **1 062 850** | **547 056** | **168 454** | **4 747 130** |
| Acquisitions | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Capital expenditure | **62 439** | **27 628** | **261** | **–** | **–** | **–** | **90 328** |
| Transfers between sub-sectors due to changes in tenancy | **126 083** | **(126 083)** | **–** | **–** | **–** | **–** | **–** |
| Tenant Installations | **(64)** | **(177)** | **–** | **–** | **–** | **–** | **(241)** |
| Transfers to inventory | **(5 588)** | **–** | **–** | **–** | **–** | **–** | **(5 588)** |
| Straight line movement | **(6 741)** | **(2 597)** | **6 323** | **–** | **–** | **–** | **(3 015)** |
| Capitalised interest | **5 060** | **2 093** | **–** | **–** | **–** | **–** | **7 153** |
| Disposals | **(79 064)** | **–** | **–** | **(176 646)** | **–** | **–** | **(255 710)** |
| Net exchange differences on translation | **–** | **–** | **–** | **(114 171)** | **(69 900)** | **(21 519)** | **(205 590)** |
| Fair value adjustment | **(147 338)** | **(246 040)** | **(33 432)** | **(11 112)** | **(4 476)** | **(1 594)** | **(443 992)** |
| **Balance as at 31 May 2021** | **1 083 269** | **1 340 132** | **128 132** | **760 921** | **472 680** | **145 341** | **3 930 475** |

Investment property decreased as compared to the prior year due to property sales (Ennerdale and Velika Gorica properties as well as a portion of Upper Grayston Block D), a net downward fair value adjustment in the current year, and the net exchange differences on translation of Croatian Kuna property values into Rand.

# **NOTES** CONTINUED





**3) Fair value measurement**

**Fair value measurement of financial instruments**

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

**Fair value measurement of rental guarantee**

The valuation is based on the expected amount to be paid by management in terms of the agreement, adjusted for the likelihood of Tower having to pay the amount to Oryx. The amount was calculated in terms of the agreement signed between Oryx & Tower and its payable in the event that the rental for the Croatian properties are lower than what was agreed with Oryx.

**Fair value measurement of interest rate swaps**

The valuation of interest rate swaps uses observable market data and requires management judgement and estimation. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces uncertainty associated with the determination of fair values. The fair value of interest rate swaps 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 risk free rates and yield curves derived from quoted rates. Interest rate swaps are classified as level 2 financial instruments and the fair value of the interest rate swap liability at 31 May 2021 is equal to R35 974 418 (31 May 2020: R52 513 735).

**Fair value measurement of non-financial assets (investment properties)**

The fair value of buildings is estimated using a net income valuation approach which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields and discounted cash flow method analysis which considers 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. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of in-place leases and expectations of rentals from future leases in perpetuity. Unobservable inputs applied in the valuation of the buildings include the future estimated rental value, discount and capitalisation rates, assumptions regarding vacancy levels and the terms of in place leases and expectations of rentals from future leases into perpetuity. Covid-19 had a big impact on the market growth, discount rate and cap rate assumptions, as well as companies risk premiums which resulted in the decrease in the fair values of investment properties. Vacancies in the portfolio also increased as a result of the pandemic. The negative impact of the pandemic has continued to depress valuations in the current period. Some of the tenants' leases had to be renegotiated. The overall valuations are sensitive to the above unobservable inputs. Management considers that the range of reasonable possible alternative assumptions is greatest for market rental growth, discount rates and capitalisation rates, as well as vacancy levels and that there is also an interrelationship between these inputs.

# NOTES CONTINUED





**3) Fair value measurement (continued)**

Significant unobservable inputs used were as follows per segment:

| South Africa | May 2021 | May 2020 |
|---|---|---|
| **Office** | | |
| Market rental growth | **5.00%** | 6.00% |
| High cap rate | **12.00%** | 10.00% |
| Low Cap rate | **8.50%** | 8.00% |
| High discount rate | **16.00%** | 15.50% |
| Low discount rate | **13.50%** | 13.75% |
| Vacancy rate | **0 – 5%** | 0 – 5% |
| **Retail** | | |
| Market rental growth | **5.00%** | 6.00% |
| High capitalisation rate | **10.18%** | 11.50% |
| Low capitalisation rate | **8.25%** | 8.25% |
| High discount rate | **13.75%** | 15.25% |
| Low discount rate | **13.50%** | 15.00% |
| Vacancy rate | **0 – 5%** | 0 – 5% |
| **Industrial** | | |
| Market rental growth | **5.00%** | 6.00% |
| High capitalisation rate | **10.00%** | 11.50% |
| Low capitalisation rate | **9.00%** | 9.00% |
| High discount rate | **15.00%** | 15.00% |
| Low discount rate | **15.00%** | 15.00% |
| Vacancy rate | **0 – 5%** | 0 – 5% |

| Croatia | May 2021 | May 2020 |
|---|---|---|
| **Office** | | |
| Capitalisation rate | **6.00%** | 6.80% |
| Discount rate | **5.80%** | 6.50% |
| Vacancy | **0.50%** | 0.50% |
| **Retail** | | |
| High capitalisation rate | **7.50%** | 7.57% |
| Low capitalisation rate | **7.40%** | 7.10% |
| Discount rate | **7.00%** | 6.75% |
| Vacancy | **0 – 0.5%** | 0 – 0.5% |
| **Industrial** | | |
| Capitalisation rate | **7.00%** | 7.00% |
| Discount rate | **6.85%** | 6.85% |
| Vacancy | **0.00%** | 0.00% |

The range of discount rates disclosed above vary from year to year depending on the mix of properties that are valued on a rotational basis by independent valuers using a discounted cash flow analysis. This is the case for example with the high and low discount rates for the South African retail sector, which are property-specific. The high capitalisation rate decreased for the South African retail sector due to Clearview Motor Village, which experienced a corresponding increase in value (whilst the net fair value change across the South African retail sector was a decrease in value). The high capitalisation rate for the South African industrial sector decreased due to the Kuit Street property valuation. The external valuer applied a lower capitalisation rate in 2021 than was applied internally in 2020, but also lower projected net income, leading to the net decrease in property value. The reduction in Croatian capitalisation and discount rates in the office sector align with the increase in Euro fair value for the office property. The Rand value reduction in value resulted from a decrease in the Euro/Kuna exchange rate from May 2020 to May 2021.

# **NOTES** CONTINUED

The inputs with the greatest sensitivity with respect to fair value measurement are market rental growth, discount rates and capitalisation rates. The table below illustrates the sensitivity of fair value measurement to these inputs:

| **Sensitivity analysis to significant unobservable inputs** | **South Africa R'000** | **Croatia R'000** |
|---|---|---|
| Increase in fair value if market rental growth increases by 1% | **120 955** | 13 691 |
| Decrease in fair value if market rental growth decreases by 1% | **(124 514)** | (14 678) |
| Decrease in fair value if discount rates increase by 1% | **(116 623)** | (78 284) |
| Increase in fair value if discount rates decrease by 1% | **113 925** | 60 778 |
| Decrease in fair value if capitalisation rates increase by 1% | **(175 473)** | (169 985) |
| Increase in fair value if capitalisation rates decrease by 1% | **211 263** | 220 382 |

Fair value hierarchy

The following table reflects the levels within the hierarchy of financial liabilities and non-financial assets measured at fair value:

| | **Level 1** | **Level 2*** | **Level 3#** | **Total** |
|---|---|---|---|---|
| **31 May 2021 (audited)** | | | | |
| ASSETS | | | | |
| Investment properties | **–** | **–** | **3 930 475** | **3 930 475** |
| Total | **–** | **–** | **3 930 475** | **3 930 475** |
| LIABILITIES | | | | |
| Derivative financial instruments | **–** | **35 974** | **–** | **35 974** |
| | **–** | **35 974** | **–** | **35 974** |
| **31 May 2020 (audited)** | | | | |
| ASSETS | | | | |
| Investment properties | – | – | 4 747 130 | 4 747 130 |
| Total | – | – | 4 747 130 | 4 747 130 |
| LIABILITIES | – | 52 514 | – | 52 514 |
| Derivative financial instruments | – | – | 1 184 | 1 184 |
| Rental Guarantee | – | 52 514 | 1 184 | 53 698 |

There have been no transfers between levels 1, 2 and 3 in the reporting period under review.

** Level 2 Fair values are determined using observable inputs.*

*# Level 3 Fair values are determined by valuation techniques using significant unobservable inputs.*

**4)** The straight-line lease accrual decreased as a result of certain lease terms drawing to a close, notably at Cape Quarter Square.

**5)** Property, plant and equipment comprises various furniture, fittings, office and computer equipment at the company head office and Cape Quarter Square. Additions purchased during the current period mostly related to the shared workspace at Cape Quarter Square, which led to the net increase in asset value.

**6)** 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 Cape Quarter Piazza residential units.

All inventory is actively marketed for sale. The value of inventory has been written down to its net realisable value based on its latest market valuation.

**7)** Trade and other receivables have decreased due to trade debtor collections, VAT returned from the South African Revenue Service, particularly on the Cape Quarter Piazza development, as well as increased bad debts written off.

# NOTES CONTINUED

**8)** Cash and cash equivalents decreased as compared to the prior period due to more funds being held in access facilities that were previously held in cash deposits. Furthermore, funds on hand from the sale of Vukovarska at the end of the prior period were subsequently utilised to repay Euro debt.

**9)** At the end of the prior year, the Velika Gorica was classified as held for sale and transferred to the buyer in July 2020 (sold for Euro 9.1 million, at a loss of Euro 68 250). None of the group's properties met the classification criteria for held for sale at the end of the current year.

**10)** The Foreign currency translation reserve arises due to the translation of Croatian assets and liabilities from their functional currency of Croatian Kuna into Rand. The decrease in the reserve arose due to the strengthening of the Rand against the Kuna since May 2020.

**11)** The increase in the share-based payment reserve reflects the increase in shares expected to vest at the end of the vesting period.

**12)** 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 Velika Gorica, to its shareholders (Tower International Treasury and Oryx) according to their respective shareholdings during the period.

Tower International Treasury is a 100% subsidiary of Tower Property Fund Limited. There was no dilution in % holding.

**13)** Other financial liabilities comprise bank loans, interest rate derivatives and related accrued interest. The decrease in non-current other financial liabilities since the period ending 31 May 2020 is as a result of loan repayments linked to property sales, the holding of funds in access facilities, the decrease in the fair value of interest rate derivatives, and the strengthening of the Rand against the Euro. This was offset partially by further development of Cape Quarter Piazza using debt finance.

**14)** The loan payable to non-controlling interests is the shareholder loan in Tower Europe d.o.o. from minority shareholder VMD Grupa. The decrease in the loan balance from the prior period arose due to the strengthening of the Rand against the Euro.

**15)** Trade and other payables decreased from the prior period as a result of lower obligations owing to trade creditors at 31 May 2021.

**16)** The tax liability at the end of the current year relates to tax accrued in Mauritius. Tax arising in South Africa due to the distribution of less than 100% of distributable income has been recognised and paid. Tax receivable relates to provisional tax payments for the 2020 Croatian tax year in excess of final assessed tax.

**17)** 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-19 concessions granted. The amount was settled during September 2020.

The remainder of the guarantee was released as a fair value adjustment through profit and loss during the year ended 31 May 2020.

**18)** Contractual rental income reduced from the prior year due to property disposals and the rental reductions granted to tenants as a result of the Covid-19 pandemic, as well as increased vacancies in the South African portfolio. Furthermore, significant leases including Deloitte's came to an end, with new tenants entering at lower market-related rentals.

# NOTES CONTINUED

| 19) Net property operating expenses | Audited 12 months ended 31 May 2021 | Audited 12 months ended 31 May 2020 |
|---|---|---|
| Bad debts written off | **13 752** | 5 709 |
| Insurance | **2 466** | 2 339 |
| Letting commission | **5 750** | 6 366 |
| Municipal expenses | **101 176** | 102 804 |
| Other operating expenses | **12 613** | 11 945 |
| Property management fees | **14 194** | 13 085 |
| Repairs and maintenance | **7 693** | 8 232 |
| Security and cleaning | **21 003** | 21 211 |
| Gross property expenses | **178 647** | 171 691 |
| Operating expense recoveries | **(123 513)** | (137 285) |
| Net property operating expenses | **55 134** | 34 406 |
| **Property ratios** | | |
| Net property expense ratio | **24%** | 17% |
| Gross property expense ratio | **40%** | 32% |
| Tenant retention ratio | **83%** | 94% |

Net property operating expenses increased from the prior year primarily due to increased bad debts written off and lower operating expense recoveries resulting from increased vacancies in the South African portfolio. In addition, there were increased operating costs under the new management agreement of the VMD office block, as well as the commencement of operating cost charges at the Yazaki property. The increase in group operating costs was partially offset by lower municipal expenses resulting from the Covid-19 pandemic.

| 20) Administration and corporate costs | | |
|---|---|---|
| Salaries | **13 741** | 15 039 |
| Professional service fees | **5 350** | 3 537 |
| Other administration expenses | **7 250** | 7 394 |
| Total | **26 341** | 25 970 |
| Administrative cost-to-income ratio | **6%** | 5% |

**21)** The loss on disposal of investment property relates to the sale of Velika Gorica. The property was sold for book value and the loss on sale arose due to the sale commission. In the prior year the net gain on sale related to the sales of the Vukovarska (gain on sale), Meadowbrook (gain on sale) and Medscheme (loss on sale) properties.

**22)** Foreign exchange gains and losses arise mainly on the translation of Euro loans into Kuna in the Croatian portfolio, as well as translation of the Rand loan in Tower International Treasury into its functional currency of Euro. The Rand strengthened against the Euro in the period since EUR31.5 million of debt was refinanced into Rands, leading to the higher foreign exchange loss in the current period. On 31 May 2021, the Rand loan held in Tower International Treasury was transferred to Tower Property Fund Ltd.

**23)** The fair value loss on investment properties in the current and prior year arose due to the combined impact of Covid-19 and vacancies, particularly in the Gauteng office portfolio and at Cape Quarter Square (in the prior year).

In the current year vacancies at Cape Quarter Square have been filled, but at market rentals lower than those previously attained. Refer to note 3 for more information on the fair value measurement.

**24)** The fair value gain on interest rate derivatives arose due to the expiry and termination of four Euro-denominated swaps, as well as a reducing fair value of the Rand swap liability.

**25)** Finance costs increased as compared to the prior period due to the refinancing of EUR 31.5 million of debt into R600 million at a higher interest rate, the purchase of Yazaki part B with debt finance in Croatia, and the increased borrowing to fund the Piazza development. This was partially offset by the allocation of funds to access facilities and the repayment of loans after property sales.

# NOTES CONTINUED

**26)** The transaction costs relate to the sale of Velika Gorica in the current period. Included in this amount is R5.2 million income tax payable in Croatia and the debt cancellation fee of R0,5 million as a result of the sale.

These costs are added back in terms of the SA REIT Best Practice Guide version 2.

| **27) Related party transactions included:** | Audited 12 months ended 31 May 2021 R'000 | Audited 12 months ended 31 May 2020 R'000 |
|---|---|---|
| Property management fees paid to Spire Property Management Proprietary Limited | **14 583** | 17 216 |
| 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 is made up of:<br>> Property management fees which are calculated as a % of collections<br>> Project fees where capital is spent is calculated on a sliding scale (where relevant); and<br>> Letting and renewal commissions which are based on a % of rental income. | | |
| Share-based payments<br>Share options were offered to the directors and senior management of the company in November 2018. 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. | **244** | 569 |

**28) Subsequent events**

The company is making steady progress with rent collection under the difficult circumstances caused by Covid-19 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 of 14 months after 31 May 2021. The group remains in a strong liquidity position and holds enough cash (R129 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 31 May 2021 due to the lock down regulations and the valuation of investment property has not materially changed up to 20 August 2021.

As announced on SENS on 13 July 2021, Evagold Shopping Centre in Gauteng was damaged as a result of being looted. The damages to the centre and loss of income will be fully covered by insurance. As at the date of publication, the assessor was in the process of determining and costing the extent of the damage.

Post year end, Tower received and accepted offers to sell The Braides (R21 million) and 15 Wellington Road (R25 million). Both properties are expected to transfer in November 2021.

# ANNEXURE: SA REIT BEST PRACTICE RECOMMENDED DISCLOSURES (NON-IFRS MEASURES)

The principles encompassed in the below disclosure are aligned with the Best Practice Recommendations ("BPR") by the SA REIT Association published in 2019 and do not comply with IFRS. The BPR is only effective for financial year-ends commencing on or after 1 January 2020. The SA REIT disclosure is the responsibility of the directors of Tower.

| **SA REIT Funds from Operations (SA REIT FFO) per share** | **2021 R'000** | **2020 R'000** |
|---|---|---|
| Loss per IFRS Statement of Comprehensive Income (SOCI) attributable to the parent | **(418 211)** | (494 956) |
| Adjusted for:- | | |
| Accounting/specific adjustments:- | **469 398** | 640 372 |
| Fair value adjustments to: | | |
| – Investment property | **443 993** | 429 338 |
| – Debt and equity instruments held at fair value through profit or loss | **–** | (22 924) |
| Impairment of goodwill or the recognition of a bargain purchase gain | **–** | 214 495 |
| Asset impairments (excluding goodwill) and reversals of impairment | **21 022** | 16 383 |
| Gains or losses on the modification of financial instruments | **1 368** | 2 758 |
| Straight-lining operating lease adjustment | **3 015** | 322 |
| Adjustments arising from investing activities:- | **3 371** | (18 545) |
| Gains or losses on disposal of: | **3 371** | (18 545) |
| – Investment property | | |
| Foreign exchange and hedging items:- | **52 541** | 65 323 |
| Fair value adjustments on derivative financial instruments employed solely for hedging purposes | **(15 991)** | 37 174 |
| Foreign exchange gains or losses relating to capital items – realised and unrealised | **68 532** | 28 149 |
| Other adjustments:- | **2 103** | 9 092 |
| Non-controlling interests in respect of the above adjustments | **(3 072)** | 3 833 |
| Taxation in respect of foreign property sales | **5 175** | 5 259 |
| **SA REIT FFO:** | **109 202** | 201 286 |
| Number of shares outstanding at end of period (net of treasury shares) ('000) | **337 244** | 337 244 |
| **SA REIT FFO per share:** | **32.4** | 59.7 |
| Company-specific adjustments (per share) | **(10.0)** | (15.2) |
| Equity settled share based payment charge | **0.1** | 0.2 |
| Expected Credit Loss Allowance | **(2.1)** | (1.5) |
| Realised foreign exchange loss net of non-controlling interest | **(0.2)** | (1.3) |
| Disposal of goodwill | **0.0** | 2.7 |
| Amortisation of debt-raising fees | **0.0** | 0.3 |
| Gains or losses on the modification of financial instruments | **(0.3)** | (0.8) |
| 25% of distributable earnings not distributed | **(7.5)** | (14.8) |
| **Dividend per share (cents):** | **22.4** | 44.5 |

# ANNEXURE: SA REIT BEST PRACTICE RECOMMENDED DISCLOSURES (NON-IFRS MEASURES) CONTINUED

| SA REIT Net Asset Value (SA REIT NAV) | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Reported NAV attributable to the parent | 2 111 613 | 2 571 106 |
| Adjustments: | | |
| Dividend to be declared | (75 678) | (150 197) |
| Fair value of interest-rate swap derivative financial instruments | 35 974 | 52 514 |
| **SA REIT NAV:** | **2 071 909** | 2 473 423 |
| Shares outstanding | | |
| Number of shares in issue at period end (net of treasury shares) ('000) | 337 244 | 337 244 |
| **Dilutive number of shares in issue ('000)** | **337 244** | 337 244 |
| **SA REIT NAV per share (Rand):** | **6.14** | 7.33 |

| SA REIT cost-to-income ratio | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Expenses | | |
| Operating expenses per IFRS income statement (includes municipal expenses) | 178 647 | 171 691 |
| Administrative expenses per IFRS income statement | 26 341 | 25 970 |
| Exclude: | | |
| Depreciation expense in relation to property, plant and equipment of an administrative nature | (137) | (65) |
| Operating costs | 204 851 | 197 596 |
| Rental income | | |
| Contractual rental income per IFRS income statement (excluding straight-lining) | 325 975 | 395 901 |
| Utility and operating recoveries per IFRS income statement | 123 513 | 137 285 |
| Gross rental income | 449 488 | 533 186 |
| **SA REIT cost-to-income ratio** | **45.6%** | 37.1% |

| SA REIT administrative cost-to-income ratio | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Expenses | | |
| Administrative expenses as per IFRS income statement | 26 341 | 25 970 |
| Administrative costs | 26 341 | 25 970 |
| Rental income | | |
| Contractual rental income per IFRS income statement (excluding straight-lining) | 325 975 | 395 901 |
| Utility and operating recoveries per IFRS income statement | 123 513 | 137 285 |
| Gross rental income | 449 488 | 533 186 |
| **SA REIT administrative cost-to-income ratio** | **5.9%** | 4.9% |

# ANNEXURE: SA REIT BEST PRACTICE RECOMMENDED DISCLOSURES (NON-IFRS MEASURES) CONTINUED

| SA REIT GLA vacancy rate | 2021 | 2020 |
|---|---|---|
| Gross lettable area of vacant space | 42 169 | 20 563 |
| Gross lettable area of total property portfolio | 239 571 | 260 288 |
| **SA REIT GLA vacancy rate** | 17.6% | 7.9% |
| **Cost of debt – South African Rand** | | |
| Variable interest-rate borrowings | | |
| Floating reference rate plus weighted average margin | 6.0% | 6.5% |
| **Pre-adjusted weighted average cost of debt – Rand:** | 6.0% | 6.5% |
| Adjustments: | | |
| Impact of interest rate derivatives | 2.0% | 2.2% |
| Amortised transaction costs imputed into the effective interest rate | 0.1% | 0.2% |
| **All-in weighted average cost of debt – Rand:** | 8.1% | 8.9% |
| **Cost of debt – Euro** | | |
| Variable interest-rate borrowings | | |
| Floating reference rate plus weighted average margin | 2.7% | 3.0% |
| **Pre-adjusted weighted average cost of debt – Euro:** | 2.7% | 3.0% |
| Adjustments: | | |
| Impact of interest rate derivatives | 0.2% | 0.4% |
| Amortised transaction costs imputed into the effective interest rate | 0.4% | 0.1% |
| **All-in weighted average cost of debt – Euro:** | 3.3% | 3.5% |

| SA REIT loan-to-value | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Gross debt | 1 801 449 | 2 214 605 |
| Less: | | |
| Cash and cash equivalents | (129 256) | (336 678) |
| Add/Less: | | |
| Derivative financial instruments | 35 974 | 52 514 |
| **Net debt** | 1 708 167 | 1 930 441 |
| Total assets – per Statement of Financial Position | 4 298 345 | 5 288 340 |
| Less: | | |
| Cash and cash equivalents | (129 256) | (336 678) |
| Trade and other receivables | (128 460) | (149 977) |
| **Carrying amount of property-related assets** | 4 040 629 | 4 801 685 |
| **SA REIT loan-to-value ("SA REIT LTV")**** | 42.3% | 40.2% |

** *The calculation of loan to value has changed from that applied in prior periods. Previously, the fair value of derivative financial instruments was excluded from net debt, but in the current period and comparative period disclosed above, it has been included in net debt as per the SA REIT best practice recommendations.*

# ANNEXURE: SA REIT BEST PRACTICE RECOMMENDED DISCLOSURES (NON-IFRS MEASURES) CONTINUED

| Net initial yield | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Investment property | 3 930 475 | 4 747 130 |
| Add: | | |
| Assumed purchaser's costs | 40 385 | 48 017 |
| Less: | | |
| Properties under development | (232 060) | (192 839) |
| **Grossed up property value** | 3 738 800 | 4 602 308 |
| Property income | | |
| Projected contractual cash rentals | 337 007 | 325 975 |
| Add: | | |
| Notional rental for rent-free periods, discounted rentals, stepped rentals and lease incentives | – | 9 109 |
| Less: | | |
| Non-recoverable property expenses | (51 486) | (55 134) |
| **Annualised net rental** | 285 521 | 279 950 |
| **Net initial yield** | 7.6% | 6.1% |

| Reconciliation from cash generated from operations to SA REIT FFO | 2021 | 2020 |
|---|---|---|
| **Cash generated from operations** | 193 981 | 247 111 |
| Net finance costs paid | (110 027) | (99 768) |
| Tax expense | (19 478) | (16 674) |
| Disposal of goodwill | – | (8 982) |
| Expected Credit Loss Allowance | 7 015 | 5 111 |
| Working capital movements | 51 143 | 89 470 |
| Non-controlling interest share in profits | (16 281) | (25 776) |
| Non-controlling interests in respect of FFO adjustments | 2 103 | 9 092 |
| Gains or losses on the modification of financial instruments | 1 368 | 2 758 |
| Depreciation | (137) | (65) |
| Tenant installations | (241) | (422) |
| Share based payment reserve | (244) | (569) |
| **SA REIT FFO** | 109 202 | 201 286 |

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