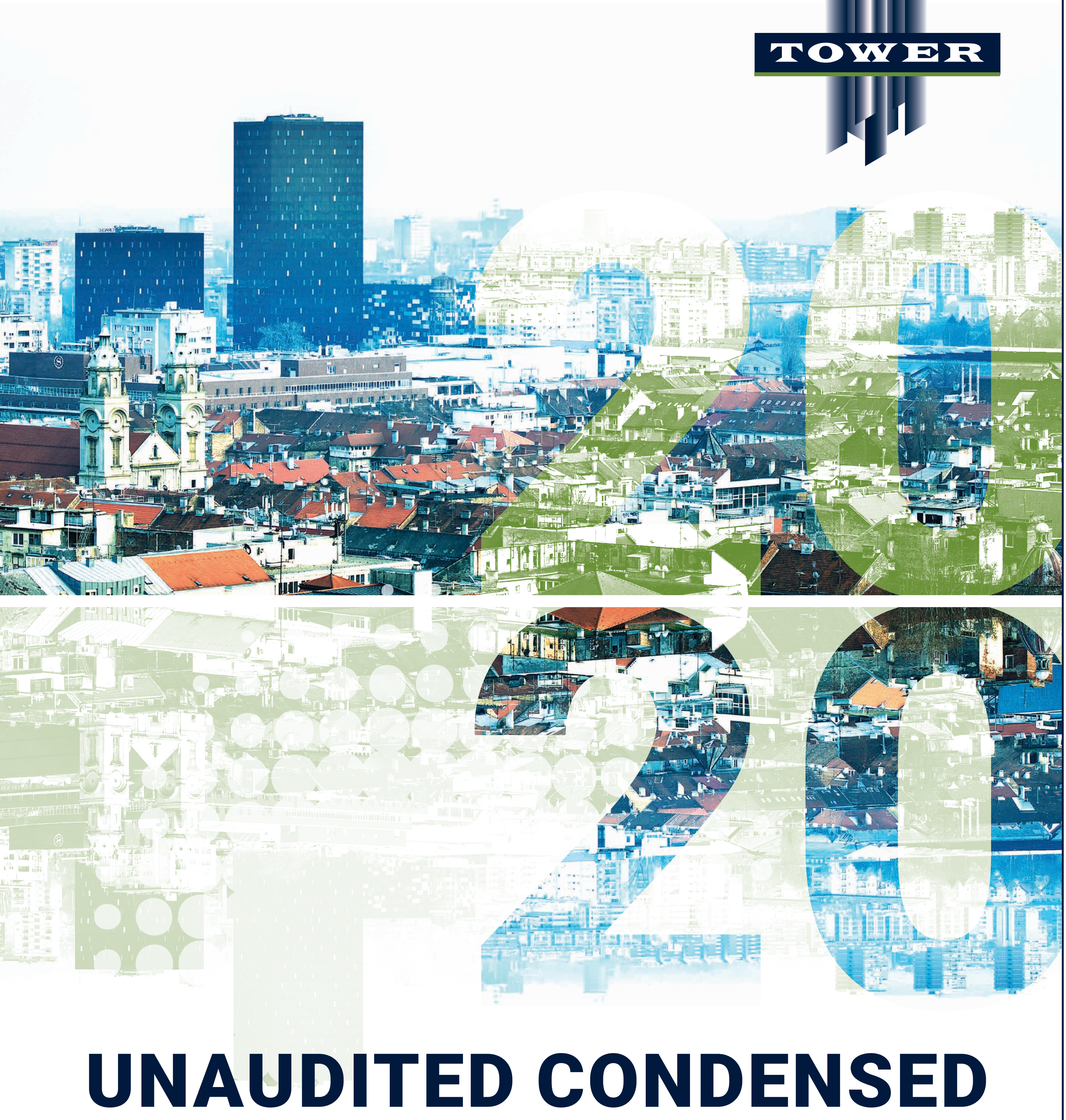
TOWER



UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2020

BASIS OF PREPARATION

The unaudited condensed consolidated interim financial results for the six months ended 30 November 2020 (the results), have been prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The results comply with the JSE Listings Requirements, the Companies Act 71 of 2008, of South Africa (Companies Act) and the SA REIT Best Practice Guide.

These 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 results. The directors are not aware of any matters or circumstances arising subsequent to 30 November 2020 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement. Iain Brodie and Christian Hansen have been appointed to the Tower board effective 1 February 2021. These results have not been reviewed or reported on by Tower's auditors.

The accounting policies and methods of computation applied in the preparation of these 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 re-valuation adjustment of R148.8 million (November 2019: net downward re-valuation adjustment of R47.7 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.

BASIS OF PREPARATION CONTINUED

SIGNIFICANT ESTIMATES CONTINUED

Significant unobservable inputs used were as follows:

South Africa	November 2020	November 2019	May 2020
Office			
Average escalation	7.78%	7.89%	7.34%
High capitalisation rate	10.00%	11.00%	10.00%
Low capitalisation rate	8.00%	6.84%	8.00%
High discount rate	15.50%	16.50%	15.50%
Low discount rate	13.50%	13.75%	13.75%
Vacancy rate	0 – 5%	0 – 5%	0 – 5%
Retail			
Average escalation	7.02%	5.49%	9.89%
High capitalisation rate	11.50%	10.00%	11.50%
Low capitalisation rate	8.25%	9.00%	8.25%
High discount rate	15.25%	16.00%	15.25%
Low discount rate	15.00%	13.20%	15.00%
Vacancy rate	0 – 5%	0 – 5%	0 – 5%
Industrial			
Average escalation	5.99%	4.81%	6.05%
High capitalisation rate	11.50%	11.00%	11.50%
Low capitalisation rate	9.00%	8.84%	9.00%
High discount rate	15.00%	15.00%	15.00%
Low discount rate	15.00%	14.25%	15.00%
Vacancy rate	0 – 5%	0 – 5%	0 – 5%

Croatia	November 2020	November 2019	May 2020
Office			
Average escalation	0.00%	0.00%	0.00%
Capitalisation rate	6.80%	7.00%	6.80%
Discount rate	14.25%	13.97%	14.25%
Vacancy rate	0.50%	0.50%	0.50%
Retail			
Average escalation	1.20%	1.80%	1.80%
High capitalisation rate	7.57%	7.40%	7.57%
Low capitalisation rate	7.10%	7.10%	7.10%
High discount rate	13.69%	13.71%	13.69%
Low discount rate	13.20%	13.20%	13.20%
Vacancy rate	0.50%	0 – 0.5%	0 – 0.5%
Industrial			
Average escalation	0.00%	0.00%	0.00%
Capitalisation rate	7.00%	7.10%	7.00%
Discount rate	14.01%	13.91%	14.01%
Vacancy rate	0.00%	0.00%	0.00%

While the range of inputs applied in the valuations has 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 12 months.

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 company has entered into the following ZAR denominated swaps:

Key metrics	Notional amount (Rand '000)	Fair Value 30 November 2020 (Rand '000)
Contract 1: 7.57% maturing 21 August 2023	500 000	(44 505)
Contract 2: 4.6% maturing 20 July 2023	600 000	(8 188)

The company has entered into the following Euro denominated swaps:

Key metrics	Notional amount (Euro '000)	Fair Value 30 November 2020 (Rand '000)
Contract 1: 0.05% maturing 18 March 2021	2 540	(120)
Contract 2: -0.2% maturing 14 February 2025	13 537	(3 273)
Contract 3: -0.2% maturing 14 February 2025	3 446	(833)

By order of the board

Tower Property Fund Limited
19 February 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
(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*, 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 41 convenience retail, office and industrial properties valued at R4.5 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropoles with 46% by value in the Western Cape, 42% in Gauteng and 12% in KwaZulu-Natal. Tower entered Croatia strategically at a time when the country was emerging from the global financial crisis and property prices fell to an all time low. Tower's investment has seen capital and income appreciation from the region. The four Croatian properties represent 34% of the fund's total value. Tower currently has a sectoral spread by value of 47% office, 44% convenience retail, 7% industrial and inventory 2%.

Tower's long term objective remains the delivery of 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.

However, given an unprecedented and tumultuous year that, at least in a South African context, has exacerbated an already extremely challenging economic environment, Tower's focus has been (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 including navigating the second wave being experienced, (ii) the completion of the redevelopment of the Old Cape Quarter; and (iii) the reduction of risk, including by the sale of non-core properties in South Africa in order to reduce debt.

IMPACT OF COVID-19

Unprecedented challenges to the economy and consequently the property sector have been and continue to be experienced due to the global Covid-19 pandemic, with particular cause for concern being the second wave currently being experienced in the regions in which Tower operates. Tenants are under tremendous pressure to survive, given lockdowns imposed by governments and the resultant change in property sector preference by consumers.

In South Africa these pressures have come on the back of already difficult economic conditions. As a result a number of businesses have closed their doors and vacancies have increased across all sectors. The office market, whilst strong from a rental collection perspective during the pandemic, faces structural changes with shared office space and flexible leasing being in high demand by users. Pressure on tenants' turnovers will impact on the listed property sector's ability to pay growing distributions for this period with the management of cash being of utmost importance.

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. In South Africa, 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. As a result of this approach we have, in respect of our South African portfolio, provided R20.3 million in rental relief since the start of the pandemic, including R5.7 million of rental deferrals and R14.6 million of rental concessions.

Collections (including the collection of arrears) have steadily improved with total collections (as a percentage of total billings, less relief granted) for the period April 2020 to January 2021 standing at 94%, and inclusive of relief granted, at 90%.

IMPACT OF COVID-19 CONTINUED

In Croatia the group provided a 15% reduction at the VMD property for April and May 2020 and a 50% reduction, for the same period, in the Konzum portfolio, applicable only to line shop tenants and not to the anchor tenants. No further relief was provided in Croatia thereafter.

Tower's cash reserves were strong pre-lockdown and the steps taken over the last twelve months to strengthen our balance sheet, through the disposal of R392 million of commercial property and the reduction of debt, proved well timed and have assisted, and will continue to assist Tower to weather this storm.

FINANCIAL PERFORMANCE AND INTERIM DIVIDEND

In our recent annual results for the year ending 31 May 2020, the board felt it prudent to only distribute 75% of our distributable income. The balance of funds would be used within the business and to ensure sufficient working capital is maintained during this difficult period. The board is of the view that, given uncertainty around tenant performance due to the Covid-19 second wave, it is prudent to defer the interim dividend to financial year end.

Property performance has been negatively affected as expected in the first half of the year. Vacancies have increased to 15.2%, Tower's highest ever figure. The vacancies however are concentrated mainly in Cape Quarter with the departure of Deloitte, the anchor office tenant of the property. Coupled with rising vacancies, base rentals have reduced. The R330 per m^2 paid by Deloitte in the last year of their lease now drops to a market rental of approximately R150/m^2. A lease, over the majority of the ex-Deloitte premises, with a strong international tenant, is expected to be signed imminently with exco approval for the tenant received.

SA total property return for the past year was -11.6% (retail -10.0%, office -11.0% and industrial 3.1%). Total property return in Croatia, in Euro, was 5.9% (retail 5.5%, office 6.2% and industrial 8.0%). Property return is calculated as the income return plus the capital return of the properties.

Revenue decreased by 17% to R170.8 million, compared to the corresponding period, as a result of the sale of properties, Covid-19 concessions given and increased vacancies. This was partially offset by the weakening of the Rand.

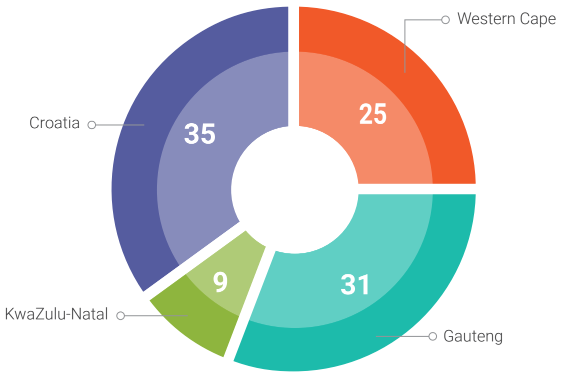
Net property income decreased by 22% from the corresponding period to R150.5 million. On a like-for-like basis, property net income in SA was 20.3% down for the period, with the Croatian net income being 3.2% down in Euros. The like-for-like Croatian net property income is down due to the VMD headlease which expired on 31 July 2020. The net property income from VMD is down Euro 25,551 per month as a result thereof (Euro 10,699 reduction in rental income and Euro 14,882 additional property management fees). The impact on our distributable income is partially offset by the monthly interest saving of Euro 6,477 resulting from refinancing the bank loan of VMD. Like-for-like property income excludes the straight-line lease accrual, currency fluctuations, acquisitions and disposals of property and once-off rates and electricity credits received.

The increase in net property operating expenses from R13.4 million to R20.3 million is predominately as a result of increased bad debts written off in the period under review (R3 million more than the corresponding period) and new property management fees paid for VMD and Yazaki (after the expiry of the VMD head lease). We have retained the services of VMD Group to manage these two properties in Croatia.

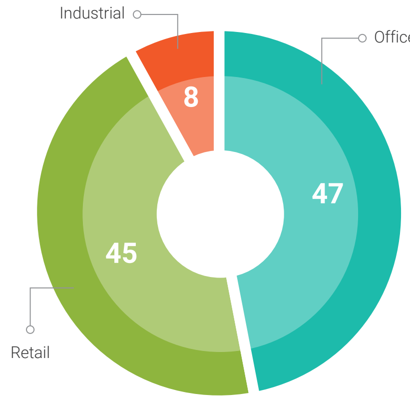
Other items that impacted negatively on Tower's distributable income for the period included increased interest on debt incurred to fund capital expenditure, debt cancellation fees on certain refinanced facilities (which we have not amortised over the period of the new facility), the sale of assets at yields higher than the cost of debt and the increased interest expense as a result of the refinancing of Euro 31.5 million debt with Rand debt on 16 July 2020, reducing the company's exposure to currency risk – a long stated goal.

As a result of these factors, Tower's income available for distribution for the period is 20.6 cents per share (a 38% reduction on the prior year). This reduces to 19.4 cents per share after taking into account tax payable if one assumes a pay-out ratio of 75% of distributable income for the year. However, as detailed above, given the uncertain times and the need to maintain liquidity, the board has decided to defer the interim dividend until year end.

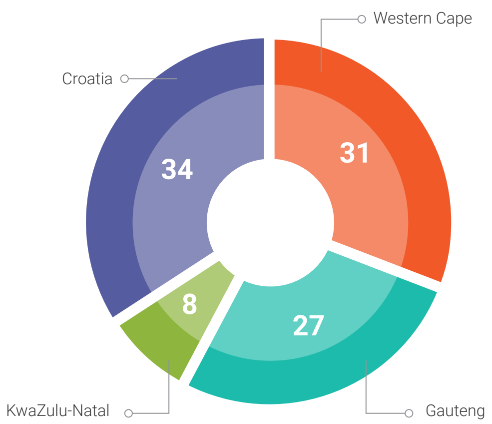
Geographic spread by revenue (%)



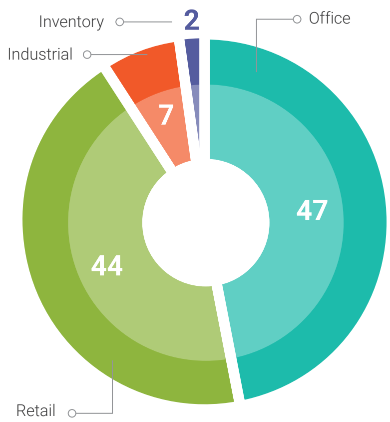
Sectoral spread by revenue (%)



Geographic spread by value (%)



Sectoral spread by value (%)



OPERATING PERFORMANCE

Key metrics	SA (Rand)	Croatia (Euro)
WALE (years) GLA	**2.6**	**6.2**
WALE (years) Revenue	**2.4**	**6.0**
Vacancy totals	**17.9%**	**6.3%***
Retail	2.7%	2.2%*
Office	15.0%	4.1%*
Industrial	0.2%	0%
Rental reversions	**(8.8%)**	**n/a**
Retail	(14.3%)	n/a
Office	(8.3%)	n/a
Industrial	(1.3%)	n/a
Average rentals	**112.00**	**13.61**
Retail	124.00	13.46
Office	125.00	14.83
Industrial	53.00	9.00
Escalations (compounded annually)	**7.2%**	**0.5%**
Retail	7.0%	1.1%
Office	7.7%	0%
Industrial	5.6%	0%
Trading densities (per m² per month)	**2 990**	**339**
Trading density growth	**(14.7%)**	**(4.8%)**
Rental as a percentage of turnover	**7.21%**	**3.3%**

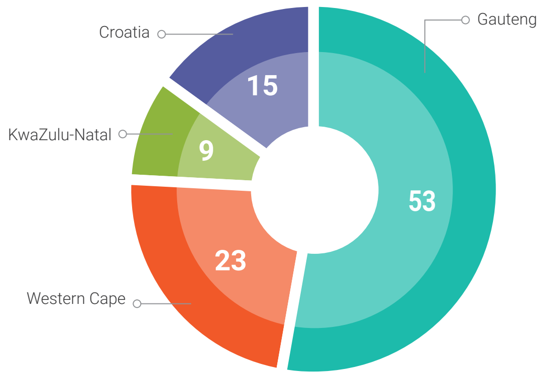
Physical Vacancy covered by head lease

OPERATING PERFORMANCE CONTINUED

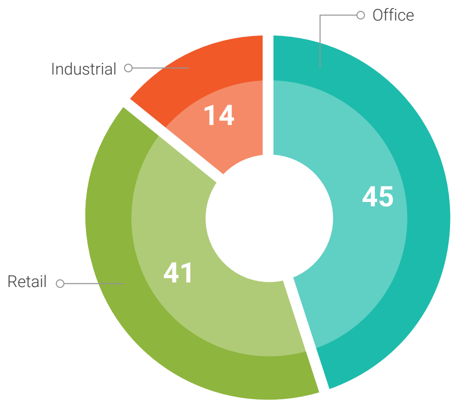
Key metrics	SA (Rand)	Croatia (Euro)
Number of properties by subsector		
Retail	6	2
Office	23	1
Industrial	4	1
Mixed Use	4	–
Average Lease Length (Years)		
Retail	4.7	7.5
Office	3.0	2.7
Industrial	3.0	7.7
Weighted Ave Lease Expiry (years)		
Retail	3.5	7.5
Office	1.8	2.7
Industrial	2.6	7.7

VALUATIONS: THE MAJORITY OF PROPERTIES WERE EXTERNALLY VALUED.

Portfolio spread by GLA (%)

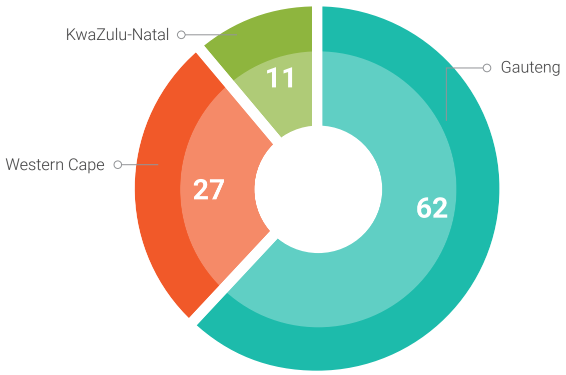


Portfolio sectoral spread by GLA (%)

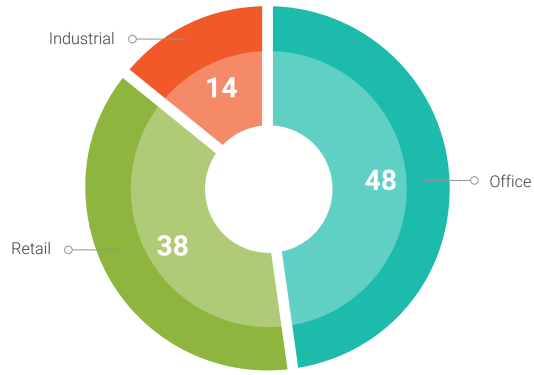


SOUTH AFRICA

Geographic spread by GLA (%)

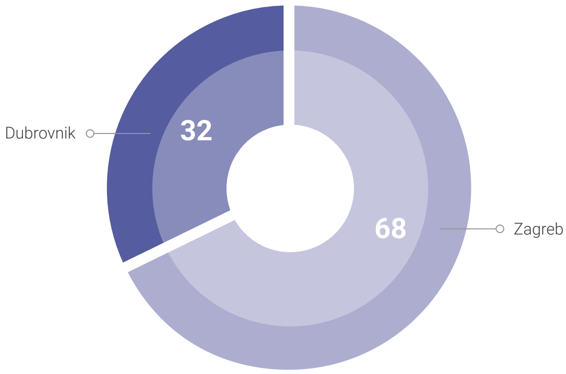


Sectoral spread by GLA (%)

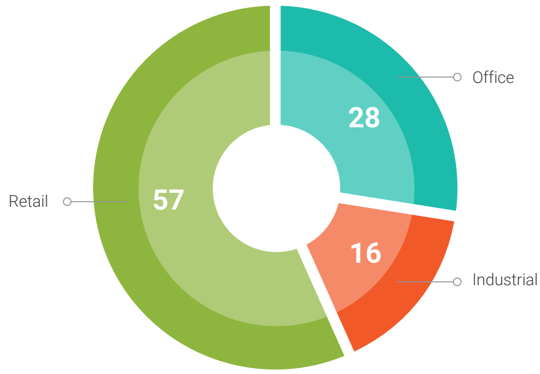


CROATIA

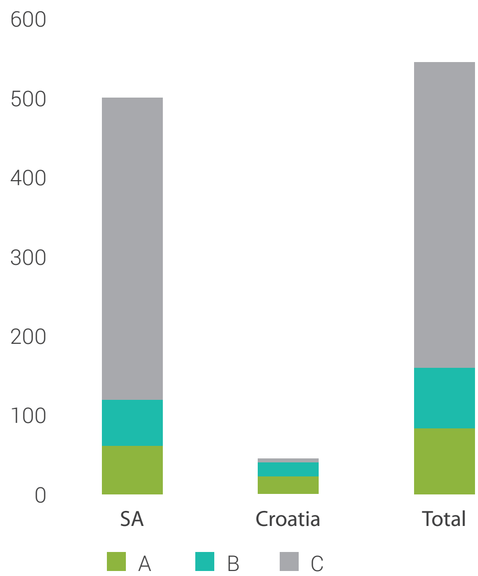
Geographic spread by GLA (%)



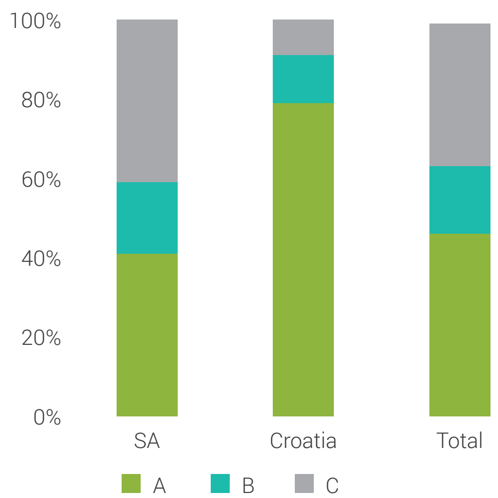
Sectoral spread by GLA (%)



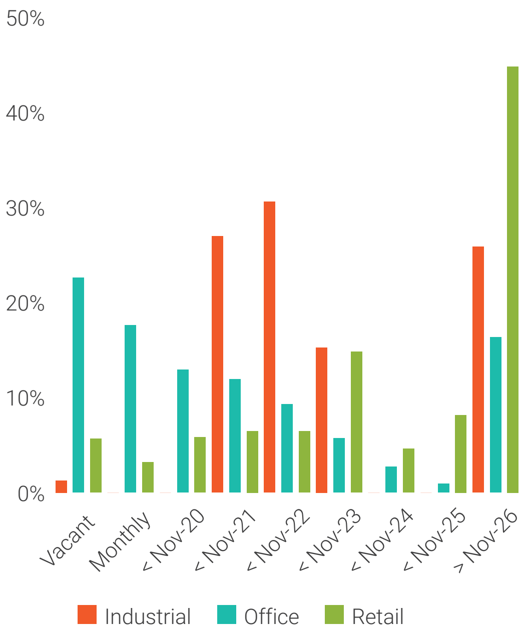
Tenant category by number of tenants



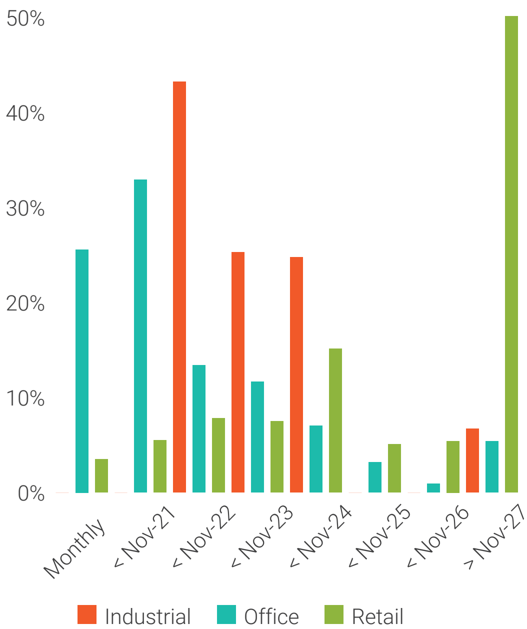
Tenant category by GLA



Lease expiry profile by GLA per sector



Lease expiry profile by revenue per sector

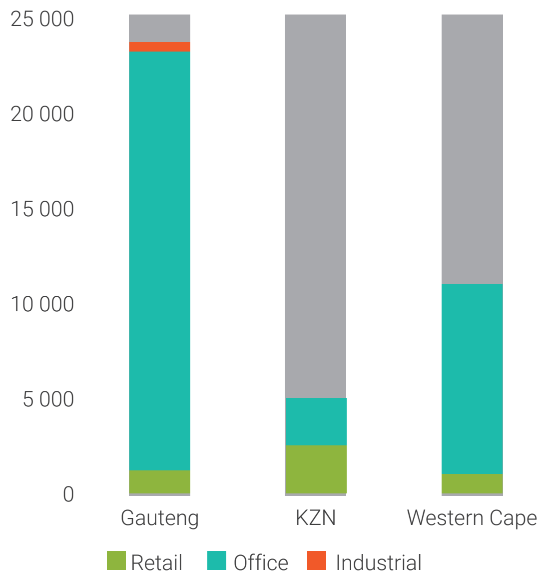


SOUTH AFRICA

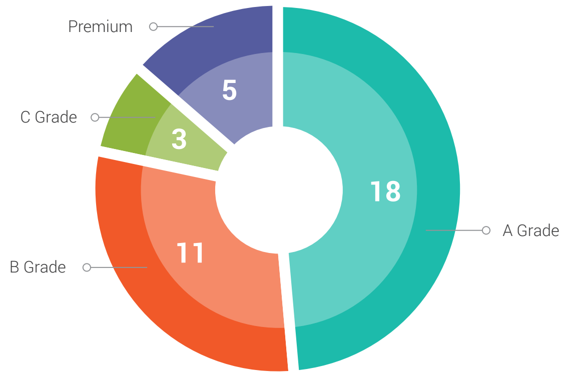
Vacancies in the SA portfolio increased to 17.9% (9.5% in May 2020) mainly due to three large office users vacating during the period (two on expiry (Deloitte and Pernod Ricard) and one due to liquidation). Strong leasing has occurred at Cape Quarter Square with all retail space now under offer and we therefore expect vacancies to improve towards 12% by year end as letting improves as detailed below.

Office vacancies make up the majority of the vacancies at 15%, with retail at 2.7% and industrial at 0.2%.

SA Vacancies (GLA)



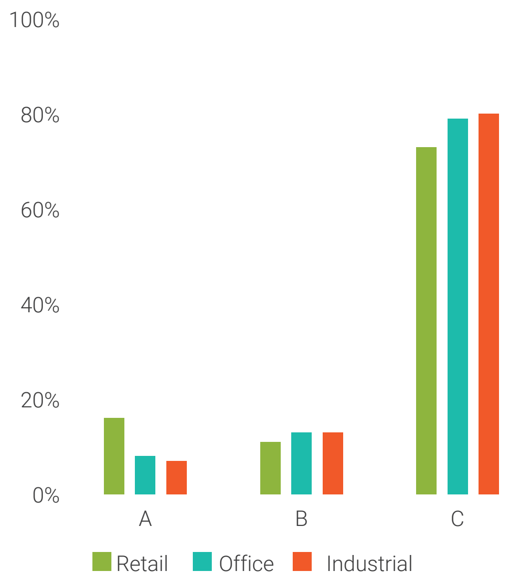
Building grade profile (number of properties)



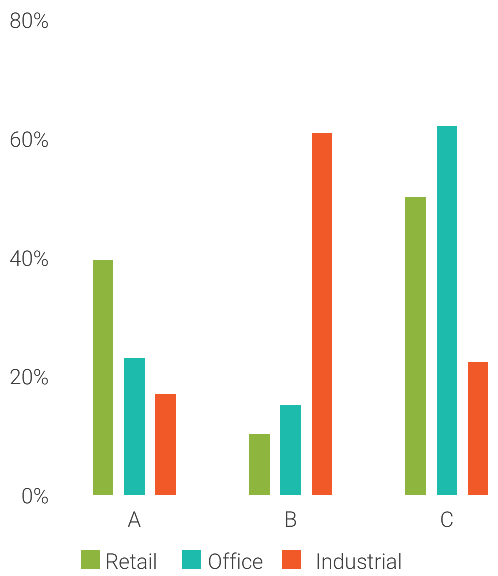
A total of 35 054 m² was let during the period. 6 097 m² comprised of new leases signed and 28 957 m² were renewals resulting in an 95% tenant retention rate.

The lower LSM retail portfolio has proven to be resilient and has performed relatively well with no vacancies arising as a result of the pandemic. Unfortunately, Link Hills in KwaZulu-Natal and Cape Quarter retail felt the brunt of lower consumer demand, with Cape Quarter being particularly vulnerable given the amount of office tenants in the property who frequent the retail shops, and as a result, vacancies have increased in both centres (see comments below). However, demand at Cape Quarter has dramatically increased with all vacancies currently under offer to lease.

SA tenant category by sector by number of tenants



SA tenant category by sector by GLA



The weighted average lease expiry of the SA portfolio by revenue is 2.4 years and by GLA is 2.6 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 (61 tenants).
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) (58 tenants).
C. Small and medium-sized tenants, non-listed tenants and privately held small to medium-sized businesses (381 tenants).

CAPE QUARTER SQUARE

Deloitte and Pernod Ricard both vacated at the expiry of their leases leaving an office vacancy of approximately 7 850m^2.

We are in the process of converting the Pernod Ricard vacancy of 1 850m^2 into co-working office space that will be complete and ready for occupation with effect from 1 March 2021. Rentals achieved on this space are higher than traditional office rentals and we expect demand to increase for this product.

The space vacated by Deloitte has attracted keen interest from hotels, clinics and large corporates and we are currently in discussions to secure a national tenant for the space.

The retailers experienced extremely difficult trading conditions during the period and unfortunately a few long-standing tenants had no alternative but to close their doors. As detailed above, these vacancies have been and are in the process of being let. Demand for the vacancies exceeds supply at asking rentals.

Pending a few design changes and refurbishments due for completion during Q2 2021, the retail component of Cape Quarter will once again be fully let with a fresh mix of attractive offerings.

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.

Tower has secured offers for all of the retail space (3 320 m^2) available and has received encouraging interest from potential office users. We aim to complement the tenant mix of Cape Quarter Square creating a lifestyle precinct for the De Waterkant area with Cape Quarter being the dominant asset of the neighbourhood. Completion of the scheme is expected in August of this year.

The sale of apartments in a world upended by Covid-19 has been challenging. Seven apartments have been sold to date representing a total of R72 million including VAT. These sales were achieved at an average of R72 000 m^2 including VAT. Sales have slowed this year with buyers adopting a "wait and see" approach to market recoveries post Covid-19. The proceeds from these sales will be used to reduce debt in the portfolio.

Tower has appointed Neighbourgood to manage its residential apartments who successfully leased all 21 Cape Quarter Square apartments during the initial lockdown. Due to its innovative approach we believe that we will fully let the remaining apartments in Old Cape Quarter as we continue to sell the units.

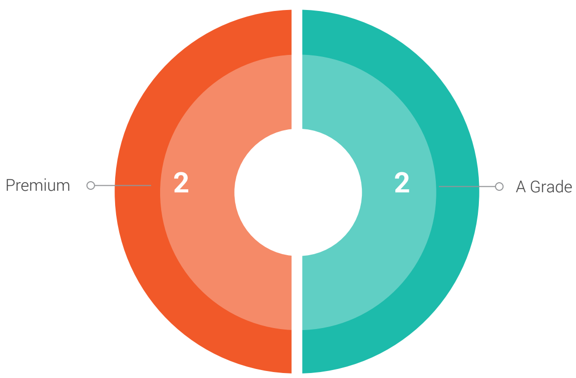
Cost at 30 November 2020 (including land)	**R362 499 402**
Estimated Cost to completion	**R142 306 112**
Estimated GLA at Completion:	
Commercial	**5 540**
Residential	**5 781**
Parking Bays (166 bays)	**4 617**

CROATIA

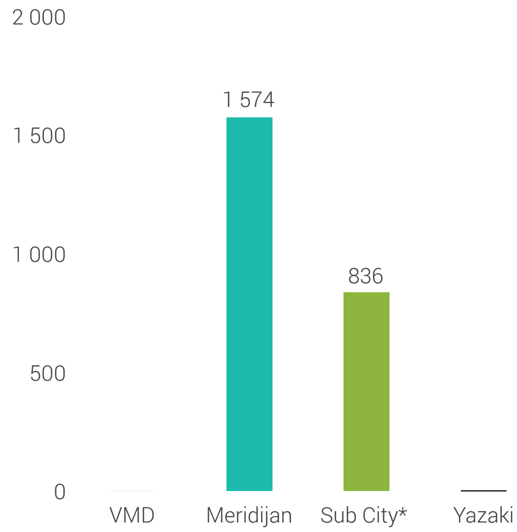
The Croatian portfolio continues to perform well under the circumstances. Sub City shopping centre in Dubrovnik (Sub City) felt the brunt of a poor tourist season and as a result Konzum turnover contracted by 16%. The Konzum store in the Meridijan 16 shopping centre in Zagreb (Meridijan) however experienced a 5% increase in turnover.

Both Sub City and Meridijan are covered by Konzum head leases until May 2028. The triple net lease over the Yazaki Industrial property in Zagreb expires in September 2028. From a revenue point of view Tower does not have any vacancies in Croatia due to the head leases however the actual physical vacancies are approximately 2 410 m² (6.3%).

Building grade profile (number of properties)



Croatian vacancies (GLA)

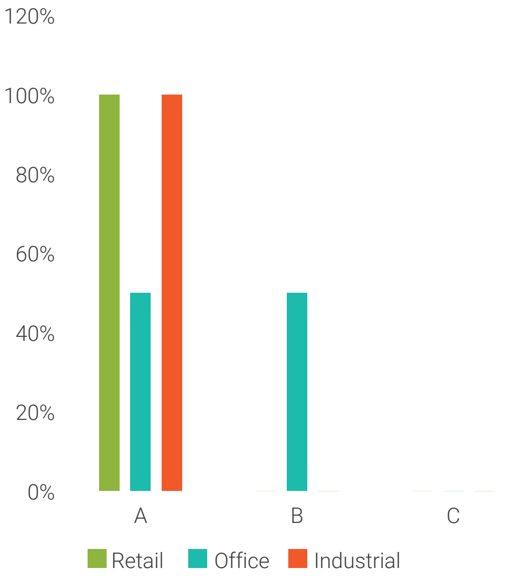


* *This is largely for the occupied building B where Konzum is currently negotiating with interested parties. This does not form part of the main shopping centre.*

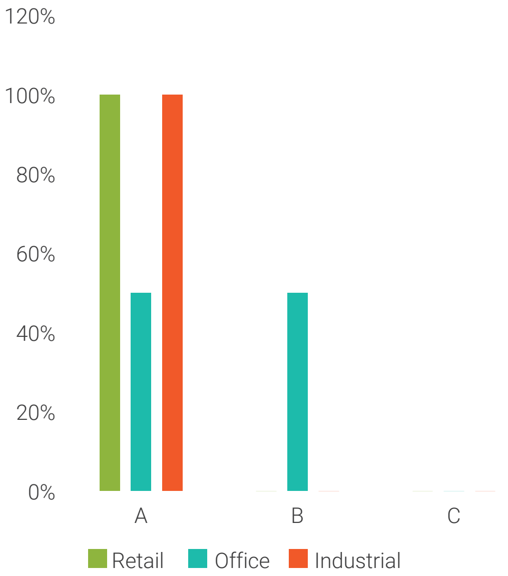
The new Sljeme cable car development alongside the Meridijan 16 Shopping Centre in Zagreb was recently completed. The increased activity as a result of the new cable car foot traffic will provide new impetus to the area and a huge boost to the Shopping Centre with positive long term growth prospects.

Weighted average lease expiry is 6.0 years (revenue) and 6.2 years (GLA).

Croatian tenant category by sector by number of tenants



Croatian tenant category by sector by GLA



BORROWINGS

	Total debt	Rand debt	Euro debt
Loan facilities (R'000)	**1 949 956**	1 372 857	577 099
Weighted cost of funding (%)	**6.5**	7.94	3.10
Debt expiry profile (years)	**2.3**	1.6	3.9
Percentage hedged (%)	**75**	84	62
Hedging expiry profile (years)	**2.9**	2.7	3.7

Based on a property portfolio valued at R4.5 billion, the loan to value (LTV) ratio of the group has increased to 40.1% at the end of the year (47.5% in South Africa and 25.7% 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 because 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 Tower'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. 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 the 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 into 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. Tower Europe Retail 2 d.o.o., in which Vukovarksa and Velika Gorica were held, is in the process of being wound up. A liquidation dividend of circa R32 million will be paid to TPF International. Tower will use its attributable portion to settle Standard bank euro debt. The full proceeds from the sale of Ennerdale will also be used to repay debt to further reduce the South African loan to value.

TOP TEN TENANTS

> Konzum d.o.o
> Deloitte
> Yazaki .d.o.o
> Virgin Active South Africa (Pty) Ltd
> Continuity SÁ
> Pick n Pay Retailers (Pty) Ltd
> BC Cape Town 16 Pty Ltd t/a Regus
> Pick n Pay Retailers (Pty) Limited
> Cape Quarter Food Spar
> Shoprite Checkers (Pty) Ltd

PROSPECTS AND DIVIDEND

Tower's distributable income for the six months of 19.4 cents per share is as a result of a number of factors. Some of these factors include (i) the conversion of Euro debt into Rand debt – a strategic and stated target; (ii) the sale of assets to reduce LTV; and (iii) reversions of above market office rentals. These factors will have an impact on sustainable distributable income going forward. However, we expect a number of other factors, including (i) the impact of Covid-19 related rent relief; (ii) increases in bad debts attributable to Covid-19; and (iii) the temporary increase in vacancies at Cape Quarter as a result of the departure of a number of key office tenants, to only impact distributions over the relatively short term.

If one reverses the impact of these factors (assuming a level of bad debts more consistent with prior periods, had there been no rental concessions, and a re-letting of 95% of the vacant office and retail space at Cape Quarter at market related levels), distributable income for the period would have been closer to 23 cents, which we believe represents a more normalised, sustainable level of distributable earnings for assessing Tower's value proposition. However, this does presuppose a return to more normal trading conditions which, given the current levels of uncertainty, may take some time.

Off this base, Tower's long-term objective remains the delivery of attractive growing total returns to shareholders. There are a number of challenges to achieving this, including, a persistently difficult economic environment in South Africa exacerbated by the impacts of Covid-19, and the need, in an environment of dropping property values, to take steps to ensure that we remain within our LTV and ICR covenants and retain cash. These challenges are likely to remain in the near term, with the leasing up of vacant space and the continued disciplined sale of non-core properties being a key focus. In this regard, Tower has brought in additional internal resources, focused on, amongst other things, leasing, disposals, and collections, to complement the services we currently receive from external property managers.

Tower's Croatian portfolio (held through TPF International) does not face the same challenges and is likely, in the near term, to outperform the South African portfolio.

As referred to elsewhere in this report, the board is of the opinion that we should retain the interim dividend to ensure cash reserves remain strong in this uncertain time. A decision about an annual dividend will be announced in August 2021 with the release of the 2021 full year results.

Certain information presented in these results constitutes *pro forma* financial information. The responsibility for preparing and presenting the *pro forma* financial information and for the completeness and accuracy of the *pro forma* financial information is that of the directors of the company. This is presented for illustrative purposes only. Because of its nature, the *pro forma* financial information may not fairly present Tower's financial position, changes in equity, and results of operations or cash flows. It has not been audited or reviewed or otherwise reported on by our external auditors.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
Assets				
Non-current assets				
Investment property	2	**4 233 447**	4 660 381	4 507 386
Straight-line lease accrual	4	**48 518**	62 385	50 684
Property, plant and equipment	5	**126**	174	144
Goodwill	6	**–**	119 314	–
		4 282 091	4 842 254	4 558 214
Current assets				
Inventories	7	**86 717**	45 649	54 411
Trade and other receivables	8	**147 269**	133 923	149 977
Cash and cash equivalents	9	**159 795**	91 280	336 678
Straight-line lease accrual	4	**8 653**	6 096	12 414
		402 434	276 948	553 480
Assets held for sale	10	**79 958**	220 068	176 646
		482 392	497 016	730 126
Total assets		**4 764 483**	5 339 270	5 288 340
Equity and liabilities				
Equity				
Stated capital		**3 035 344**	3 035 344	3 035 344
Treasury capital		**(14 085)**	(14 085)	(14 085)
Foreign currency translation reserve	11	**14 972**	10 778	19 789
Share-based payment reserve	12	**919**	612	896
Retained income		**(622 145)**	106 052	(470 838)
Shareholders' interest		**2 415 005**	3 138 701	2 571 106
Non-controlling interest	13	**298 136**	312 495	339 000
Total equity		**2 713 141**	3 451 196	2 910 106
Liabilities				
Non-current liabilities				
Other financial liabilities	14	**1 936 381**	1 713 446	2 246 609
Loan payable to non-controlling interest	15	**31 461**	27 659	33 342
		1 967 842	1 741 105	2 279 951
Current liabilities				
Other financial liabilities	14	**10 285**	61 882	20 510
Trade and other payables	16	**54 894**	72 782	69 085
Tax payable	17	**18 321**	–	7 504
Rental guarantee	18	**–**	12 305	1 184
		83 500	146 969	98 283
Total equity and liabilities		**4 764 483**	5 339 270	5 288 340
Net asset value per share (shares in issue at period end) (cents)*	Annexure 1	**733**	865	768

* *The method of calculating the net asset value changed with the adoption of the SA REIT best practice recommendations in the current period. Net asset value per share in the prior periods presented has also been updated in line with the new recommendations.*
The differences are that goodwill and the dividend to be declared are 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	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
Revenue				
Contractual rental income	19	174 057	201 128	395 901
Straight-line lease accrual	4	(3 286)	5 785	(322)
		170 771	206 913	395 579
Net property operating expenses	20	(20 315)	(13 445)	(34 406)
Net property income		150 456	193 468	361 173
Administration expenses	21	(13 983)	(14 600)	(25 970)
(Loss)/Profit on disposal of investment property	22	(1 307)	(8 285)	18 545
Disposal of goodwill	6	–	(2 794)	(8 982)
Impairment of goodwill	6	–	(100 368)	(214 495)
Inventory write-down		–	–	(11 273)
Foreign exchange loss	23	(20 964)	(3 180)	(28 149)
Net operating profit		114 202	64 241	90 849
Fair value gains on investment properties	24	16 699	103 097	39 019
Fair value losses on investment properties	24	(165 501)	(150 828)	(468 356)
Fair value adjustments on interest rate derivatives	25	(4 660)	(1 410)	(37 174)
Fair value gain on rental guarantee	18	–	11 803	22 924
Profit/(Loss) from operations		(39 260)	26 903	(352 738)
Finance income		2 751	2 578	5 585
Finance costs	26	(59 986)	(50 644)	(105 353)
Loss before taxation		(96 495)	(21 163)	(452 506)
Taxation	17	(13 331)	(2 831)	(16 674)
Loss for the period		(109 826)	(23 994)	(469 180)
Other comprehensive loss - items that may subsequently be reclassified to profit and loss				
Exchange difference on foreign operations		(26 423)	(7 334)	54 962
Total comprehensive loss for the period		(136 249)	(31 328)	(414 218)
(Loss)/Profit for the period attributable to:				
Equity shareholders of Tower Property Fund Limited		(119 212)	(35 124)	(494 956)
Non-controlling interest	13	9 386	11 130	25 776
		(109 826)	(23 994)	(469 180)
Total comprehensive income/(loss) attributable to:				
Equity shareholders of Tower Property Fund Limited		(124 029)	(37 139)	(487 960)
Non-controlling interest	13	(12 220)	5 811	73 742
		(136 249)	(31 328)	(414 218)
Basic and diluted earnings per share (weighted average shares in issue) (cents)		(35.3)	(10.4)	(146.8)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
Cash generated from operations	106 888	124 407	247 111
Finance income	2 751	2 578	5 585
Finance costs	(57 359)	(54 423)	(105 182)
Tax paid	(6 954)	(2 149)	(6 317)
Net cash from operating activities	**45 326**	70 413	141 197
Cost capitalised to investment property	(39 161)	(54 368)	(92 664)
Property, plant and equipment acquired	(12)	(59)	(57)
Proceeds on sale of investment property	120 793	91 781	276 732
Net cash from investing activities	**81 620**	37 354	184 011
Local loans raised	102 976	235 913	505 190
Local loans repaid	(138 467)	(186 240)	(255 701)
Foreign loans raised	–	–	394
Foreign loans repaid	(198 735)	(25 418)	(35 321)
Debt-raising fee paid	(1 537)	–	(4 721)
Oryx rental guarantee payment	(1 184)	–	(300)
Non-controlling interest loan advance	–	2 188	2 188
Dividends paid	(40 901)	(132 956)	(256 306)
Return of capital to non-controlling interest	(19 837)	–	(35 134)
Net cash from financing activities	**(297 685)**	(106 513)	(79 711)
Net movement in cash and cash equivalents	(170 739)	1 253	245 497
Cash and cash equivalents at beginning of period	336 678	94 948	94 948
Foreign exchange differences on cash balances	(6 144)	(4 921)	(3 767)
Cash and cash equivalents at end of period	**159 795**	91 280	336 678

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated Capital R'000	Treasury Capital R'000	Foreign Currency Translation Reserve (FCTR) R'000	Share-based payment reserve R'000	Retained Income 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)/Profit for the year	–	–	–	–	(35 124)	(35 124)	11 130	(23 994)
Share based payment	–	–	–	285	–	285	–	285
Foreign currency translation differences	–	–	(2 015)	–	–	(2 015)	(5 319)	(7 334)
Dividends paid	–	–	–	–	(126 870)	(126 870)	(6 086)	(132 956)
Balance at 30 November 2019	3 035 344	(14 085)	10 778	612	106 052	3 138 701	312 495	3 451 196
Profit for the period	–	–	–	–	(459 832)	(459 832)	14 646	(445 186)
Share-based payment	–	–	–	284	–	284	–	284
Foreign currency translation differences	–	–	9 011	–	–	9 011	53 285	62 296
Return of capital to non-controlling interest	–	–	–	–	–	–	(35 134)	(35 134)
Dividends paid	–	–	–	–	(117 058)	(117 058)	(6 292)	(123 350)
Balance at 31 May 2020	**3 035 344**	**(14 085)**	**19 789**	**896**	**(470 838)**	**2 571 106**	**339 000**	**2 910 106**
(Loss)/Profit for the year	**–**	**–**	**–**	**–**	**(119 212)**	**(119 212)**	**9 386**	**(109 826)**
Share based payment	**–**	**–**	**–**	**23**	**–**	**23**	**–**	**23**
Foreign currency translation differences	**–**	**–**	**(4 817)**	**–**	**–**	**(4 817)**	**(21 606)**	**(26 423)**
Return of capital to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**(19 837)**	**(19 837)**
Dividends paid	**–**	**–**	**–**	**–**	**(32 095)**	**(32 095)**	**(8 807)**	**(40 902)**
Balance at 30 November 2020	**3 035 344**	**(14 085)**	**14 972**	**919**	**(622 145)**	**2 415 005**	**298 136**	**2 713 141**

EARNINGS AND HEADLINE EARNINGS PER SHARE

Earnings per share is calculated in terms of IAS33 Earnings per share and SAICA Circular 1/2019 for the group.

	Unaudited 6 months ended 30 November 2020 R'000 Gross	Unaudited 6 months ended 30 November 2020 R'000 Net	Unaudited 6 months ended 30 November 2019 R'000 Net	Audited 12 months ended 31 May 2020 R'000 Net
Loss attributable to ordinary equity holders		(119 212)	(35 124)	(494 956)
Adjusted for:				
Change in fair value of investment properties net of non-controlling interests	148 802	148 802	47 731	435 662
Disposal of goodwill		–	2 794	8 982
Impairment of goodwill		–	100 368	214 495
Loss on disposal of investment property	1 307	968	8 285	(11 567)
Headline earnings		30 558	124 054	152 616
Weighted average number of shares in issue		337 244 093	337 244 093	337 244 093
Headline and diluted headline earnings per share (weighted average shares in issue) (cents)		9.1	36.8	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	Unaudited 6 months ended 30 November 2020 R'000 Gross	Unaudited 6 months ended 30 November 2020 R'000 Net	Unaudited 6 months ended 30 November 2019 R'000 Net	Audited 12 months ended 31 May 2020 R'000 Net
Headline earnings			30 558	124 054	152 616
Adjusted for:					
Straight-line lease accrual	4	3 286	3 286	(5 785)	322
Equity-settled share-based payment reserve	12	23	23	285	569
Change in fair value of interest rate derivatives	25	4 660	4 164	1 410	36 524
Change in fair value of rental guarantee	18		–	(11 803)	(22 924)
Distributable profit			38 031	108 161	167 107
Adjusted for:					
Unrealised foreign exchange loss	23	20 219	21 546	2 735	15 114
Transaction costs	27	5 693	5 693	–	5 861
Inventory write-down			–	–	11 273
Amortisation of debt raising fees			–	908	908
Distributable earnings			65 270	111 804	200 263
Development income lost	28		–	6 259	6 259
Distribution paid			–	118 063	150 197
Distribution paid			–	118 063	150 197
Taxable dividend (declared on 28 February 2020)			–	118 063	118 063
Taxable dividend (declared on 21 August 2020)			–	–	32 134
Number of shares in issue at period end (including treasury shares)			339 549 647	339 549 647	339 549 647
Number of shares in issue at period end (excluding treasury shares)			337 244 093	337 244 093	337 244 093
Distribution per share			–	35.0	44.5
Six months ended 31 May			–	–	9.5
Six months ended 30 November			–	35.0	35.0
Distributable earnings per share (weighted average shares in issue) (cents)			19.4	33.2	59.4

SEGMENTAL ANALYSIS

	SOUTH AFRICA					CROATIA (INCLUDING MAURITIUS)				
	Retail	Office	Industrial	Inventory	Total	Retail	Office	Industrial	Total	Grand Total
For the 6 months ended 30 November 2020 (R'000)										
Property assets*	1 127 123	1 570 801	154 980	86 717	2 939 621	839 776	518 394	159 628	1 517 798	4 457 419
Additions to non-current assets and inventory	23 389	15 677	95	24 295	63 456	–		–	–	63 456
Straight-line lease accrual (refer note 4)	33 760	24 219	1 833	–	59 812	–	–	–	–	59 812
Segment liabilities**	603 320	766 530	68 896	80 034	1 518 780	250 896	166 592	63 825	481 313	2 000 093
Fair value adjustment to investment properties	(62 614)	(85 693)	(495)	–	(148 802)	–	–	–	–	(148 802)
Revenue (excluding straight line lease adjustments)	43 344	62 814	7 114	–	113 272	35 845	18 710	6 230	60 785	174 057
Net operating costs	(6 221)	(11 397)	(456)	–	(18 074)	–	(1 765)	(476)	(2 241)	(20 315)
Segment profit	37 123	51 417	6 658	–	95 198	35 845	16 945	5 754	58 544	153 742
Straight line lease adjustment	–	–	–	–	–	–	–	–	–	(3 286)
Non property related expenses	–	–	–	–	–	–	–	–	–	(13 983)
Loss on disposal of investment property	–	–	–	–	–	(1 307)	–	–	–	(1 307)
Foreign exchange loss	–	–	–	–	–	–	–	–	–	(20 964)
Net operating profit										114 202
For the 6 months ended 30 November 2019 (R'000)										
Property assets*	1 308 122	1 864 228	163 522	45 649	3 381 521	1 076 326	454 316	82 590	1 613 232	4 994 753
Additions to non-current assets and inventory	36 581	17 041	562	14 599	68 782	–	184	–	184	68 965
Straight-line lease accrual	35 504	30 331	2 217	–	68 052	–	–	–	–	68 052
Segment liabilities**	538 000	749 664	64 271	25 740	1 377 675	320 318	149 344	134	469 796	1 847 471
Fair value adjustment to investment properties	16 377	(64 904)	796	–	(47 731)	–	–	–	–	(47 731)
Revenue (excluding straight line lease adjustments)	52 654	78 750	9 319	331	141 054	40 403	16 513	3 158	60 074	201 128
Net operating costs	(7 103)	(4 766)	(958)	–	(12 827)	–	(526)	(92)	(618)	(13 445)
Segment profit	45 551	73 984	8 361	331	128 227	40 403	15 987	3 066	59 456	187 683
Straight line lease adjustment	–	–	–	–	–	–	–	–	–	5 785
Non property related expenses	–	–	–	–	–	–	–	–	–	(14 600)
(Loss)/Profit on disposal of investment property	–	(8 967)	682	–	–	–	–	–	–	(8 285)
Disposal of goodwill	–	–	(2 794)	–	(2 794)	–	–	–	–	(2 794)
Impairment of goodwill	–	(1 206)	–	–	–	(99 162)	–	–	–	(100 368)
Foreign exchange loss	–	–	–	–	–	–	–	–	–	(3 180)
Net operating profit										64 241

SEGMENTAL ANALYSIS CONTINUED

For the year ended 31 May 2020 (R'000)	SOUTH AFRICA Retail	Office	Industrial	Inventory	Total	CROATIA (INCLUDING MAURITIUS) Retail	Office	Industrial	Total	Grand Total
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)
(Loss)/Profit on disposal of investment property	–	(8 976)	682	–	–	26 839	–	–	–	18 545
Disposal of goodwill – Tower Asset Managers (Pty) Ltd	–	–	(2 794)	–	(2 794)	(6 188)	–	–	(6 188)	(8 982)
Impairment of goodwill – Tower Asset Managers (Pty) Ltd	(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 loss	–	–	–	–	–	–	–	–	–	(28 149)
Net operating profit	–	–	–	–	–	–	–	–	–	90 850

NOTES

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
1) Segmental analysis			
Investment property	**4 233 447**	4 660 381	4 507 386
Straight-line lease accrual	**57 171**	68 481	63 098
Property, plant and equipment	**126**	174	144
Inventories	**86 717**	45 649	54 411
Investment property held for sale	**79 958**	220 068	176 646
Property assets*	**4 457 419**	4 994 753	4 801 685
Segment liabilities**	**2 000 093**	1 847 471	2 335 524
Non-segment liabilities			
– Trade and other payables	**1 111**	639	680
– Loan to non-controlling interests	**31 461**	27 659	33 342
– Interest accrued to loan to non-controlling interests	**356**	–	–
– Tax payable	**18 321**	–	7 504
– Oryx guarantee	**–**	12 305	1 184
Total liabilities	**2 051 342**	1 888 074	2 378 234

	SOUTH AFRICA			CROATIA (INCLUDING MAURITIUS)			
	Retail	Office	Industrial	Retail	Office	Industrial	Total
2) Investment property reconciliation by sub-sector							
Balance as at 31 May 2019	1 285 727	1 979 301	247 500	1 095 575	462 250	84 068	5 154 421
Capital expenditure	36 581	17 041	562	–	184	–	54 368
Transfers between sub-sector	(31 340)	31 340	–	–	–	–	0
Tenant Installations	(19)	(117)	(18)	–	–	–	(154)
Transfers to inventory	(2 111)	–	–	–	–	–	(2 111)
Straight line movement	3 537	1 535	713	–	–	–	5 785
Capitalised interest	829	367	–	–	–	–	1 196
Disposals	–	(103 000)	(86 000)	–	–	–	(189 000)
Net exchange differences on translation	–	–	–	(19 249)	(8 118)	(1 478)	(28 845)
Fair value adjustment	13 917	(62 413)	765	–	–	–	(47 731)
Balance as at 30 November 2019	1 307 121	1 864 054	163 522	1 076 326	454 316	82 590	4 947 929
Acquisitions	–	–	–	–	–	55 563	55 563
Capital expenditure	20 535	17 009	169	–	583	–	38 296
Transfers between sub-sector	(42 548)	42 548	–	–	–	–	–
Tenant Installations	(76)	(197)	–	–	–	–	(273)
Transfers to inventory	–	–	–	–	–	–	–
Straight line movement	(1 271)	(4 053)	(783)	–	–	–	(6 107)
Capitalised interest	1 720	1 104	–	–	–	–	2 824
Disposals	–	–	–	(179 426)	–	–	(179 426)
Net exchange differences on translation	–	–	–	162 919	81 885	25 126	269 930
Fair value adjustment	(156 999)	(235 157)	(7 928)	3 031	10 272	5 175	(381 606)
Balance as at 31 May 2020	**1 128 482**	**1 685 308**	**154 980**	**1 062 850**	**547 056**	**168 454**	**4 747 130**
Capital expenditure	**23 389**	**15 677**	**95**	**–**	**–**	**–**	**39 161**
Transfers between sub-sector	**42 563**	**(42 563)**	**–**	**–**	**–**	**–**	**–**
Tenant Installations	**(48)**	**(126)**	**–**	**–**	**–**	**–**	**(174)**
Transfers to inventory	**(5 841)**	**–**	**–**	**–**	**–**	**–**	**(5 841)**
Straight line movement	**(895)**	**(2 791)**	**400**	**–**	**–**	**–**	**(3 286)**
Capitalised interest	**2 087**	**863**	**–**	**–**	**–**	**–**	**2 950**
Disposals	**–**	**–**	**–**	**(176 646)**	**–**	**–**	**(176 646)**
Net exchange differences on translation	**–**	**–**	**–**	**(46 428)**	**(28 662)**	**(8 826)**	**(83 916)**
Fair value adjustment	**(62 614)**	**(85 693)**	**(495)**	**–**	**–**	**–**	**(148 802)**
Balance as at 30 November 2020	**1 127 123**	**1 570 675**	**154 980**	**839 776**	**518 394**	**159 628**	**4 370 576**

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 payable in the event that the rental for the Croatian properties is 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 30 November 2020 is equal to R56 919 023 (30 November 2019 – R16 799 263; 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 in the discount rates as well as companies risk premiums raised during the pandemic which resulted in the decrease in the fair values of investment properties. Discount rates and capitalisation rates had to be adjusted. 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 reversionary capitalisation rates, rental values and vacancy levels and that there is also an interrelationship between these inputs.

For the ranges of significant unobservable inputs used in the fair value measurement of the portfolio, refer to page 2.

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

	South Africa R'000	Croatia R'000
Sensitivity analysis to significant unobservable inputs		
Increase in fair value if average escalations increase by 1%	262 785	139 857
Decrease in fair value if average escalations decrease by 1%	(246 425)	(131 149)
Decrease in fair value if discount rates increase by 1%	(163 550)	(87 043)
Increase in fair value if discount rates decrease by 1%	177 655	94 550
Decrease in fair value if capitalisation rates increase by 1%	(124 984)	(66 518)
Increase in fair value if capitalisation rates decrease by 1%	156 230	83 147

NOTES CONTINUED

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 R'000	Level 2* R'000	Level 3# R'000	Total
30 November 2020 (unaudited)				
ASSETS				
Investment properties	–	–	4 370 576	4 370 576
Total	–	–	4 370 576	4 370 576
LIABILITIES				
Derivative financial instruments	–	56 919	–	56 919
Rental Guarantee	–	–	–	–
Total	–	56 919	–	56 919
31 May 2020 (audited)				
ASSETS				
Investment properties	–	–	4 747 130	4 747 130
Total	–	–	4 747 130	4 747 130
LIABILITIES				
Derivative financial instruments	–	52 514	–	52 514
Rental Guarantee	–	–	1 184	1 184
Total	–	52 514	1 184	53 698
30 November 2019 (unaudited)				
ASSETS				
Investment properties	–	–	4 948 930	4 948 930
Total	–	–	4 948 930	4 948 930
LIABILITIES				
Derivative financial instruments	–	16 799	–	16 799
Rental Guarantee	–	–	12 305	12 305
Total	–	16 799	12 305	29 104

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

* *Level 2 - Fair values are determined by third parties using observable inputs.*

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

NOTES CONTINUED

4) The straight-line lease accrual decreased as a result of certain lease terms drawing to a close, notably at Cape Quarter Square. The difference between the straight-line lease accrual in the statement of financial position and the segment report is due to the accrual related to held for sale properties being recognised in the assets held for sale line item.

5) Property, plant and equipment comprises various furniture, fittings, office and computer equipment at the company head office and Cape Quarter Square. Whilst some minor additions were purchased during the current period, overall depreciation items led to the net decrease in asset value.

6) Goodwill arose from the internalisation of Tower Asset Managers (TAM) and the purchase of Sub Dubrovnik d.o.o. and is tested at each reporting date for impairment. In the year ending 31 May 2020, both the TAM and Sub Dubrovnik goodwill were assessed and considered to be impaired, resulting in derecognition of the remaining asset.

7) 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.

8) Trade and other receivables has increased predominantly as a result of Vat receivable on the Old Cape Quarter development and an increase in trade debtors as a result of Covid-19.

9) Cash and cash equivalents increased as compared to the prior period due to more funds being held in cash deposits that were previously held in access facilities, some of the net proceeds on sale of Vukovarska and Velika Gorica being retained for the payment of tax on sale, and the impact of transferring Croatian bank loans from an amortising to an interest-only basis.

10) Shoprite Ennerdale and section 4 of Upper Grayston Block D were classified as held for sale as at 30 November 2020. The suspensive conditions for the sale of Ennerdale have been fulfilled and the transfer will be lodged once the rates clearance has been finalised. Transfer is expected end of February 2021 with a sales price of R77 million. Section 4 of Upper Grayston Block D sold for R3 million and transfer was realised on the 8th January 2021.

At 30 November 2019, Clearview Motor Village was classified as held for sale. It was since reclassified to investment properties due to management taking it off the market. Velika Gorica which was held for sale at 31 May 2020 transferred in July 2020.

11) 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 increase in the reserve arose due to the weakening of the Rand against the Kuna since November 2019.

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

13) 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% -owned subsidiary of Tower Property Fund Limited. There was no dilution in % holding.

14) Other financial liabilities comprise bank loans, interest rate derivatives and related accrued interest. The increase in non-current other financial liabilities since the period ending 30 November 2019 is as a result of further lending towards the Piazza development, the purchase of the Yazaki part B property in Croatia using debt finance, an increase in fair value of the interest rate derivatives and the weakening of the Rand against the Euro.

The decrease in current other financial liabilities resulted from refinancing of interest rate derivatives, and the repayment of R37 million of Euro-denominated debt that had been classified as current at November 2019.

15) The loan payable to non-controlling interests is the shareholder loan in Tower Europe d.o.o. from minority shareholder VMD Grupa. The increase in the loan balance from the prior period arose due to the weakening of the Rand.

16) Trade and other payables decreased from the prior period as a result of reduced tenant deposits held, and reduced municipal accruals.

17) The tax liability includes R10.2 million tax payable in Croatia on the sale of Vukovarska and Velika Gorica, as well as R7.5 million tax payable in South Africa due to not distributing 100% of the 31 May 2020 distributable income.

NOTES CONTINUED

18) 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.

19) Contractual rental income reduced from the prior comparative period 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.

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
20) Net property operating expenses			
Insurance	**1 126**	1 210	2 339
Letting commission	**2 725**	3 266	6 366
Municipal expenses	**49 862**	52 913	102 804
Other operating expenses	**8 840**	5 542	17 654
Property management fees	**6 958**	6 798	13 085
Repairs and maintenance	**3 879**	4 326	8 232
Security and cleaning	**10 691**	10 377	21 211
Gross property expenses	**84 081**	84 432	171 691
Operating expense recoveries	**(63 766)**	(70 987)	(137 285)
Net property operating expenses	**20 315**	13 445	34 406
Property ratios			
Net property expense ratio	**20%**	16%	17%
Gross property expense ratio	**35%**	31%	32%
Tenant retention ratio	**95%**	96%	94%

Net property operating expenses increased from the prior comparative period primarily due to increased bad debts and 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.

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
21) Administration and corporate costs			
Salaries	**7 213**	8 885	15 039
Professional service fees	**2 538**	1 620	3 537
Other	**4 232**	4 095	7 394
Total	**13 983**	14 600	25 970
Administrative cost-to-income ratio	**6%**	5%	5%

NOTES CONTINUED

22) 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 period the net loss on sale related to the sales of the Medscheme (loss on sale) and Meadowbrook (gain on sale) properties.

23) 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.

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

25) The fair value loss on interest rate derivatives increased in the current period due to the difference between the fixed rates payable and the variable rates, which decreased significantly during the Covid-19 pandemic.

26) 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.

27) 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.

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

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000	Audited 12 months ended 31 May 2020 R'000
29) **Related party transactions included:**			
Property management fees paid to Spire Property Management Proprietary Limited (R'000)	**5 820**	9 551	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: > Property management fees which are calculated as a % of collections > Project fees where capital is spent is calculated on a sliding scale (where relevant); and > Letting and renewal commissions which are based on a % of rental income.			
Share based payments	**919**	612	569
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.			

NOTES CONTINUED

30) Subsequent events

The suspensive conditions for the sale of the Ennerdale property have been fulfilled and the transfer will be lodged once the rates clearance has been finalised. Transfer is expected end of February 2021.

Transfer of section 4 of Upper Grayston Block D was realised on the 8th January 2021.

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 30 November 2020. The group is still in a strong liquidity position and holds enough cash (R160m) 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 30 November 2020 due to the lockdown regulations and the valuation of investment property has not materially changed up to 19 February 2021.

ANNEXURE 1 – SA REIT BEST PRACTICE DISCLOSURES (NON-IFRS MEASURES)

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
SA REIT Funds from Operations (SA REIT FFO) per share		
Profit or loss per IFRS Statement of Comprehensive Income (SOCI) attributable to the parent	**(119 212)**	(35 124)
Adjusted for:-		
Accounting/specific adjustments:-	**152 088**	133 305
Fair value adjustments to:	**148 802**	35 928
> Investment property		
> Debt and equity instruments held at fair value through profit or loss		
Impairment of goodwill or the recognition of a bargain purchase gain	**–**	103 162
Straight-lining operating lease adjustment	**3 286**	(5 785)
Adjustments arising from investing activities:-	**1 307**	8 285
Gains or losses on disposal of investment property	**1 307**	8 285
Foreign exchange and hedging items:-	**25 624**	4 590
Fair value adjustments on derivative financial instruments employed solely for hedging purposes	**4 660**	1 410
Foreign exchange gains or losses relating to capital items – realised and unrealised	**20 964**	3 180
Other adjustments:-	**293**	(932)
Non-controlling interests in respect of the above adjustments	**293**	(932)
SA REIT FFO	**60 100**	110 124
Number of shares outstanding at end of period (net of treasury shares)	**337 244 093**	337 244 093
SA REIT FFO per share	**17.8**	32.7
Company-specific adjustments (per share)	**1.6**	2.4
Equity settled share based payment charge	**–**	0.1
Development income lost	**–**	1.9
Transaction costs	**1.8**	–
Amortisation of debt-raising fees	**–**	0.3
Realised foreign exchange loss net of non-controlling interests	**(0.2)**	0.1
Distributable income per share (cents)	**19.4**	35.0

ANNEXURE 1 – SA REIT BEST PRACTICE DISCLOSURES (NON-IFRS MEASURES) CONTINUED

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
SA REIT Net Asset Value (SA REIT NAV)		
Reported NAV attributable to the parent	**2 415 005**	3 138 701
Adjustments:		
Dividend to be declared	–	(118 063)
Fair value of certain derivative financial instruments	**56 919**	16 799
Goodwill and intangible assets	–	(119 314)
SA REIT NAV	**2 471 924**	2 918 123
Shares outstanding		
Number of shares in issue at period end (net of treasury shares)	**337 244 093**	337 244 093
Dilutive number of shares in issue	**337 244 093**	337 244 093
SA REIT NAV per share (Rand)	**7.3**	8.7

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
SA REIT cost-to-income ratio		
Expenses		
Operating expenses per IFRS income statement (includes municipal expenses)	**84 081**	84 432
Administrative expenses per IFRS income statement	**13 983**	14 600
Exclude:		
Depreciation expense in relation to property, plant and equipment of an administrative nature and amortisation expense in respect of intangible assets	**(2 019)**	(941)
Operating costs	**96 044**	98 091
Rental income		
Contractual rental income per IFRS income statement (excluding straight-lining)	**174 057**	201 128
Utility and operating recoveries	**63 766**	70 987
Gross rental income	**237 823**	272 115
SA REIT cost-to-income ratio	**40.4%**	36.0%

ANNEXURE 1 – SA REIT BEST PRACTICE DISCLOSURES (NON-IFRS MEASURES) CONTINUED

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
SA REIT administrative cost-to-income ratio		
Expenses		
Administrative expenses as per IFRS income statement	13 983	14 600
Administrative costs	13 983	14 600
Rental income		
Contractual rental income per IFRS income statement (excluding straight-lining)	174 057	201 128
Utility and operating recoveries per IFRS income statement	63 766	70 987
Gross rental income	237 823	272 115
SA REIT administrative cost-to-income ratio	5.9%	5.4%

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
SA REIT GLA vacancy rate		
Gross lettable area of vacant space	38 694	16 872
Gross lettable area of total property portfolio	254 336	305 594
SA REIT GLA vacancy rate	15.2%	5.5%

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
Cost of debt		
Variable interest-rate borrowings		
Floating reference rate plus weighted average margin	4.8%	5.0%
Pre-adjusted weighted average cost of debt	4.8%	5.0%
Adjustments:		
Impact of interest rate derivatives	1.5%	0.2%
Impact of cross-currency interest rate swaps	0.1%	0.3%
Amortised transaction costs imputed into the effective interest rate	0.1%	0.1%
All-in weighted average cost of debt	6.5%	5.6%

ANNEXURE 1 – SA REIT BEST PRACTICE DISCLOSURES (NON-IFRS MEASURES) CONTINUED

	Unaudited 6 months ended 30 November 2020 R'000	Unaudited 6 months ended 30 November 2019 R'000
SA REIT loan-to-value		
Gross debt	**1 889 747**	1 758 529
Less:		
Cash and cash equivalents	**(159 795)**	(91 280)
Add:		
Derivative financial instruments	**56 919**	16 799
Net debt	**1 786 871**	1 684 048
Total assets – per Statement of Financial Position	**4 764 483**	5 339 270
Less:		
Cash and cash equivalents	**(159 795)**	(91 280)
Goodwill and intangible assets	**–**	(119 314)
Trade and other receivables	**(147 269)**	(133 923)
Carrying amount of property-related assets	**4 457 419**	4 994 753
SA REIT loan-to-value ("SA REIT LTV")**	**40.1%**	33.7%

** *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.*

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