

## 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 “company”)



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## ACQUISITION OF CROATIAN RETAIL PROPERTY PORTFOLIO AND CAUTIONARY

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### 1. INTRODUCTION

Shareholders are advised that Tower has concluded an agreement (the “**preliminary acquisition agreement**”) with Agrokor d.d (“**Agrokor**”) and Konzum d.d (“**Konzum**”) to acquire the following 4 Konzum stores and shopping centres in Croatia for an aggregate purchase consideration of €66 386 227 (exclusive of VAT) less the amount of debt in the Dubrovnik company (the “**total purchase consideration**”). To this end, Tower will acquire:

- the entire issued share capital of Sub Dubrovnik d.o.o (the “**Dubrovnik company**”) which owns the Sub City Centre situated in the Dubrovnik area (the “**Dubrovnik property**”) from Agrokor for an aggregate purchase consideration of €28 746 413 (exclusive of VAT) less the amount of debt in the Dubrovnik company, which debt will remain in the Dubrovnik company pursuant to Tower acquiring the Dubrovnik company;
- the standalone superKonzum situated in Zagreb (the “**Zagreb property**”) from Ares Nekretnine d.o.o. (the “**Zagreb seller**”) for an aggregate purchase consideration of €13 151 880 (exclusive of VAT);
- the Meridijan 16 shopping centre situated in Zagreb, Gračanska (the “**Gračani property**”) from Siget ulaganje d.o.o. (the “**Gračani seller**”) for an aggregate purchase consideration of €15 677 987 (exclusive of VAT); and
- the standalone superKonzum situated in Velika Gorica (the “**Velika Gorica property**”) from Bacal Beta Nekretnine d.o.o. (the “**Velika Gorica seller**”) for an aggregate purchase consideration of €8 809 947 (exclusive of VAT),

(collectively the “**acquisitions**”) as a series of interconditional transactions.

Tower is in the process of establishing one or more Croatian subsidiaries (each a “**purchaser**” or “**Tower subsidiary**”) which will assume all of Tower’s rights and obligations in respect of each acquisition.

### 2. OVERVIEW OF KONZUM AND AGROKOR AND RATIONALE

The Agrokor Group is the largest company in the Adria region, employing over 60 000 people. Agrokor focuses on food retail and wholesale as well as food production and has an annual turnover of €6.5 billion. Agrokor is the controlling shareholder of Konzum, the largest supermarket retailer in Croatia and Bosnia and Herzegovina. Konzum employs over 14 000 people in more than 740 stores in Croatia alone. The acquisition of the Mercator business enabled Agrokor to also become the leading food retailer and wholesaler in the markets of Serbia, Slovenia and Montenegro. Today, Agrokor's retail in the region employs 41 500 people in over 2 000 stores.

The acquisitions are in accordance with Tower’s strategy of establishing an offshore European platform to seek out new markets that provide strong diversification opportunities through premium, high quality properties. The Dubrovnik property, the Zagreb property, the Gračani property and the Velika Gorica property (collectively the “**properties**”) are situated in prime locations, built to European standards and feature internationally renowned tenants. The Zagreb property and the Velika Gorica property are standalone superKonzum stores (equivalent to the South African Hypermarket stores). The Dubrovnik property and the Gračani property are shopping centres in which Konzum is the anchor tenant and other strong line shop tenants make up the balance.

### 3. TERMS OF THE PRELIMINARY ACQUISITION AGREEMENT

#### 3.1. Effective date

The effective date for the preliminary acquisition agreement will be the date of fulfilment, or waiver, as the case may be, of the last of the conditions precedent to the preliminary acquisition agreement (the “**effective date**”). On the effective date, Tower, Agrokor and Konzum, and each of the Zagreb seller, the Gračani seller, the Velika Gorica seller (the “**sellers**”), as the case may be, will procure the execution of agreements for the acquisition by Tower of the Dubrovnik company and each of the Zagreb property, the Gračani property, and the Velika Gorica property. The effective date for each acquisition will be the date of transfer against payment (“**closing date**”) which is anticipated in April 2016.

#### 3.2. The head lease agreements, property management agreements and guarantees

On the effective date, Konzum will enter a twelve year, triple net head lease with each Tower subsidiary in respect of the Velika Gorica property and the Zagreb property, including line shop stores on the premises (each a “**head lease agreement**”) and other existing tenants will remain as sub-tenants of Konzum.

In respect of the Dubrovnik property, the Dubrovnik company will remain the lessor in relation to the existing lease agreements. In respect of the Gračani property, the relevant Tower subsidiary will be the lessor. Konzum will enter into a property management agreement with each of the Dubrovnik company and the purchaser owning the Gračani property for a period of 12 years (each a “**property management agreement**”). In terms of the property management agreements, Konzum will manage the property and guarantee the rental in respect of the Dubrovnik property and the Gračani property for the duration of the property management agreement. In addition, Konzum will be responsible for all costs related to tenant administration, management, maintenance, renewal of contracts and any other works on the Dubrovnik property and the Gračani property as well as all other costs related to the proper operation and management of a shopping centre (including, *inter alia*, insurance, repairs and maintenance, service fees, security, cleaning and utility charges). The head lease and property management agreements will be indexed to European inflation (rentals will increase with inflation) and turnover rental will be payable, which underpins long-term income growth. Should line shop tenants’ rentals increase for any reason for the duration of the head lease or property management agreement (including line shop tenant turnover rental), the additional rental will be shared equally by Tower and Konzum.

Agrokor will guarantee to each of the Dubrovnik company and the purchasers, Konzum’s payment obligations under each head lease, each property management agreement, the Konzum lease of a portion of the Dubrovnik Property and the Konzum lease of a portion of the Gračani Property (“**the guarantees**”).

#### 3.3. Purchase consideration

The purchase consideration payable in respect of each of the acquisitions will be discharged in cash upon the fulfilment of the discharge conditions for the loan(s) secured by Tower to part fund the acquisitions. The total purchase consideration will be payable in Croatian Kuna, converted from Euros to Kuna at the mid exchange rate of the Croatian National Bank on the date of payment thereof.

#### 3.4. Conditions precedent

The preliminary acquisition agreement remains conditional upon:

- 3.4.1. written confirmation that the Agrokor and Konzum management and/or supervisory boards approve the acquisitions;
- 3.4.2. Tower, Agrokor and Konzum, and the sellers agreeing to the terms of the property sale agreements, the sale of share agreement in respect of the Dubrovnik property, the head lease agreements, the property management agreements and the guarantees (the “**transaction documents**”), as applicable;

- 3.4.3. Agrokor and Konzum confirming that they, or entities which they control, have an irrevocable right to acquire control over the Dubrovnik company and the sellers such that Agrokor, Konzum or an entity which they control will be the only shareholder of each of the sellers and the Dubrovnik company;
- 3.4.4. the approval of Tower's board;
- 3.4.5. all approvals required by the JSE (including shareholder approval) being obtained;
- 3.4.6. Tower raising 50% of the purchase consideration payable for each sale property and the Dubrovnik company by way of an equity capital raise; and
- 3.4.7. Tower obtaining debt finance in respect of 50% of the purchase consideration payable for each sale property and the Dubrovnik company; and
- 3.4.8. the head lease agreements, the property management agreements and the guarantees are signed and have become unconditional, save for any condition requiring that the preliminary acquisition agreement becomes unconditional.

Upon the fulfilment of the conditions precedent set out in paragraphs 3.4.1 to 3.4.4 above and Tower obtaining an acceptable term sheet for debt finance in respect of 50% of the total purchase consideration, Tower may require Konzum and Agrokor to sign the transaction documents.

The preliminary acquisition agreement includes warranties, indemnities and undertakings which are normal for an acquisition of this nature.

#### 4. PROPERTY SPECIFIC INFORMATION

The property specific information required in terms of the JSE Listings Requirements in relation to the properties including property name and address, geographical location, rentable area, weighted average rental per square metre and value attributable to the property is set out below.

<b>Property name and address</b>	Sub City Centre, Dubrovnik/ Srebreno, Šetalište Dr. Franje Tuđmana
<b>Sector</b>	Retail
<b>Geographical location</b>	Croatia
<b>Rentable Area (m<sup>2</sup>)</b>	12 259
<b>Weighted Average rental per m<sup>2</sup></b>	€14.66
<b>Value attributed to the property</b>	€28 746 413
<b>Property name and address</b>	Zagreb superKonzum, Zagreb, Ulica grada Vukovara 275
<b>Sector</b>	Retail
<b>Geographical location</b>	Croatia
<b>Rentable Area (m<sup>2</sup>)</b>	3 223
<b>Weighted Average rental per m<sup>2</sup></b>	€25.50
<b>Value attributed to the property</b>	€13 151 880
<b>Property name and address</b>	Meridijan 16, Zagreb, Gračanska cesta 208
<b>Sector</b>	Retail
<b>Geographical location</b>	Croatia
<b>Rentable Area (m<sup>2</sup>)</b>	9 362
<b>Weighted Average rental per m<sup>2</sup></b>	€10.47
<b>Value attributed to the property</b>	€15 677 987
<b>Property name and address</b>	Velika Gorica superKonzum, Velika Gorica, A.K. Miošića, 64
<b>Sector</b>	Retail
<b>Geographical location</b>	Croatia
<b>Rentable Area (m<sup>2</sup>)</b>	5 510
<b>Weighted Average rental per m<sup>2</sup></b>	€9.99
<b>Value attributed to the property</b>	€8 809 947

The board is satisfied that the values of each of the properties are in line with the purchase prices being paid for them by Tower. The directors of Tower are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No 47 of 2000.

## 5. CATEGORISATION OF THE ACQUISITIONS

As the preliminary acquisition agreement has been entered into by Tower with the same parties and each of the acquisitions will be entered into by Tower with the same parties and their associates, the acquisitions have been aggregated for the purposes of determining the categorisation of the acquisitions, in compliance with the JSE Listings Requirements.

The acquisitions, which are classified as a Category 1 transaction in terms of the JSE Listings Requirements, require shareholder approval. Accordingly a circular, detailing the terms of the acquisitions, and incorporating a notice convening a general meeting of shareholders to consider, and, if deemed fit, approve the requisite resolutions to implement the acquisitions, will be sent to Tower shareholders in due course.

## 6. FINANCIAL EFFECTS AND CAUTIONARY ANNOUNCEMENT

Shareholders are advised that a further announcement setting out the financial effects of the acquisitions will be released on SENS in due course.

Shareholders are advised to continue to exercise caution when dealing in the company's securities until a further announcement is made.

27 January 2016

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**Corporate advisor and sponsor**

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