

Basis of preparation

The unaudited condensed consolidated interim financial results (“the financial statements”) for the six months ended 30 November 2015 have been prepared in accordance with, and as a minimum, contain the information required by IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements and in the manner required by the Companies Act of South Africa (as amended). The accounting policies and methods of computation applied in the preparation of the financial statements are in accordance with IFRS and are consistent with those applied in the audited annual financial statements for the year ended 31 May 2015, except for the new and amended standards and interpretations of IFRS adopted as set out below.

In the current year, the Fund has adopted all new and revised IFRS that are relevant to its operations and effective for the reporting period beginning on 1 June 2015.

At the reporting date the following amendments were adopted, which are relevant to the Fund’s operations, but had no material effect:

- Amendments to IFRS 3 – Contingent consideration and accounting for the formation of joint arrangements;
- Amendment to IFRS 8 – Operating segments;
- Amendment to IAS 37 and IAS 39 – Contingent consideration of an acquirer in a business combination;
- Amendment to IAS 40 – Determining whether the acquisition of a property is the acquisition of an investment property or a business combination.

These financial statements were prepared under the supervision of Mrs J Mabin CA(SA) in her capacity as Chief Financial Officer. These financial statements have not been reviewed or reported on by the Fund’s auditors.

The directors are not aware of any matters or circumstances arising subsequent to 30 November 2015 that require any additional disclosure or adjustment to the financial statements, other than as disclosed in this announcement.

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

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

- Level 1:** Quoted prices (unadjusted) in an active market for an identical instrument.
- Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category also includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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 the interest rate swap is determined by the bank using a valuation technique that maximises the use of observable market inputs. Interest rate swaps are valued by discounting future cash flows using the interest rate yield curve. Interest rate swaps are classified as level 2 financial instruments. The interest rate has been fixed on R130 million of borrowings at 7.20%, expiring on 6 April 2017.

The interest rate caps have been fair valued externally by the bank using a valuation technique that maximises the use of observable market inputs. Interest rate caps are valued by discounting future cash flows using the interest rate yield curve. Interest rate caps entered into by the Group are included in level 2 of the fair value hierarchy.

The Fund has purchased two Standard Bank interest rate caps:

- R200 million, maturing 22 May 2017 with a rate of 8.63% for a premium of R2 109 216; and
- R350 million, maturing 22 May 2018 with a rate of 9.01% for a premium of R7 556 629.

Dividend distribution

Notice is hereby given that dividend number 5 of 45.1875 cents per share has been declared in respect of the six months ended 30 November 2015. In accordance with Tower’s status as a REIT, shareholders are advised that the distribution meets the requirements of a “qualifying distribution” for the purposes of section 25BB of the Income Tax Act No. 58 of 1962 (“Income Tax Act”).

Accordingly the dividend received by South African tax residents must be included in their gross income and will not be exempt in terms of the ordinary dividend exemption in section 10(1)(k)(i) of the Income Tax Act as a result of paragraph (aa) of the proviso thereto which provides that dividends distributed by a REIT are not exempt from income tax.

The dividend is however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their Central Securities Depository Participant (“CSDP”) or broker, as the case may be in respect of uncertificated shares or the company, in respect of certificated shares:

- a declaration that the dividends are exempt from dividend tax; and
- a written undertaking to inform the CSDP or broker, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP or broker, as the case may be, to arrange for the abovementioned documents to be submitted prior to the payment of the distribution if such documents have not already been submitted.

Dividends received by non-resident shareholders will be exempt from income tax in terms of section 10(1)(k)(i) of the Act, but will be subject to dividend withholding tax. Dividend withholding tax is levied at a rate of 15%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (“DTA”) between South Africa and the country of residence of the shareholder.

Should dividend withholding tax be withheld at a rate of 15%, the net dividend amount due to non-resident shareholders is 38.40938 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be in respect of uncertificated shares or the Company, in respect of certificated shares:

- a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- a written undertaking to inform the CSDP or broker, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP or broker, as the case may be, to arrange for the abovementioned documents to be submitted prior to the payment of the distribution if such documents have not already been submitted.



The dividend distribution is payable to Tower shareholders in accordance with the timetable set out below:

	2016
Last day to trade cum dividend distribution	Friday, 19 February
Shares trade ex dividend distribution	Monday, 22 February
Record date	Friday, 26 February
Payment date	Monday, 29 February

Share certificates may not be dematerialised or rematerialised between Monday, 22 February and Friday, 26 February 2016, both days inclusive.

Shares in issue at date of declaration: 240 351 709

Tower’s income tax reference number: 9607/564/16/9

By order of the Board
Tower Property Fund Limited
4 February 2016

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

for the six months ended 30 November 2015

Profile

Tower owns a diversified portfolio of 48 commercial, industrial and retail properties valued at R4 billion, located in South Africa and Croatia. Regionally, in South Africa, Gauteng has the greatest concentration of assets by value at 44%, with the Western Cape accounting for 35% and KwaZulu-Natal 13%. Croatia accounts for 8% of the Fund’s property value. The fund aims to add value through active property asset management and has taken a leading role in the market in greening its existing portfolio.

The investment strategy of the Fund is to expand the portfolio by targeting well located properties with strong cash flows and to ensure a diversified sectoral and geographic spread of properties. The fund currently has a sectoral spread of 35% retail, 55% office and 10% industrial, and aims to increase its retail sector exposure to 50% in the short-term.

- Distributable earnings up 72% to R109 million
- Interim distribution increased by 7.6% to 45.2 cents per share
- Operating profit up 38% to R133 million
- Portfolio expanded to 48 properties
- Portfolio value now R4 billion
- First offshore property purchased in Zagreb, Croatia
- Acquisition of R1.1 billion Croatian retail property portfolio post period end*
- Continued greening of key properties

* Subject to conditions and shareholder approval



Financial performance

Tower continued its steady performance in the six months ended 30 November 2015 (“the period”) in a difficult trading environment, particularly in South Africa. Revenue increased by 55% to R183 million and operating profit by 38% to R133 million when compared to the 30 November 2014 results. Distributable earnings for the period totalled R109 million and the directors are pleased to declare a distribution of 45.2 cents per share, an increase of 7.6% over the previous interim distribution. The number of shares in issue has increased by 60%.

The fund benefited from the weakness of the Rand relative to the Euro following the acquisition of its Croatian property, with the value of the acquisition (VMD KVART office block) increasing by R41 million at 30 November 2015 (R110 million at 11 January 2016) owing to currency appreciation.

Operating performance

During the period the following properties were acquired for R728 million:

- Evagold Shopping Centre (R110 million), a lower LSM community shopping centre in Evaton, Johannesburg;
- 15 Wellington Road, Parktown (R80.5 million), a mixed use retail and office property in Gauteng;
- Link Hills Shopping Centre (R217 million), Waterfall, KwaZulu-Natal, a community shopping centre serving the upper LSM neighbourhood; and
- VMD Kvat (Euro 23.7 million), Block B in Zagreb, Croatia, a premium grade office property hosting international and national tenants, representing the fund’s first offshore purchase.

Portfolio vacancies have reduced to 5% at the end of the period.

Three selected properties are in the process of being sold as the company focuses on larger, better located properties for its future growth.

The residential development project at 32 Napier Street, part of the Cape Quarter precinct, is progressing well and construction is expected to start in the first half of 2016. Further residential opportunities are being evaluated in the area and are gaining strong momentum.

Croatia

In August 2015, the Fund acquired its first offshore property, the VMD KVART office block, in Zagreb, Croatia. The property is held in the Fund's subsidiary, Tower Europe d.o.o., in which the Fund has an 80% shareholding. Management has been investigating offshore investment opportunities for some time and through strong in-country relationships in Croatia, the Fund acquired what the directors believe to be a high-quality office property. Croatia is a European Union member state and has started to emerge from the recessionary years following the 2008 global financial crisis. Property values and rentals reduced dramatically during the recession and therefore present an excellent buying opportunity for the company. Croatia finds itself at opposite ends of the property cycle to South Africa and therefore Tower's acquisitions in this country diversify shareholder risk to South African macro-economic issues. Of particular significance is the acquisition of 80% of Tower Europe d.o.o., with the remaining 20% being held by the sellers and developers, VMD Grupa d.o.o. This provides Tower with a strong local equity and management partner. Tower's investment comprises 15 floors of the 26 storey property, which was completed in February 2015. The property is rated A from a Croatian "green" perspective and was acquired on an 8.5% yield. Current levels of cash and cash equivalents held by Tower Europe d.o.o. are not subject to any restrictions for use by the Fund. Tower intends increasing its exposure to the region by following through on the high-quality pipeline of mainly retail opportunities in the country.

Portfolio greening

The Fund is rolling out lighting retrofits to key properties as well as solar installations to properties which show the best business cases for the technology. De Ville Shopping Centre has had 319 kW of solar photo voltaic panels installed on the roof, accounting for 8% of the property's electricity requirements. Other properties undergoing greening retrofits include 382 Jan Smuts Avenue, 73 Hertzog Boulevard, 308 Kent Avenue and 6-8 Sturdee Avenue. The green initiatives are expected to save the Fund over R3.2 million per annum by reducing 3 840 056 kWh in energy costs and should result in a reduction in carbon emissions of over 3 801 605 kg. Greening will continue to be the bedrock of the Fund's investment case as it is now clearly demonstrated to make both financial and ethical sense. Tower will look to install new technologies on its properties to remain at the forefront of this field as the world moves from a fossil fuel led global economy to a green one.

Borrowings

Tower has loan facilities totalling R1.6 billion at 30 November 2015. Interest rates are hedged on 60% of the Fund's South African loan facility and due to a pipeline of acquisitions it is management's intention to have the South African debt 100% fixed by year-end. The weighted average rate of interest is 7.42% for the portfolio. Based on investment properties valued at R4 billion, the loan to value (LTV) ratio of the fund was 39% at the end of the period.

Prospects

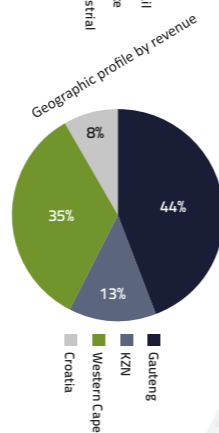
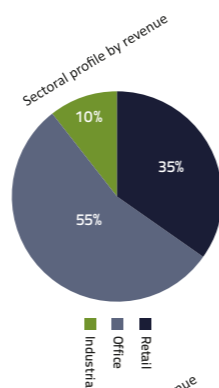
Management continues to focus on the acquisition of strategic properties to ensure the sustainability of the Fund and to enhance returns to investors.

As detailed above, the Fund continues to seek value-enhancing refurbishment opportunities in its key portfolio and currently has a pipeline of refurbishment works of over R200 million.

Properties valued at approximately R700 million in South Africa are expected to be acquired in the first half of 2016. A sale and lease back acquisition of four retail shopping centres to the value of €66.4 million (R1.1 billion), from the largest retailer in the Adria region, Agrokor, was signed on 27 January 2016. The acquisition of these properties is subject to conditions precedent and shareholder approval.

The directors are concerned with the current state of the South African economy which had a material impact on markets towards the end of 2015. Tenants will feel pressure as the economy continues to weaken and this will lead to increases in vacancies and bad debts. Management will continue to manage these metrics aggressively looking for innovative ways (most notably through greening) to ensure affordable occupancy for our clients, the tenants of our properties.

The Fund's Croatian strategy serves as a hedge against local uncertainty as this Eastern European country is currently in a growth phase following years of recession. Tower's reputation in Croatia is gaining strength based on our partnership relationships and the directors expect growth from the region in the medium-term.



Tower Property Fund Limited
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 Company secretary: Ovland Management Services Proprietary Limited
 Auditors: Mazars Inc
 Sponsor: Java Capital
 Transfer secretaries: Link Market Services South Africa Proprietary Limited
 Directors: A Dalling* (Chairman), M Edwards (Chief Executive Officer), J Bester*, K Craddock, M Evans*, J Mabin (Chief Financial Officer), B Kerswill, A Magwentshu*, N Milne*, R Naidoo*
 (*non-executive)
 JSE share code: TWR
 ISIN: ZAE000179040
 (Approved as a REIT by the JSE)
 ("Tower" or the "Fund")

Consolidated statement of profit and loss and comprehensive income

	Unaudited six months ended 30 November 2015 R'000	Unaudited six months ended 30 November 2014 R'000	Audited 12 months ended 31 May 2015 R'000
Revenue			
Contractual rental income	168 411	110 097	230 929
Straight-line rental income accrual	14 484	7 799	16 792
	182 895	117 896	247 721
	(19 220)	(14 167)	(34 928)
Net property operating expenses			
Net property income	163 675	103 729	212 793
Administration expenses	(12 503)	(7 236)	(14 952)
Other income	-	-	2 914
Foreign exchange loss	(18 324)	-	-
Net operating profit	132 848	96 493	200 755
Fair value adjustments on investment properties	59 242	40 609	101 740
Fair value adjustments on interest rate derivatives	(6 558)	(4 032)	762
Profit from operations	185 532	133 070	303 257
Finance income	1 182	771	2 093
Finance costs	(51 330)	(34 823)	(78 776)
Indirect capital raising expenses	(489)	(80)	(206)
Profit before taxation	134 895	98 938	226 368
Taxation	(177)	-	-
Profit for the period	134 718	98 938	226 368
Other comprehensive income – items that may be reclassified subsequently to profit and loss			
Foreign currency translation reserve	16 332	-	-
Total comprehensive profit for the period	151 050	98 938	226 368
Profit for the period attributable to:			
Equity shareholders of Tower Property Fund Limited	129 660	98 938	226 368
Non-controlling interests	5 058	-	-
	134 718	98 938	226 368
Total comprehensive income attributable to:			
Equity shareholders of Tower Property Fund Limited	145 962	98 938	226 368
Non-controlling interests	5 088	-	-
	151 050	98 938	226 368
Basic and diluted earnings per share – weighted average shares in issue (cents)	55.9	69.0	149.9

Consolidated statement of financial position

	Unaudited as at 30 November 2015 R'000	Unaudited as at 30 November 2014 R'000	Audited as at 31 May 2015 R'000
Assets			
Non-current assets			
Investment properties	3 860 989	2 191 880	3 107 097
Straight-line rental accrual	46 400	24 901	33 893
	3 907 389	2 216 781	3 140 990
Current assets			
Trade and other receivables	73 777	46 056	68 852
Cash and cash equivalents	39 080	57 368	15 458
	112 857	103 424	84 310
	119 332	-	14 485
Total assets	4 139 578	2 320 205	3 239 785
Equity and liabilities			
Equity			
Stated capital	2 238 469	1 368 649	1 519 601
Treasury capital	(1 962)	(744)	(1 212)
Foreign currency translation reserve	16 302	-	-
Retained income	168 619	88 570	146 650
Shareholders' interest	2 421 428	1 456 475	1 665 039
Non-controlling interest	14 052	-	-
Total equity	2 435 480	1 456 475	1 665 039
Liabilities			
Non-current liabilities			
Other financial liabilities	1 180 733	811 314	857 341
	1 180 733	811 314	857 341
Current liabilities			
Other financial liabilities	466 091	-	289 471
Trade and other payables	57 274	52 416	52 184
Amounts owing for the acquisition of investment property	-	-	375 750
	523 365	52 416	717 405
Total equity and liabilities	4 139 578	2 320 205	3 239 785

Consolidated statement of cash flows

	Unaudited six months ended 30 November 2015 R'000	Unaudited six months ended 30 November 2014 R'000	Audited 12 months ended 31 May 2015 R'000
Cash generated from operations	102 352	73 646	132 423
Finance income	1 182	771	2 093
Finance costs	(53 189)	(34 823)	(77 130)
Net cash from operating activities	50 345	39 594	57 386
Investment property acquired	(628 063)	(11 050)	(349 741)
Proceeds on sale of investment property	-	11 310	11 310
Net cash from investing activities	(628 063)	260	(338 431)
Proceeds from the issue of shares	500 000	-	-
Direct capital raising expenses	(7 513)	-	(13)
Loans raised	678 910	37 168	859 302
Loans repaid	(459 550)	-	(474 585)
Acquisition of treasury capital	(750)	(744)	(1 212)
Acquisition of interest rate derivatives	(2 066)	-	(9 133)
Dividends paid	(107 691)	(57 081)	(116 027)
Net cash from financing activities	601 340	(20 657)	258 332
Net movement in cash and cash equivalents	23 622	19 197	(22 713)
Cash and cash equivalents at beginning of period	15 458	38 171	38 171
Cash and cash equivalents at end of period	39 080	57 368	15 458

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Consolidated statement of changes in equity

	Stated capital R'000	Treasury capital R'000	Foreign currency translation reserve (FTCR) R'000	Retained income R'000	Shareholders' interest R'000	Non-controlling interest R'000	Total R'000
Balance at 1 June 2014	1 251 034	-	-	46 713	1 297 747	-	1 297 747
Shares issued during the period	113 553	-	-	-	113 553	-	113 553
Antecedent dividends	4 062	-	-	-	4 062	-	4 062
Acquisition of treasury shares	-	(744)	-	-	(744)	-	(744)
Profit for the year	-	-	-	98 938	98 938	-	98 938
Dividends paid and declared	-	-	-	(57 081)	(57 081)	-	(57 081)
Balance at 30 November 2014	1 368 649	(744)	-	88 570	1 456 475	-	1 456 475
Shares issued during the period	144 622	-	-	-	144 622	-	144 622
Share issue expenses	(13)	-	-	-	(13)	-	(13)
Antecedent dividends	6 343	-	-	-	6 343	-	6 343
Acquisition of treasury shares	-	(468)	-	-	(468)	-	(468)
Profit for the year	-	-	-	127 430	127 430	-	127 430
Dividends paid and declared	-	-	-	(69 350)	(69 350)	-	(69 350)
Balance at 31 May 2015	1 519 601	(1 212)	-	146 650	1 665 039	-	1 665 039
Issue of 52 631 579 shares effective 1 June 2015	500 000	-	-	-	500 000	-	500 000
Issue of 4 945 054 shares effective 31 July 2015	45 000	-	-	-	45 000	-	45 000
Issue of 4 090 447 shares effective 7 August 2015	40 250	-	-	-	40 250	-	40 250
Issue of 13 422 680 shares effective 14 August 2015	130 200	-	-	-	130 200	-	130 200
Share issue expenses	(7 513)	-	-	-	(7 513)	-	(7 513)
Antecedent dividends	10 931	-	-	-	10 931	-	10 931
Acquisition of treasury shares	-	(750)	-	-	(750)	-	(750)
Acquisition of foreign subsidiary	-	-	-	-	-	8 964	8 964
Profit for the year	-	-	-	129 660	129 660	5 058	134 718
Foreign currency translation differences	-	-	16 302	-	-	30	16 332
Dividends paid and declared	-	-	-	(107 691)	(107 691)	-	(107 691)
Balance at 30 November 2015	2 238 469	(1 962)	16 302	168 619	2 421 428	14 052	2 435 480

Calculation of headline earnings and distributable earnings reconciliation

	Unaudited six months ended 30 November 2015 R'000	Unaudited six months ended 30 November 2014 R'000	Audited 12 months ended 31 May 2015 R'000
Profit attributable to ordinary equity holders	129 660	98 938	226 368
<i>Adjusted for:</i>			
Change in fair value of investment properties net of non-controlling interests	(54 484)	(37 695)	(101 740)
Headline earnings	75 176	61 243	124 628
<i>Adjusted for:</i>			
Straight-line rental income accrual	(14 484)	(7 799)	(16 792)
Antecedent dividends	15 396	4 062	10 405
Change in fair value of interest rate derivatives	6 558	4 032	(762)
Distributable profit	82 646	61 538	117 479
<i>Adjusted for:</i>			
Indirect capital raising expenses	489	80	206
Foreign exchange loss	18 324	-	-
Contracted adjustment	5 095	-	10 640
Development income lost	1 138	-	-
Debt cancellation fees	-	-	4 183
Amortisation of debt raising fees	818	1 389	4 554
Distributable earnings	108 510	63 007	137 062
Distributable income	108 510	63 007	137 062
Taxable dividend (declared on 4 February 2016)	108 510	-	-
Taxable dividend (declared on 26 August 2015)	-	-	74 055
Taxable dividend (declared on 4 February 2015)	-	63 007	63 007
Weighted average number of shares in issue	231 896 563	143 296 617	150 970 113
Number of shares in issue at period end (including treasury shares)	240 351 709	150 156 217	165 261 949
Number of shares in issue at period end (excluding treasury shares)	240 132 451	150 048 279	165 117 691
Distribution per share (cents)	45.2	42.0	86.8
Six months ended 31 May	-	-	44.8
Six months ended 30 November	45.2	42.0	42.0
Headline and diluted headline earnings per share – weighted average shares in issue (cents)	32.4	42.7	82.6
Distributable earnings per share – weighted average shares in issue (cents)	46.8	44.0	90.8
Net asset value per share – shares in issue at period end (cents)	1 007	971	1 008

Segmental analysis

	Retail	Office	Industrial	Total
For the six months ended 30 November 2015 (R'000)				
Property assets	1 328 696	2 171 651	407 042	3 907 389
Segment liabilities	531 903	1 044 320	70 601	1 646 824
Revenue (excluding straight-line lease adjustments)	53 713	96 512	18 186	168 411
Net operating costs	(8 404)	(11 154)	338	(19 220)
Segment profit	45 309	85 358	18 524	149 191
Straight-line lease adjustment	-	-	-	14 484
Non-property related expenses	-	-	-	(12 503)
Foreign exchange loss	-	-	-	(18 324)
Net operating profit	-	-	-	132 848
For the year ended 31 May 2015 (R'000)				
Property assets	953 115	2 161 045	26 830	3 140 990
Segment liabilities	445 371	689 540	11 901	1 146 812
Revenue (excluding straight-line lease adjustments)	82 742	145 772	2 415	230 929
Net operating costs	(12 979)	(21 462)	(487)	(34 928)
Segment profit	69 763	124 310	1 928	196 001
Straight-line lease adjustment	-	-	-	16 792
Non-property related expenses	-	-	-	(14 952)
Other income	-	-	-	2 914
Net operating profit	-	-	-	200 755
For the six months ended 30 November 2014 (R'000)				