

### ■ Basis of preparation

The unaudited consolidated interim financial results are prepared in accordance with the information required by IAS34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the requirements of the Companies Act of South Africa and the JSE Listings Requirements. The accounting policies adopted and methods of computation are in accordance with International Financial Reporting Standards ("IFRS"), and are consistent with those applied in the financial statements for the year ended 31 May 2013.

The following standards have been applied for the first time as they became effective during the current period:

- IFRS10 - Consolidated financial statements
- IFRS12 - Disclosure of interests in other entities
- IFRS13 - Fair value measurement

These consolidated interim results were prepared under the supervision of Mr F Jenkins CA (SA), in his capacity as group Chief Financial Officer.

These consolidated interim financial results have not been reviewed or reported on by the group's auditors.

### 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.

- **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 only observable market data and requires little management judgement and estimation.

The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. The interest rate swaps are valued using the mark-to-market valuations, excluding transactions costs, as determined by Investec.

Interest rate swaps are classified as level 2 financial instruments and the fair value of interest rate swap assets at 30 November 2013 is equal to R413 583.

#### Current swaps entered into:

End	Effective rate	Notional Amount
20 July 2015	6.04%	R344 million

#### Dividend distribution

Notice is hereby given that dividend number 1 of 33 cents per share has been declared in respect of the 6 months ended 30 November 2013. 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, qualifying distributions received by local tax residents must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the shareholder. These qualifying distributions are however exempt from dividend withholding tax.

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. It should be noted that until 31 December 2013 qualifying distributions received by non-residents were not subject to dividend withholding tax. From 1 January 2014, any qualifying distribution will be subject to dividends tax.

This distribution, similarly to any other normal distribution, may have tax implications for resident as well as non-resident shareholders and shareholders are therefore encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

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

	2014
Last day to trade <i>cum</i> dividend distribution	Friday, 7 February
Shares trade ex dividend distribution	Monday, 10 February
Record date	Friday, 14 February
Payment date	Monday, 17 February

No dematerialisation or rematerialisation of Tower shares may take place between Monday, 10 February 2014 and Friday, 14 February 2014, both days inclusive.

Shares in issue at date of declaration: 114 395 963.  
Tower income tax reference number: 9607/564/16/9

By order of the Board  
Tower Property Fund Limited  
23 January 2014

### ■ Strategy

**Tower aims to generate competitive investment performance by adding value through active property asset management and the cost-effective greening of properties in the portfolio. Greening of properties is expected to result in reduced occupation costs for tenants, reduced vacancies over time as a result of the lower occupation costs and higher returns for shareholders.**

**The investment strategy is to expand the portfolio by targeting mainly medium-sized (R30 million to R200 million) properties and to ensure a diversified sectoral and geographic portfolio. The longer term objective is for the portfolio to comprise approximately 50% in retail space, followed by office (30%) and industrial (20%).**

**As a Cape-based fund, and recognising the relative stability of property performance in the region, management will maintain a substantial exposure to the Western Cape, while the greatest concentration of assets is likely to be in Gauteng, with lower exposure in KwaZulu-Natal.**



## CONSOLIDATED INTERIM RESULTS

for the 6 months ended 30 November 2013



- Fund successfully listed as first new REIT on JSE
- Maiden distribution of 33 cents exceeds pre-listing forecast
- Headline earnings of R35.3 million
- Annualised income return of 9.6% outperforms sector
- Portfolio expanded to 27 properties
- Greening strategy gaining traction
- 6 Star Green Building rating expected on Sandton office property

## PROFILE

Tower is a property fund which listed on the JSE on 19 July 2013, becoming the country's first real estate investment trust ("REIT") to list. The group owns a diversified portfolio of 27 commercial and retail properties valued at R1.64 billion, located mainly in Gauteng (51% by value) and in the Western Cape (46% by value). The fund is underpinned by a 'greening' strategy and managed by a highly experienced property team.

## Financial and operating performance

Tower has produced a pleasing operational and financial performance, generating headline earnings of R35.3 million for the six months ended 30 November 2013 ("the period"). The directors have declared a maiden distribution of 33 cents per share for the period, exceeding the forecast of 31.4 cents contained in the group's pre-listing statement.

The results represent an annualised income return to investors of 9.6%, outperforming the listed sector by 2.8%.

The fund's net asset value grew by close to 4% in the period to R9.07 per share. The results include a negative fair value adjustment on the acquisition of the portfolio based on valuations conducted by independent valuers as set out in the pre-listing statement.

During the period the fund has taken on the management of the 27 properties, reduced operating costs across the portfolio and engaged with all strategic tenants. The fund is managed by part of the highly experienced property team which was previously responsible for listing and managing Paramount Property Fund.

Cape Quarter, the flagship property in the portfolio located in Green Point, Cape Town, has been actively marketed as a destination shopping centre to drive foot traffic and attract national tenants. Tenants in Cape Quarter have reported increased turnover since Tower's ownership of the property and a number of very well supported community events have been held at the centre which has increased public awareness of the property. Vacancies have reduced by 64% since Tower took ownership of the asset in June 2013.

The level of vacancies in the portfolio increased to 11.5% at the end of the period which was largely in line with expectations, and covered by rental guarantees. These vacancies were for a small number of tenants in three of the properties in the portfolio. Management has focused intensely on attracting long-term tenants to reduce vacancies across the portfolio and has been successful in letting 4 746m<sup>2</sup> of new space and 6 154m<sup>2</sup> of renewable space. At the date of this report, vacancies have been reduced to 8.5%.

## Greening the portfolio

Tower is committed to a strategy of 'greening' to increase the competitiveness and values of buildings in the portfolio, initially focusing on strategies with no or low upfront capital costs. The focus is on improving energy efficiency which serves to reduce operational costs and lower carbon footprints making properties more valuable and marketable to prospective

tenants. The reduced demand for energy also mitigates against inevitable electricity tariff hikes.

The first of several planned lighting retrofit programmes across the portfolio has been initiated at the Cape Quarter. This programme is expected to reduce operating expenditure by more than R800 000 per annum, with low capital cost to the property, as well as lower kilowatt hours by 69% and reduce carbon emissions by 69%.

Tower's portfolio includes a 5 Star Green Star rated property, with the highest level 6 Star rating expected on Block F, Upper Grayston Drive in Sandton, which was recently completed.

## Acquisitions (post period end)

After the end of the reporting period Tower concluded the acquisition of two small properties with a combined value of R34.3 million. These properties are 19 Section Street, Paarden Eiland, at a cost of R22.6 million (the purchase price being settled by 52% debt and 48% Tower shares), and Section 3, Constantia View, at a cost of R11.7 million (to be settled by 75% debt and 25% Tower shares). The latter property is the final section of the Constantia View Office Park which is owned by Tower.

## Borrowings

Tower has loan facilities with Investec Bank and Standard Bank totaling R661.2 million as at 30 November 2013. Interest rates are hedged on 52% of the total loan facility and the weighted average rate of interest is 7.53% for the portfolio. Based on investment properties valued at R1.64 billion, the loan to value ("LTV") ratio of the fund was 40.2% at the end of the period. The fund has a targeted LTV of 40%.

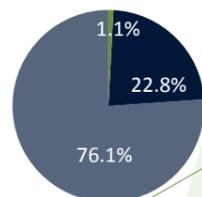
## Prospects

Management continues to focus on the acquisition of strategic properties to ensure the sustainability of the fund and to enhance returns for investors. Commercial property totaling R300 million is currently under negotiation with a pipeline of a further R500 million in acquisitions being evaluated. Tower will continue to upgrade and add value to buildings over time, as well as seeking 'greenable' properties as the portfolio is expanded.

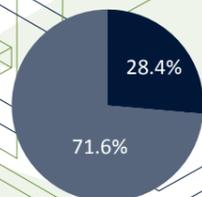
Management aims to reduce debt costs by funding a portion of the debt through the debt capital markets as the fund grows. Management will look to further fix the fund's debt exposure on a sustainable basis.

The directors remain committed to meeting the earnings and dividend forecasts for the 2014 financial year, as detailed in the group's pre-listing statement.

## Sectoral profile by lettable area



## Sectoral profile by Value



■ Retail  
■ Office  
■ Other



## TOWER PROPERTY FUND LIMITED Consolidated statement of comprehensive income

	Unaudited 6 months ended 30 November 2013 R'000
<b>Revenue</b>	
Contractual rental income	79 393
Straight line rental income accrual	5 839
	85 232
Net property operating expenses	(10 221)
<b>Net property income</b>	<b>75 011</b>
Other income	
Administration expenses	(4 650)
<b>Net operating profit</b>	<b>70 361</b>
Fair value adjustments on investment properties	(68 506)
<b>Profit from operations</b>	<b>1 855</b>
Finance costs	(24 510)
Interest received	1 105
Capital raising expenses	(9 571)
<b>Profit before taxation</b>	<b>(31 121)</b>
Taxation	(2 075)
<b>Total comprehensive loss for the period</b>	<b>(33 196)</b>

Basic and diluted earnings per share - weighted average shares in issue (cents)	(40)
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## Consolidated statement of financial position

	Unaudited as at 30 November 2013 R'000
<b>Assets</b>	
<b>Non-current assets</b>	1 642 357
Investment properties	1 636 518
Straight line rental accrual	5 839
<b>Current assets</b>	98 225
Trade and other receivables	35 455
Cash and cash equivalents	62 770
<b>Total assets</b>	<b>1 740 582</b>
<b>Equity and liabilities</b>	
<b>Equity</b>	1 025 309
Stated capital	1 060 014
Retained income	(34 705)
<b>Liabilities</b>	
<b>Non-current liabilities</b>	660 519
Secured financial liabilities	660 519
<b>Current liabilities</b>	54 754
Secured financial liabilities	752
Current taxation	2 075
Trade and other payables	51 927
<b>Total equity and liabilities</b>	<b>1 740 582</b>
Shares in issue (000)	113 092
NAV per share (cents)	9066

## Consolidated statement of cash flows

Cash generated from operations	69 922
Interest received	1 105
Finance costs	(24 510)
<b>Net cash from operating activities</b>	<b>46 517</b>
Acquisition of investment property	(1 705 024)
<b>Net cash from investing activities</b>	<b>(1 705 024)</b>
Proceeds from issue of linked units	1 076 147
Capital raising expenses	(16 141)
Proceeds from secured financial liabilities	661 271
<b>Net cash from financing activities</b>	<b>1 721 277</b>
Net movement in cash and cash equivalents	62 770
Cash and cash equivalents at beginning of period	0
Cash and cash equivalents at end of period	62 770

## Consolidated statement of changes in equity

	Stated Capital R'000	Retained Income R'000	Total R'000
Balance at 1 March 2012			0
Issue of 845 000 shares	8		8
Loss for the period ended 31 May 2013		(1)	(1)
Balance at 31 May 2013	8	(1)	7
Issue of 42 131 330 shares effective 1 June 2013	420 313		420 313
Issue of 36 348 892 shares effective 19 July 2013	318 661		318 661
Issue of 11 613 052 shares effective 15 August 2013	156 131		156 131
Issue of 14 990 615 shares effective 27 August 2013	147 706		147 706
Issue of 2 333 589 shares effective 1 September 2013	23 336		23 336
Issue of 1 149 425 shares effective 31 October 2013	10 000		10 000
Capital raising expenses	(16 141)		(16 141)
Total comprehensive loss for the period		(33 196)	(33 196)
Dividend paid		(1 508)	(1 508)
Balance at 30 November 2013	1 060 014	(34 705)	1 025 309

## Calculation of headline earnings and distributable earnings reconciliation

Total comprehensive loss for the period	(33 196)
Adjusted for:	
Change in fair value of investment properties	68 506
<b>Headline earnings</b>	<b>35 310</b>
Adjusted for:	
Straight line rental income accrual	(5 839)
<b>Distributable profit</b>	<b>29 471</b>
Adjusted for:	
Capital raising expenses	9 571
Amortisation of debt raising fees	662
<b>Distributable earnings</b>	<b>39 704</b>
Basic and diluted headline earnings per share - weighted average shares in issue (cents)	42,5
Basic earnings per share - shares in issue at period end (cents)	(29,4)
Headline earnings per share - shares in issue at period end (cents)	31,2
Distributable earnings per share - shares in issue at period end (cents)	35,1
Dividend per share (cents)	33,0
Weighted average number of shares in issue	82 994 339
Number of shares in issue at period end	113 092 004

## Segmental analysis

	Retail R'000	Office R'000	Total R'000
Property assets	387 232	1 255 125	1 642 357
Segment liabilities	188 329	472 942	661 271
Revenue (excluding straight line lease adjustments)	22 300	57 093	79 393
Net operating costs	(4 744)	(5 477)	(10 221)
Segment profit	17 556	51 616	69 172
Straight line lease adjustment			5 839
Non property related expenses			(4 650)
Net operating profit			70 361

## Notes:

- No comparative figures are disclosed as this is the company's first period of operation.
- Related party transactions included:
  - Asset management fees paid to Tower Asset Managers Proprietary Limited (R'000) 3 922
  - Property management fees paid to Spire Property Management Proprietary Limited (R'000) 2 955



**Tower Property Fund Limited**  
(formerly Refint 1004 Proprietary 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 fund" or "the group")

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**Company secretary** Ovland Management Services Proprietary Limited  
**Auditors** Mazars  
**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\*, F Jenkins (Chief Financial Officer), B Kerswill, A Magwentshu\*, N Milne\*, R Naidoo\*  
\* non-executive directors

"Maiden distribution of 33 cents exceeds pre-listing forecast"