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" or the "company")

Tower Property Fund Limited
Unaudited condensed consolidated interim results
for the six months ended 30 November 2018

Loan to value down to 33%
from 39% at year end

R300 million
capital proceeds re-invested and used to buy back shares

Tangible net asset value per share up 1.8% to R9.14 from year end

Net asset value per share R9.84

Total return of 10.2%* (12% in South Africa in ZAR and 6.2% in Croatia in Euro)
*On a property level

Vacancies 4.4%

"Interest only" loans secured in Croatia

PROFILE
Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 44 convenience retail, industrial and office properties valued at R5 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropoles with 43% by value in Cape Town, 43% in Gauteng and 14% in KwaZulu-Natal. The five Croatian properties represent 29% of the fund's total value. The fund currently has a sectoral spread by value of 47% convenience retail, 48% office and 5% industrial.

The objective of the fund is to deliver 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 value; (iii) prudent balance sheet management in order to manage risk and create capacity to unlock value; (iv) accepting variations 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.

FINANCIAL PERFORMANCE

In its 2018 annual results, Tower advised shareholders that, given the difficult macro-economic environment in South Africa, it expected flat to low income growth from its South African property portfolio for the 2019 financial year. The Croatian portfolio was expected to perform well, given the anticipated growth in the Croatian economy, but shareholders were advised that this would be off-set by the rental reduction in Vukovarska, a stand-alone Konzum store, meaning that property income growth across the combined portfolio was anticipated to be flat.

Property income excludes the straight-line lease accrual and currency fluctuations, and is measured on a like-for-like basis, excluding acquisitions and disposals of property and once off rates and electricity credits received. Property income expectations across the combined portfolio have largely been met.

Tower's South African property portfolio has performed well with vacancies reducing in what remains a difficult market, with property income remaining flat.

The Croatian portfolio has also performed in line with our expectations, with property income (ignoring currency fluctuations) decreasing by 3% as a result of the agreed rental reduction on the Vukovarska property. Without this reduction, property income from the Croatian portfolio would have remained flat.

As a result, property income across the combined portfolio was marginally down for the six months broadly in line with guidance for the full year. The company's tangible net asset value per share increased by 1.8% in the six months and the company's total return on its property portfolio (made up by the percentage increase in property values over the period and the income earned off the property portfolio, as a percentage of cost) over the past 12 months was approximately 10.2%.

In the 2018 financial results, Tower advised shareholders that, to manage risk and create the necessary debt capacity to unlock value, it would look to reduce its loan to value and its Standard Bank Euro loans (which are secured against the South African property portfolio). Tower has made very good progress on this front with Tower's loan to value reducing to 33% from 39% at year end and R120 million of the Standard Bank Euro loans being repaid out of the capital proceeds from Oryx Properties Limited's (Oryx) investment into TPF International Limited (TPF International).

Tower chose not to translate the property income guidance given in its 2018 financial results to distribution guidance as disclosed. Instead, Tower advised shareholders of factors likely to impact distributable income, including: exchange rate movements, the establishment and running costs of TPF International, the impact of the anticipated partial settlement of the Euro debt, the value and timing of the sale of non-core properties, management's ability to unlock value from refurbishments, the timing and terms of anticipated refinancing of the group's various Euro facilities and the reinvestment of proceeds from asset management activities.

A number of these factors, all of which relate to planned transactions and initiatives which strengthen the company in the long term, have resulted in a reduction of Tower's distributable income during the six-month period under review. These include:

- the decision to repay the R120 million of Standard Bank Euro debt rather than Rand debt reduced Tower's distributable income by approximately R6.9 million, given the approximately 5.75% difference between the Rand and Euro interest rates;
- the sale of two non-core properties (Pick n Pay Distribution Centre and Nampak) at a book value of R123 million further secures the long-term sustainability of Tower's property income, but reduced Tower's distribution by approximately R1.6 million, given that the properties were sold at yields higher than Tower's cost of funding;
- the establishment of TPF International, which facilitated the investment by Oryx and the potential to bring additional external investors into TPF International, brings additional running costs of approximately R1 million and tax leakage of R1.5 million;
- there has been an unexpected delay in the acquisition of the Industrial Property in Zagreb, Croatia by TPF International resulting in a six-month cash drag on a capital amount of R100 million affecting distributable income by R3.3 million. Building A of the Industrial Property transferred on 21 December 2018; and
- the reduction of the Vukovarska rental by R3 million to secure all other Konzum rental agreements. The funding bank of Vukovarska reduced the interest payable on the loan by R1.4 million to the company's benefit.

In combination, these factors have resulted in Tower earning distributable income for the six-month period of approximately R117 million and the board of directors of Tower (the board) has declared a dividend of 36.83000 cents per share (being 9.5% lower than the previous corresponding period).

Revenue decreased by 3% to R206 million when compared to the corresponding period, primarily as a result of certain non-core properties being sold and the rental reduction at Vukovarska. Similarly, operating profit decreased by 9% to R136 million, as a result of properties being sold as well as the increase in net property operating and administration expenses. The increase in net property operating expenses when compared to the corresponding period relate primarily to the write off of the pre-9 April 2017 outstanding Konzum debt in the period under review, and rates and electricity credits received in the corresponding period. R5 million of the administration expenses relate to costs incurred to set up TPF International.

CROATIA

In order to provide the company flexibility with its Croatian portfolio, Tower, during the period under review, set up two new companies, Tower International Treasury Proprietary Limited ("Tower International Treasury") (a Domestic Treasury Management Company) and TPF International (a Mauritian GBL1 company). Tower sold its equity and shareholder loans in the Croatian subsidiaries to TPF International. All Tower's Euro debt was transferred to Tower International Treasury, who owns 74% of the equity in TPF International. The remaining 26% was acquired by Oryx.

Tower's investment in Croatia, through its 74% holding in TPF International is stable and income and capital growth is expected in the medium term. The special administration law (Lex Agrokor) passed to protect the solvency of the parent (Agrokor d.d) of TPF International's largest tenant (Konzum d.o.o.) has been successful and is due to be finalised in the second quarter of 2019. Konzum remains up to date with all rental payments and the stores are trading well. TPF International's back up lease with Spar, over the Konzum retail stores, remains in place.

TPF International is expected to grow Tower's distributable income arising from Croatia through asset management activities and accretive acquisitions in its pipeline (the pipeline of new properties is expected to be funded by in-country institutional equity providers). A major success in the Croatian portfolio has been the offer from local banks of interest only funding for senior debt on the Croatian properties. This has previously been elusive, however, TPF International is in the process of refinancing the entire portfolio with European banks on an interest only basis and at reduced interest rates. TPF International's loan to value is low at 25%. Tower continues to assess its investment in TPF International with the strategic imperative of growing Tower's total return.

PROGRESS ON VALUE-ADD OPPORTUNITIES

As announced in the 2018 annual financial results, Tower generated certain capital proceeds from various initiatives. It has invested those proceeds in the following ways:

- R300 million from Oryx for the investment in TPF International. R120 million placed in Euro loan facilities secured by South African properties. R80 million into South African loan facilities and used to buy back shares and R100 million into TPF International for the acquisition of the Industrial Property; and
- the Napier Street development is complete with beneficial occupation having been given to owners. The profits will be used to repay debt and for capital improvements.

The addition of 54 residential apartments to Cape Quarter Piazza (Old Cape Quarter) is underway with construction expected to commence mid-2019.

Other once-off proceeds are expected in the short term as Tower continues to sell non-core properties. The proceeds will be re-invested back into the company to enhance total return.

SALE OF NON-CORE PROPERTIES

The following properties were sold in the period under review:
- Pick n Pay Distribution Centre, KwaZulu-Natal: R96 million; and
- Nampak Industrial, KwaZulu-Natal: R27 million.

The proceeds generated from the sales will be used to reduce gearing and re-invest in the company. There are five properties which are classified as held for sale and management expects these properties to be sold in the next six months. These properties continue to be actively marketed.

OPERATING PERFORMANCE

The overall quality of Tower's South African portfolio is endorsed by a recent independent MSCI report (a copy of which is available on Tower's website http://www.towerpropertyfund.co.za/download/msci-re-enterprise-analytics/), which showed Tower's portfolio delivering income and capital growth ahead of many competitors.

The quality of the portfolio and Tower's active property asset management has resulted in pleasing operating performance in a difficult period. Portfolio vacancies have decreased to 4.4% as at 30 November 2018 (5.1% in South Africa), the lowest on record. South African vacancies are further broken down by 2.3% office, 0.9% retail and 1.2% industrial. A total of 44 645m2 was let during the period. 32 431m2 relates to tenant renewals while the balance of 12 214m2 relates to new leases. The tenant retention rate for the period was 96%. 73% of leases expiring in the period were renewed (offices 64%, retail 60% and industrial 91%). Average lease escalations within the portfolio are 6.02% retail, 7.5% industrial and 8.02% office, equating to a weighted average of 7.06%.

New leases signed at Sunclare, De Ville, Musgrave, Napier, Linkhills, Cape Quarter, Constantia View, Clearview Village and Whitby Office Estate have filled stubborn vacancies at these properties.

The following crucial renewals ensured occupancy levels have remained well above market averages:

Industrial

Isando, Route 21 and Kuit Street had four renewals totalling approximately 10 000m2.

Office
- 15 Wellington Road anchor, Transman (3 380m2) renewed its lease for a further five years.
- Medscheme (8 000m2) renewed its lease for a further seven years.
- Upper Grayston had two tenants totalling 2 800m2 renew for a further three years.
- Woodlands' anchor tenant of 830m2 renewed for a further three years.
- Sunclare - Regus signed a 10-year lease with a five-year rent review, over 3 675m2.

Retail
- Cape Quarter is fully let and tenant mix and retention continues to improve. Deloitte has provided notice to vacate in October 2020. This premium premises is in high demand with multiple options including and in order of preference, shared work space, sectional title offices and small and large office uses being investigated by the company.
- De Ville - despite economic influences and a new neighbouring centre coming on line during 2018, tenant's turnover growth and retention remain strong.
- Musgrave is fully let and continues to show steady growth.

New developments
- 32 Napier Street commercial and residential development and the new underground parking are complete. Tower has entered into sale agreements for 11 of the 16 residential units and continues to own 5 units (to be added to our 14 residential units at Cape Quarter on a short let basis).
- Old Cape Quarter - It is anticipated that Tower will begin the development of 54 new residential apartments at Old Cape Quarter on 1 June 2019 for completion in late December 2020.

Office space has been extremely difficult to let with most renewals commanding flat or lower rentals than previously. Vacancies have reduced which is pleasing, however, these have come at a cost as longer beneficial occupation periods and lower rents have had to be offered to attract tenants.

There are currently 4.7% vacancies in the Croatian portfolio line shops, however, those are guaranteed by the head leases on the properties.

The weighted average lease expiry of the fund is 4.3 years with the South African portfolio at 2.9 years.

Borrowings

	Total debt	ZAR debt	Euro debt
Loan facilities (R'000)*	1 820 621	597 074	1 223 547
Weighted cost of funding (%)	5.32	9.19	3.43
Debt expiry profile (years)	3.3**	0.5**	4.7
Percentage hedged (%)	79	84	77
Hedging expiry profile (years)	2.6***	2.1***	2.7

*   This amount excludes interest rate derivatives, the provision for interest and debt structuring fees.
** R470 million of the ZAR debt was refinanced in January 2019 for three years at the three-month Jibar plus 180 basis points.
*** On 25 January 2019, the R500 million swap was extended to July 2022 at a rate of 7.59%.

Based on investment properties valued at R5 billion, the loan to value (LTV) ratio of the group was 33% at the end of the period (36% in South Africa and 25% in Croatia). The LTV is calculated as other financial liabilities less cash, divided by investment property. The LTV post the acquisition of the Industrial Property is estimated to be 34.5%. Tower successfully reduced the interest rate on its Euro loans which are secured by South African assets, effective 1 November 2018. A saving of 0.45% was achieved resulting in reduced interest costs of R3 million per annum.

A major, strategic breakthrough has been the approval of the refinancing of Tower's Croatian Euro loans to interest-only loans. Euro 14.4 million of this debt has been approved "in principle" by local banks. This enhances Tower's cash flow from the region. An interest rate saving of 1.45% or R3 million is expected. Tower is in advanced discussions and has "in-principle" agreements to refinance the remaining Croatian debt on an interest only basis at lower interest rates.

PROSPECTS

Tower's change of strategy from an income focused fund to one equally focused on income and tangible net asset value growth, is slowly taking shape. This change of strategy and resultant focus on prudent balance sheet management has and may continue to result in the sacrifice of short-term distributable income in favour of long-term sustainable growth of the company.

Property is a long-term business and Tower is confident that this focus will yield positive long-term results.

Our major short-term focus will be:
- the reinvestment of capital proceeds into the property portfolio in value add projects;
- the realisation of profits at the Old Cape Quarter development. As a result of the initiatives to strengthen Tower's balance sheet and reduce gearing, we have received approval for balance sheet funding (rather than development only funding) on this project which provides Tower with the capability to complete the development and the flexibility to sell the new units or to lease them on a short-term basis;
- raising of new European based capital in TPF International, which has gained traction will allow Tower flexibility in its involvement with TPF International going forward, and allow for accretive acquisitions in that company which will boost Tower's earnings; and
- the repurchase of Tower shares should the current attractive pricing remain.

We anticipate that our property income, as forecast in our May 2018 results, will remain within the budgeted range for the period ended 31 May 2019, provided the current and anticipated tenancies of the properties remain as forecast.

These property income forecasts (which have not been reviewed or reported on by the Tower’s auditors) assume a stable portfolio with no major tenant failures and no macro-economic surprises. Factors which could influence these forecasts, and/or their impact on Tower’s distributions, include the settlement of Euro debt, the benefit of refinancing Euro debt, exchange rate movements, value and timing of the sale of non-core properties, management’s ability to unlock capital value from refurbishments (including, in particular the Cape Quarter residential development), the timing of the Euro debt refinancing and the reinvestment of proceeds from asset management activities. All forecasts made are unaudited.

BASIS OF PREPARATION

The unaudited condensed consolidated interim financial results for the six months ended 30 November 2018 (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 and the Companies Act, 71 of 2008. The accounting policies and methods of computation applied in the preparation of the results are in compliance with International Financial Reporting Standards and are consistent with those used in the preparation of the annual financial results of the group for the year ended 31 May 2018, except for the effect of IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers which were adopted during the period under review.

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 2018 that require any additional disclosure or adjustment to the results, other than as disclosed in this announcement. These results have not been reviewed or reported on by Tower's auditors.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers has not had an impact on the results of the group. To date the group's revenue has consisted of rental income, which falls outside the scope of IFRS 15 and within the scope of IFRS 16 Leases, effective for years beginning on or after 1 January 2019. The group's inventories consist of residential units under development, sales of which had not yet commenced upon IFRS 15 becoming effective.

IFRS 9 Financial instruments

IFRS 9 Financial instruments introduces a new expected credit loss impairment model that replaces the incurred loss model in IAS 39. The group has adjusted its impairment models using the general approach as envisaged by IFRS 9 to incorporate forward looking information and the time value of money. The impact of the earlier recognition of credit losses under IFRS 9 is not material.

Fair value measurement of investment property recognised in the statement of financial position

Valuations of all properties were performed by the directors as at 30 November 2018, and have resulted in a net upward re-valuation adjustment of R59 million. Independent external valuations are carried out on a rotational basis at year end 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 technique used.

Significant unobservable inputs used were as follows:
- a capitalisation rate, ranging between 7.25% and 10% (31 May 2018: 7.25% and 10.5%) has been used; and
- the discount rate applied range between 13.5% and 15.5% (31 May 2018: 13.5% and 15.5%).

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.

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 R500 million of borrowings at 7.53%, expiring on 30 September 2020. The fair value of the swap at 30 November 2018 was -R1.6 million. The company has entered into the following Euro denominated swaps:

	Notional amount (Euro '000)	Fair Value 30 November 2018 (Euro '000)
Contract 1: 4.10% maturing 3 August 2020	7 000	(1 365)
Contract 2: 3.70% maturing 18 March 2021	2 540	(240)
Contract 3: 3.60% maturing 21 June 2021	30 514	(1 400)
Contract 4: 3.75% maturing 13 January 2022	13 199	(1 118)

DIVIDEND DECLARATION

Notice is hereby given that a gross cash dividend of 36.83000 cents per share (dividend number 11) has been declared from income reserves in respect of the six months ended 30 November 2018. 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, 58 of 1962 (Income Tax Act). The distribution on the shares will be deemed to be a dividend for South African tax purposes in terms of section 25BB of the 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) a declaration that the dividends are exempt from dividend tax; and
b) 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 Income Tax Act. The dividends withholding tax rate is 20%, accordingly, any dividend will be subject to dividend withholding tax levied at a rate of 20%, 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 20%, the net dividend amount due to non-resident shareholders is 29.46400 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) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
b) 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 is payable to Tower shareholders in accordance with the timetable set out below:

2019	
Last day to trade cum dividend distribution:	Monday, 18 March
Shares trade ex dividend distribution:	Tuesday, 19 March
Record date:	Friday, 22 March
Payment date:	Monday, 25 March

Share certificates may not be dematerialised or rematerialised between Tuesday, 19 March 2019 and Friday, 22 March 2019, both days inclusive.

The dividend will be transferred to dematerialised shareholders' CSDP accounts or broker accounts on Monday, 25 March 2019.

Certificated shareholders' dividend payments will be paid to certificated shareholders' bank accounts on or about Monday, 25 March 2019.

Shares in issue at date of declaration (excluding treasury shares): 338 452 444.

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

By order of the Board

Tower Property Fund Limited

Consolidated statement of profit and loss and comprehensive income

	Unaudited 6 months ended 30 November 2018 R'000	Unaudited 6 months ended 30 November 2017 R'000	Audited 12 months ended 31 May 2018 R'000
REVENUE			

Contractual rental income		204 075	209 824	411 827
Straight-line lease accrual		1 679	2 400	4 593
		205 754	212 224	416 420
Net property operating expenses	3	(22 458)	(6 343)	(17 385)
NET PROPERTY INCOME		183 296	205 881	399 035
Administration expenses	5	(15 802)	(9 426)	(18 074)
Loss on the disposal on investment property	6	(3 508)	(492)	(1 671)
Disposal of goodwill	7	(3 490)	(2 871)	(3 468)
Foreign exchange (loss)/gain	8	(24 120)	(43 415)	937
NET OPERATING PROFIT		136 376	149 677	376 759
Fair value gains on investment properties		125 048	151 892	206 275
Fair value losses on investment properties		(66 069)	(62 183)	(172 955)
Fair value adjustments on interest rate derivatives		1 842	7 420	1 653
Profit from operations		197 197	246 806	411 732
Finance income		1 745	2 707	4 314
Finance costs		(53 993)	(62 336)	(120 050)
PROFIT BEFORE TAXATION		144 949	187 177	295 996
Taxation		(655)	-	-
PROFIT FOR THE PERIOD		144 294	187 177	295 996
Other comprehensive income - items that may subsequently be reclassified to profit and loss				
Exchange difference on foreign operations		23 967	28 283	1 499
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD		168 261	215 460	297 495
Profit for the period attributable to:				
Equity shareholders of Tower Property Fund Limited		136 313	186 919	293 429
Non-controlling interest	9	7 981	258	2 567
		144 294	187 177	295 996
Total comprehensive income attributable to:				
Equity shareholders of Tower Property Fund Limited		159 808	213 102	294 815
Non-controlling interest	9	8 453	2 358	2 680
		168 261	215 460	297 495
Basic and diluted earnings per share (weighted average shares in issue) (cents)		40.2	55.0	86.4

Consolidated statement of financial position

		Unaudited 6 months ended 30 November 2018 R'000	Unaudited 6 months ended 30 November 2017 R'000	Audited 12 months ended 31 May 2018 R'000
ASSETS				
Non-current assets				
Investment property		4 659 666	4 703 649	4 378 361
Straight-line lease accrual		62 917	59 629	60 741
Property, plant and equipment		185	220	193
Goodwill	7	234 136	238 223	237 626
		4 956 904	5 001 721	4 676 921
Current assets				
Inventories	10	56 171	21 783	35 150
Trade and other receivables		110 539	111 646	104 776
Cash and cash equivalents	11	182 422	72 906	92 775
		349 132	206 335	232 701
Investment property held for sale		250 708	344 534	504 596
		599 840	550 869	737 297
TOTAL ASSETS		5 556 744	5 552 590	5 414 218
Equity and liabilities				
Equity				
Stated capital		3 035 344	3 035 344	3 035 344
Treasury capital	12	(6 966)	-	-
Foreign currency translation reserve		15 726	17 028	(7 769)
Share-based payment reserve		44	-	-
Retained income		284 936	292 624	260 933
Shareholders' interest		3 329 084	3 344 996	3 288 508
Non-controlling interest	9	283 581	26 985	27 307
Total equity		3 612 665	3 371 981	3 315 815
LIABILITIES				
Non-current liabilities				
Other financial liabilities		1 310 457	1 794 628	1 361 688
Loan payable to shareholder		24 683	26 709	23 250
		1 335 140	1 821 337	1 384 938
Current liabilities				
Other financial liabilities		517 336	295 961	653 168
Trade and other payables	13	91 603	63 311	60 297
		608 939	359 272	713 465
Total equity and liabilities		5 556 744	5 552 590	5 414 218

Consolidated statement of changes in equity

	Stated capital R'000	Treasury capital R'000	Foreign currency translation reserve (FTCR) R'000	Share-based payment reserve R'000	Retained income R'000	Shareholders' interest R'000	Non-controlling interest R'000	Total R'000
Balance at 1 June 2017	3 039 980	(4 636)	(9 155)	-	237 031	3 263 220	24 627	3 287 847
Treasury shares cancelled	(4 636)	4 636	-	-	-	-	-	-
Profit for the period	-	-	-	-	186 919	186 919	258	187 177
Foreign currency translation differences	-	-	26 183	-	-	26 183	2 100	28 283
Dividends paid	-	-	-	-	(131 326)	(131 326)	-	(131 326)
Balance at 30 November 2017	3 035 344	-	17 028	-	292 624	3 344 996	26 985	3 371 981

Profit for the period	-	-	-	-	106 510	106 510	2 309	108 819
Foreign currency translation differences	-	-	(24 797)	-	-	(24 797)	(1 987)	(26 784)
Dividends paid	-	-	-	-	(138 201)	(138 201)	-	(138 201)
Balance at 31 May 2018	3 035 344	-	(7 769)	-	260 933	3 288 508	27 307	3 315 815
Acquisition of treasury shares	-	(6 966)	-	-	-	(6 966)	-	(6 966)
Acquisition of foreign subsidiary	-	-	-	-	24 401	24 401	249 284	273 685
Profit for the year	-	-	-	-	136 313	136 313	7 981	144 294
Share-based payment	-	-	-	44	-	44	-	44
Foreign currency translation differences	-	-	23 495	-	-	23 495	472	23 967
Dividends paid	-	-	-	-	(136 711)	(136 711)	(1 463)	(138 174)
Balance at 30 November 2018	3 035 344	(6 966)	15 726	44	284 936	3 329 084	283 581	3 612 665

Segmental analysis

	South Africa				Croatia (including Mauritius)			
For the 6 months ended 30 November 2018 (R'000)	Retail	Office	Industrial	Total	Retail	Office	Total	Grand Total
Property assets*	1 325 107	2 013 202	235 215	3 573 524	1 025 454	430 669	1 456 123	5 029 647
Segment liabilities**	496 999	775 734	88 887	1 361 620	375 533	157 387	532 920	1 894 540
Fair value adjustment to investment properties	14 504	42 734	1 741	58 979	-	-	-	58 979
Straight-line lease accrual	32 306	27 130	3 481	62 917	-	-	-	62 917
Revenue (excluding straight-line lease adjustments)	53 427	83 178	12 356	148 961	38 762	16 352	55 114	204 075
Net operating costs	(6 940)	(5 188)	(1 754)	(13 882)	(8 056)	(520)	(8 576)	(22 458)
Segment profit	46 487	77 990	10 602	135 079	30 706	15 832	46 538	181 617
Straight-line lease adjustment								1 679
Non-property related expenses								(15 802)
Loss on the disposal of investment property								(3 508)
Disposal of goodwill	-	-	(3 490)	(3 490)	-	-	-	(3 490)
Foreign exchange loss								(24 120)
Net operating profit								136 376
For the 6 months ended 30 November 2017 (R'000)								
Property assets*	1 337 211	1 849 942	381 740	3 568 893	1 111 173	449 749	1 560 922	5 129 815
Segment liabilities**	543 606	819 147	158 028	1 520 781	456 120	176 473	632 593	2 153 374
Fair value adjustment to investment properties	65 320	39 577	(15 188)	89 709	-	-	-	89 709
Straight-line lease accrual	31 982	26 801	846	59 629	-	-	-	59 629
Revenue (excluding straight-line lease adjustments)	57 455	81 984	15 970	155 409	38 707	15 708	54 415	209 824
Net operating costs	568	(4 864)	(1 550)	(5 846)	-	(497)	(497)	(6 343)
Segment profit	58 023	77 120	14 420	149 563	38 707	15 211	53 918	203 481
Straight-line lease adjustment								2 400
Non-property related expenses								(9 426)
Loss on the disposal of investment property								(492)
Disposal of goodwill	(2 607)	-	(264)	(2 871)	-	-	-	(2 871)
Foreign exchange loss								(43 415)
Net operating profit								149 677
For the year ended 31 May 2018 (R'000)								
Property assets*	1 338 536	1 910 688	351 763	3 600 987	969 861	408 193	1 378 054	4 979 041
Segment liabilities**	587 104	880 973	155 442	1 623 519	325 080	125 777	450 857	2 074 376
Fair value adjustment to investment properties	(707)	66 430	12 119	77 842	(42 964)	(1 558)	(44 522)	33 320
Straight-line lease accrual	31 500	27 151	2 090	60 741	-	-	-	60 741
Revenue (excluding straight-line lease adjustments)	110 587	165 247	29 539	305 373	75 691	30 763	106 454	411 827
Net operating costs	(3 620)	(8 676)	(4 116)	(16 412)	-	(973)	(973)	(17 385)
Segment profit	106 967	156 571	25 423	288 961	75 691	29 790	105 481	394 442
Straight-line lease adjustment								4 593
Non-property related expenses								(18 074)
Loss on the disposal of investment property								(1 671)
Disposal of goodwill	(2 607)	-	(861)	(3 468)	-	-	-	(3 468)
Foreign exchange gain								937
Net operating profit								376 759

Consolidated statement of cash flows

	Unaudited 6 months ended 30 November 2018 R'000	Unaudited 6 months ended 30 November 2017 R'000	Audited 12 months ended 31 May 2018 R'000
CASH GENERATED FROM OPERATIONS	161 628	176 173	354 184
Finance income	1 745	2 707	4 314
Finance costs	(55 426)	(61 136)	(116 485)
Tax paid	(127)	-	-
Net cash from operating activities	107 820	117 744	242 013
Cost capitalised to investment property	(23 348)	(18 094)	(55 269)
Property, plant and equipment acquired	(40)	(65)	(77)
Proceeds on sale of investment property	16 899	140	13 615
Net cash from investing activities	(6 489)	(18 019)	(41 731)
Proceeds from the sale of interest to non-controlling shareholders	175 515	-	-
Acquisition of treasury shares	(6 966)	-	-
Local loans raised	141 389	138 150	322 250
Local loans repaid	(167 916)	(77 744)	(185 021)
Foreign loans repaid	(16 738)	(17 052)	(33 215)
Non-controlling interest loan repayment	-	(166)	(1 077)
Dividends paid	(138 174)	(131 326)	(269 527)
Net cash from financing activities	(12 890)	(88 138)	(166 590)
Net movement in cash and cash equivalents	88 441	11 587	33 692
Cash and cash equivalents at beginning of period	92 775	58 945	58 945
Foreign exchange differences on cash balances	1 206	2 374	138
Cash and cash equivalents at end of period	182 422	72 906	92 775

Reconciliation of earnings and headline earnings

	Gross	Unaudited 6 months ended 30 November 2018 R'000 Net	Unaudited 6 months ended 30 November 2017 R'000 Net	Audited 12 months ended 31 May 2018 R'000 Net
PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS		136 313	186 919	293 429
Adjusted for:				
Change in fair value of investment properties net of non-controlling interests	(58 979)	(58 979)	(89 709)	(33 631)
Disposal of goodwill		3 490	2 871	3 468
Profit on sale of investment property		3 508	492	1 671
Headline earnings		84 332	100 573	264 937
Weighted average number of shares in issue		339 076 685	339 549 647	339 549 647
Headline and diluted headline earnings per share (weighted average shares in issue) (cents)		24.9	29.6	78.0

Notes:

	Unaudited 6 months ended 30 November 2018 R'000	Unaudited 6 months ended 30 November 2017 R'000	Audited 12 months ended 31 May 2018 R'000
1) Segmental analysis			
Investment property	4 659 666	4 703 649	4 378 361
Straight-line lease accrual	62 917	59 629	60 741
Property, plant and equipment	185	220	193
Inventories	56 171	21 783	35 150
Investment property held for sale	250 708	344 534	504 596
* Property assets	5 029 647	5 129 815	4 979 041
** Segment liabilities	1 894 540	2 153 374	2 074 376
Non-segment liabilities			
- Trade and other payables	455	526	777
- Loan to non-controlling interests	24 683	26 709	23 250
- Oryx guarantee	24 401	-	-
Total liabilities	1 944 079	2 180 609	2 098 403

Reconciliation of headline earnings to distributable earnings

		Gross	Unaudited 6 months ended 30 November 2018 R'000 Net	Unaudited 6 months ended 30 November 2017 R'000	Audited 12 months ended 31 May 2018 R'000
Headline earnings			84 332	100 573	264 937
Adjusted for:					
Straight-line lease accrual			(1 679)	(2 400)	(4 593)
Equity-settled share-based payment reserve			44	-	-
Change in fair value of interest rate derivatives			(1 842)	(7 420)	(1 653)
Distributable profit			80 855	90 753	258 691
Adjusted for:					
Foreign exchange loss		24 120	69 491	42 949	2 292
Realised foreign exchange profit			(47 018)	-	-
TPF International set up costs			4 685	-	-
Konzum arrears	14		8 056	-	1 959
Amortisation of debt raising fees			879	1 175	2 313
Distributable earnings			116 948	134 877	265 255
Development income lost	15		7 705	3 324	9 657
Distribution paid			124 653	138 201	274 912
Distribution paid			124 653	138 201	274 912
Taxable dividend (declared on 13 February 2018)			-	138 201	138 201
Taxable dividend (declared on 31 July 2018)			-	-	136 711
Taxable dividend (declared on 28 February 2019)			124 653	-	-
Number of shares in issue at year end (including treasury shares)			339 549 647	339 549 647	339 549 647
Number of shares in issue at year end (excluding treasury shares)			338 452 444	339 549 647	339 549 647
Distribution per share			36.8	40.7	81.0
Six months ended 31 May			-	-	40.3
Six months ended 30 November			36.8	40.7	40.7
Distributable earnings per share (weighted average shares in issue) (cents)			34.5	39.7	78.1
Net asset value per share (shares in issue at period end) (cents)			984	985	968
Tangible net asset value per share (shares in issue at period end) (cents)			914	915	899

	30 November 2018	30 November 2017	31 May 2018
2)Related party transactions included:			
Property management fees paid to Spire Property Management Proprietary Limited (R'000)	9 443	8 894	19 002
Relationship: Key management personnel services entities			
Share-based payments	44	-	-

During the period under review, share options were offered to the directors and senior management of the company. 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.

3)Net property operating expenses

Insurance	1 041	763	1 666
Letting commission	3 387	3 378	6 804
Municipal expenses	52 724	44 423	93 831
Other operating expenses	13 179	4 384	7 784
Property management fees	7 480	6 180	13 958
Repairs and maintenance	3 792	3 309	6 485
Security and cleaning	10 051	9 769	19 955
Gross property expenses	91 654	72 206	150 483
Operating expense recoveries	(69 196)	(65 863)	(133 098)
Net property operating expenses	22 458	6 343	17 385

4)Property ratios

Net property expense ratio	19%	13%	14%
Gross property expense ratio	34%	26%	28%
Rental reversions: retail	13%	12%	8%
Rental reversions: office	(1%)	10%	2%
Rental reversions: industrial	4%	(1%)	6%
Tenant retention ratio	96%	93%	90%
Occupancy ratio	96%	88%	95%
Trading density growth	11%	10%	3%

5)Administration and corporate costs

Salaries	5 477	4 803	9 830
Professional service fees	6 753	1 756	2 607
Other	3 572	2 867	5 637
Total	15 802	9 426	18 074

The increase in professional fees in the current period are as a result of the costs paid to set up TPF International and the sale of 26% thereof to Oryx.

6) Loss on disposal of investment property in the current year relates to the sales of Nampak and the Pick n Pay Distribution Centre and in the prior year it relates to the sales of Shoprite Brits and Arrowfield.

7) Goodwill of R3 million has been disposed of during the period. R145 million of goodwill was raised on the acquisition of Tower Asset Management (Pty) Ltd. The goodwill is allocated on a pro rata basis to the properties which were held by the fund when the asset management company, Tower Asset Management (Pty) Ltd, was internalised.
As two of these properties, namely Nampak and the Pick n Pay Distribution Centre, were disposed of, the goodwill allocated to them was derecognised.

8) The foreign exchange (loss)/gain relates to the foreign denominated loan that was granted by Standard Bank to fund the acquisition of VMD KVART and the Agrokor portfolio.

9) Non-controlling interests relates to the Oryx 26% holding in TPF International and VMD Grupa d.o.o 20% holding in Tower Europe d.o.o.

10) Inventory relates to the costs incurred to date on the development of the Napier Street residential units.

11) The increase in cash and cash equivalents during the period is as a result of R100 million held in TPF International to acquire the Industrial Property.

12) The company acquired 1.1 million of its own shares during the period under review. The acquisition of these shares is yield accretive to the fund. The shares were acquired at an average share price of R6.50.

13) Trade and other payables has increased in the current period as a result of the R24 million guarantee received from Oryx. Oryx paid Euro 1.6 million (R24 million) for Tower to guarantee to pay Oryx any shortfall in the difference between the contracted rental and the rental received from the Agrokor portfolio for a period of two years.

14) The remaining pre-9 April 2017 (the date Agrokor, the holding company of Konzum, was placed under administration) Konzum arrears has been written off in the period under review. These arrears were deducted from the distributable income in the May 2017 results and have therefore been added back in the reconciliation of distributable earnings in the period under review.

15) Development income lost relates to the untenanted properties under development during the period.

16) Subsequent events
On 21 December 2018 Block A of the Industrial Property transferred to TPF for Euro 5.1 million (R82 million). This was settled in cash. Building B is expected to transfer in the next few months for Euro 3.4 million (R54 million) and will be settled through debt funding.

28 February 2019

Registered address	2nd Floor, Spire House, Tannery Park, 23 Belmont Road, Rondebosch, 7700 (PO Box 155, Rondebosch, 7701)
Contact details	+27 (0)21 685 4020/info@towerpropertyfund.co.za
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*, M Evans*, J Mabin (chief financial officer), A Magwentshu*, N Milne*, R Naidoo*
	* Non-executive