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# Tower Real Estate Investment Trust

## About Tower REIT

TOWER REIT was constituted under the Deed dated 17 February 2006 (as restated by a Deed dated 29 May 2014) entered into between the Manager and MTrustee Berhad (formerly known as AmTrustee Berhad), acting as the Trustee of Tower REIT, and listed on the Main Market of Bursa Malaysia Securities Berhad on 12 April 2006.

## Investment Objective

The investment objective of Tower REIT is to invest primarily in a portfolio of quality office buildings and commercial properties in order to:

- (a) provide unitholders with stable distribution per unit as well as sustainable long term growth of such distribution; and
- (b) achieve medium to long term growth in the net asset value per unit.

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

**YBHG DATUK EDMUND  
KONG WOON JUN**

*Chairman*

*(Non-Independent Executive)*

**YBHG DATO' KOH HONG SUN**

*Director*

*(Independent Non-Executive)*

**YBHG DATO' NICHOLAS JOHN LOUGH**

**@ SHARIF LOUGH BIN ABDULLAH**

*Director*

*(Independent Non-Executive)*

**YBHG DATO' PAUL POH YANG HONG**

*Director*

*(Non-Independent Non-Executive)*

**MS LIM CHEW YAN**

*Director*

*(Non-Independent Non-Executive)*

## MANAGER

**GLM REIT MANAGEMENT SDN BHD**  
(659312-H)

## MANAGER'S PRINCIPAL ADDRESS

Level 19, Block B, HP Towers  
12, Jalan Gelenggang  
Bukit Damansara  
50490 Kuala Lumpur  
Tel No. : 03-2726 1000  
Fax No. : 03-2726 1182

## MANAGER'S REGISTERED ADDRESS

Level 10, Wisma Hong Leong  
18, Jalan Perak  
50450 Kuala Lumpur  
Tel No. : 03-2164 1818  
Fax No. : 03-2164 2476

## COMPANY SECRETARIES OF THE MANAGER

**Lim Yew Yoke** (LS 000431)  
**Chin Min Yann** (MAICSA 7034011)

## TRUSTEE

### MTRUSTEE BERHAD

(formerly known as AmTrustee Berhad)  
B-2-9 (2nd Floor)  
Pusat Perdagangan Kuchai  
No. 2, Jalan 1/127  
Off Jalan Kuchai Lama  
58200 Kuala Lumpur  
Tel No. : 03-7983 1088  
Fax No. : 03-7984 9612

## PROPERTY MANAGER

### LAURELCAP SDN BHD

Suite E-6-2 & E-7-2 (East Wing)  
Subang Square, Jalan SS15/4G  
47500 Subang Jaya  
Selangor Darul Ehsan  
Tel No. : 03-5637 0233  
Fax No. : 03-5638 0233

## REGISTRAR

### HONG LEONG SHARE REGISTRATION SERVICES SDN BHD

Level 5, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur  
Tel No. : 03-2164 1818  
Fax No. : 03-2164 3703

## AUDITORS

**KPMG PLT** (AF 0758)  
Chartered Accountants  
Level 10, KPMG Tower  
8 First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan  
Tel No. : 03-7721 3388  
Fax No. : 03-7721 3399

## PRINCIPAL BANKERS OF THE TRUST

### HONG LEONG BANK BERHAD

Level 1, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur

### PUBLIC BANK BERHAD

27th Floor, Menara Public Bank  
146 Jalan Ampang  
50450 Kuala Lumpur

### HSBC BANK MALAYSIA BERHAD

12th Floor, North Tower  
2 Leboh Ampang  
50100 Kuala Lumpur

### AMBANK (MALAYSIA) BERHAD

Level 12A, Menara Dion  
Jalan Sultan Ismail  
50250 Kuala Lumpur

## WEBSITE

<http://www.tower-reit.com.my>

## FUND INFORMATION

NAME OF TRUST	Tower Real Estate Investment Trust
TRUST TYPE	Income and growth
TRUST CATEGORY	Real Estate Investment Trust (“REIT”)
INVESTMENT OBJECTIVE	<p>To invest in a portfolio of quality office buildings and commercial properties in order to:</p> <ul style="list-style-type: none"> <li>• provide unitholders with stable distributions per unit as well as sustainable long term growth of such distributions; and</li> <li>• achieve medium to long term growth in the net asset value per unit.</li> </ul>
FUND PERFORMANCE BENCHMARK	<p>The benchmark of a fund should ideally be representative of the investment universe of the fund. Where it is not possible, returns from a directly competing investment product may be used. A REIT’s performance may be domestically benchmarked against any existing REIT listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”).</p> <p>Other common domestic benchmarks that can be used as a guide when assessing the performance of a REIT are the FBM Bursa Malaysia KLCI and Kuala Lumpur Properties Index.</p>
DISTRIBUTION POLICY	<p>The Manager intends to distribute at least 90% of the Distributable Income for the relevant financial years.</p> <p>The Manager intends to make semi-annual distributions to unitholders with the amount calculated as at 30 June and 31 December each year or such other percentages and at such other intervals as determined by the Manager at its discretion.</p>
AUTHORISED INVESTMENTS	<p>i) At least 50% of Total Assets Value (“TAV”) are invested in real estate and/or single purpose companies at all times; and</p> <p>ii) not more than 25% of TAV is invested in non-real estate-related assets and/or cash, deposits and money market instruments</p> <p>or such other limits as may be prescribed or permitted by the Securities Commission (“SC”) or the SC Guidelines on REITs.</p>
FINANCIAL YEAR END	31 December
BORROWING LIMITATIONS	Total borrowings of the Trust shall not exceed 50% of the TAV at the time the borrowings are incurred or such other levels as may be permitted by the SC Guidelines on REITs.
APPROVED FUND SIZE	280,500,000 units
NO REDEMPTION BY UNITHOLDERS	Unitholders have no right to request the Manager to repurchase or redeem the units while the units are listed on Bursa Securities. It is intended that unitholders may only deal with their listed units through trading on Bursa Securities.

## OVERVIEW OF PORTFOLIO

Tower REIT's portfolio consists of two quality commercial offices with a combined appraised value of approximately RM559 million as at 31 December 2016. The combined total net lettable areas of the portfolio is 735,017 sq. ft. These assets provide strong and sustainable income stream to the Trust.



**MENARA HLA**  
3 Jalan Kia Peng  
50450 Kuala Lumpur



**HP TOWERS**  
12 Jalan Gelenggang  
Bukit Damansara  
50490 Kuala Lumpur

As at 31 December 2016, Tower REIT's investment portfolio comprised two prime commercial office buildings situated in the Klang Valley.

Real Estate	Net Lettable Area sq. ft.	Market Value RM	% of Total Real Estate Portfolio
Menara HLA	385,215	340,000,000	61
HP Towers	349,802	219,000,000	39
<b>Total</b>	<b>735,017</b>	<b>559,000,000</b>	<b>100</b>

## ASSETS PROFILE



### MENARA HLA

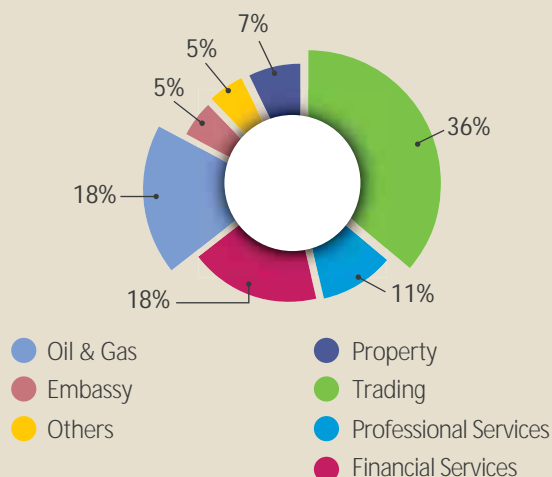
Menara HLA is strategically located in the heart of the prestigious Golden Triangle of Kuala Lumpur. At the epicentre of modern Kuala Lumpur, the Golden Triangle is a sprawling area bounded to its north by Jalan Ampang and to the west by Chinatown and Sungai Klang. It is also the city's main central business district accommodating prime office buildings, major retail centres, prestigious international class hotels and various world-renowned tourist attractions like KL Tower, Craft Complex, Aquaria KLCC and Dewan Filharmonik Petronas.

Menara HLA is equidistant from the Kuala Lumpur city centre development and retail/hotel belt of Jalan Bukit Bintang and Jalan Sultan Ismail which provide ample supplementary amenities such as a wide variety of restaurants, boutique cafes, convenient shops, entertainment outlets, banking facilities, etc. In general, the building has good ingress and egress and it is accessible from Jalan Ampang, Jalan Sultan Ismail, Jalan

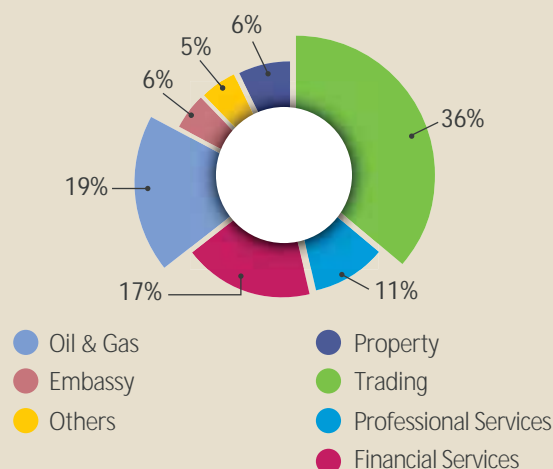
Tun Razak, as well as via various nearby rail systems like Kuala Lumpur Monorail, Light Rail Transit (LRT) and upcoming Mass Rapid Transit (MRT).

The finishes and specifications of Menara HLA provide occupiers with functional, quality office accommodation demanded by the corporate sector which requires more sophisticated technical expectations. The building is well-maintained and uses good quality granite for its facade and polished granite slabs for the entrance lobby on the ground floor and all the office lifts. Besides that, it also features triple ceiling high main entrance lobby with glass panels to create an aura of grandeur. In addition, the positioning of the columns at the sides creates column free space, thereby increasing efficiency of usage. Menara HLA offers nice and undisrupted view of KLCC Park and the iconic KLCC Twin Towers. Besides that, one will also enjoy a scenic view of skyscrapers in the city centre at the north view, and a bustling crowds wandering around Bukit Bintang shopping belt at the south view.

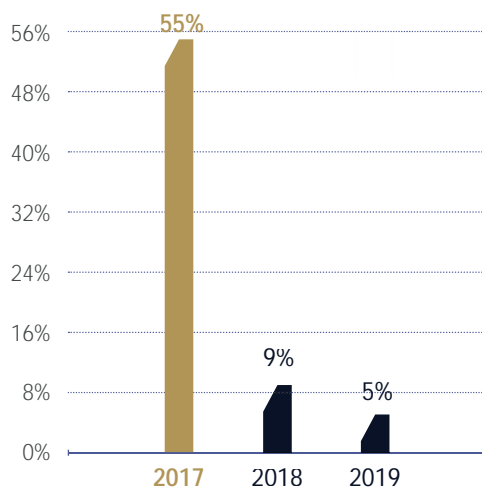
Tenants Mix by Net Lettable Area as at 31 December 2016



Tenants Mix by Gross Rental Income for the Month of December 2016



Expiry Profile  
as at 31 December 2016



Major Tenants  
as at 31 December 2016

Name	Trade Sector	% of Total Net Lettable Area
TWM Corporate Services Sdn Bhd	Trading	13%
Hong Leong Investment Bank Berhad	Financial Services	10%
Lundin Malaysia B.V.	Oil & Gas	9%
Malaysia Blue Ocean Strategy Institute	Others	5%
Total E&P	Oil & Gas	3%
THSB Services Sdn Bhd	Trading	5%
		<b>45%</b>

#### ADDRESS

Menara HLA, No. 3, Jalan Kia Peng  
50450 Kuala Lumpur

#### DESCRIPTION

A 32 storey high-rise office building  
with a 4-level basement car park

#### PROPERTY TYPE/USE

Commercial Office Building

#### AGE

17 years

#### TITLE DETAILS

Lot No. 1286, Seksyen 57  
Title No. Geran 43969/M1/B4/1  
Town and District of Kuala Lumpur

#### ENCUMBRANCES

Nil

#### LIMITATION IN TITLE/INTEREST

Nil

#### TENURE

Freehold

#### NET LETTABLE AREA

385,215 sq. ft.

#### OCCUPANCY RATE \*

69%

#### PARKING SPACE

723 car park bays

#### DATE OF ACQUISITION

17 April 2006

#### ACQUISITION PRICE

RM221,000,000

#### MARKET VALUE

RM340,000,000

#### DATE OF LATEST EXTERNAL VALUATION

10 November 2015

#### NAME OF VALUER

Raine & Horne International  
Zaki + Partners Sdn Bhd

#### NET BOOK VALUE \*

RM340,000,000

#### PROPERTY MANAGER

Laurelcap Sdn Bhd

\* As at 31 December 2016



## ASSETS PROFILE

Cont'd



### HP TOWERS

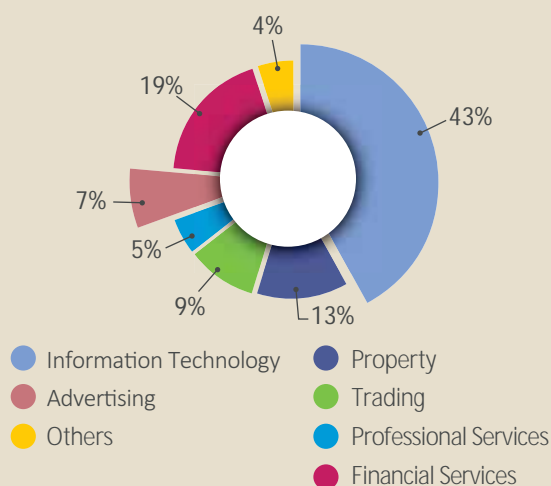
HP Towers is located within the bustling commercial area of Bukit Damansara and is sited on the northern (right) side of Jalan Semantan (which forms part of the SPRINT Highway) when one travels from the Kuala Lumpur city centre towards Petaling Jaya. The building comprises 2 tower blocks which are Block A (9 storeys) and Block B (21 storeys), and situated about 8 km west of the Kuala Lumpur city centre.

HP Towers has good ingress and egress and is easily accessible to the SPRINT Highway which is linked to other major roads, such as the North Klang Valley Expressway (NKVE), Federal Highway, Damansara-Puchong Highway (LDP) and North South Expressway (NSE). The extensive road networks developed in the vicinity have reduced the travelling time to the Kuala Lumpur city centre and Petaling Jaya. Besides, it only takes about several

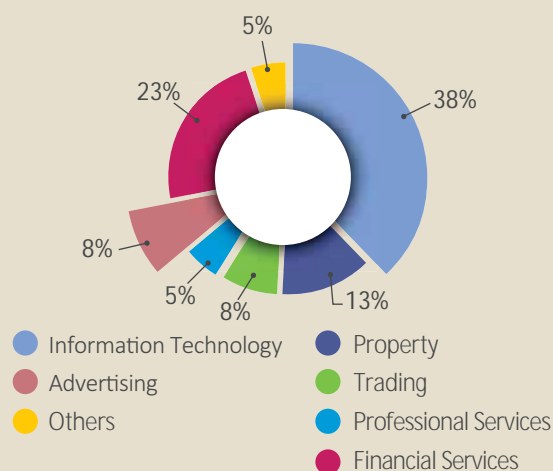
minutes to drive from HP Towers to several nearby major shopping malls, Bangsar and the KL Sentral transportation hub. A feeder bus service to KL Sentral is also available at certain times of the day. The upcoming and nearby Damansara City integrated development by GuocoLand (Malaysia) Berhad that is expected to bring in huge traffic when fully completed. The newly completed Semantan MRT station that is just a stone throw away, will place HP Towers well within this area.

The finishes and specifications of HP Towers provide occupiers with functional, quality office demanded by the corporate sector. The external wall of the building is clad with alucobond curtain walling whilst the entrance lobby on the ground floor and all the office lift lobbies are of polished granite slabs. It also has a 3-level high main entrance lobby which further creates an aura of grandeur.

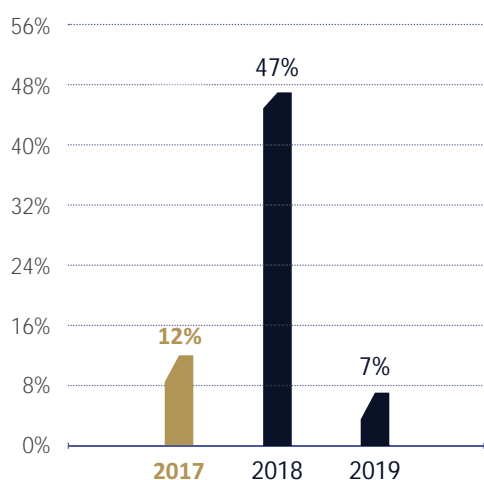
**Tenants Mix by Net Lettable Area as at 31 December 2016**



**Tenants Mix by Gross Rental Income for the Month of December 2016**



**Expiry Profile as at 31 December 2016**



**Major Tenants as at 31 December 2016**

Name	Trade Sector	% of Total Net Lettable Area
Hewlett-Packard (M) Sdn Bhd	Information Technology	26%
GuocoLand (Malaysia) Berhad	Property	9%
Valuecap Sdn Bhd	Financial Services	12%
TBWA Kuala Lumpur Sdn Bhd	Advertising	5%
		<b>52%</b>

#### ADDRESS

HP Towers, No. 12, Jalan Gelenggang  
Bukit Damansara  
50490 Kuala Lumpur

#### DESCRIPTION

2 blocks of 9 and 21 storey office buildings with 3 levels connecting podium and 4 levels of basement car park

#### PROPERTY TYPE/USE

Commercial Office Building

#### AGE

24 years

#### TITLE DETAILS

Lot No. 54308  
Title No. Geran 61506  
Mukim and District of Kuala Lumpur

#### ENCUMBRANCES

Lienholder's caveat entered by Public Bank Berhad

#### LIMITATION IN TITLE/INTEREST

Nil

#### TENURE

Freehold

#### NET LETTABLE AREA

349,802 sq. ft.

#### OCCUPANCY RATE \*

66%

#### PARKING SPACE

545 car park bays

#### DATE OF ACQUISITION

17 April 2006

#### ACQUISITION PRICE

RM130,000,000

#### MARKET VALUE

RM219,000,000

#### DATE OF LATEST EXTERNAL VALUATION

10 November 2015

#### NAME OF VALUER

Raine & Horne International  
Zaki + Partners Sdn Bhd

#### NET BOOK VALUE \*

RM219,000,000

#### PROPERTY MANAGER

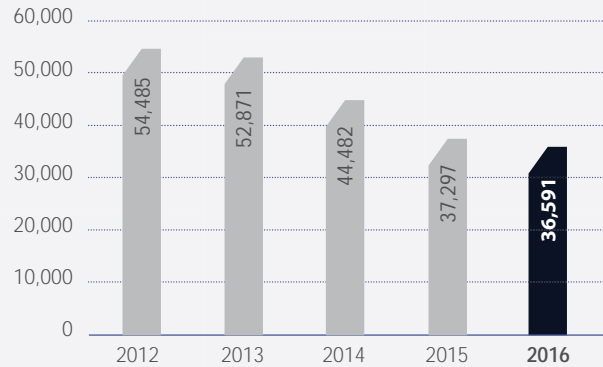
Laurelcap Sdn Bhd

\* As at 31 December 2016

# FUND PERFORMANCE

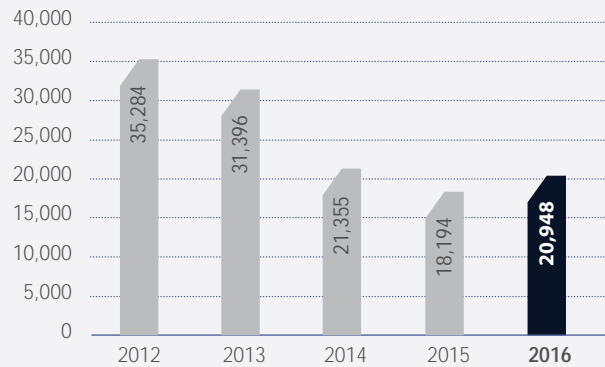
## GROSS REVENUE

RM'000



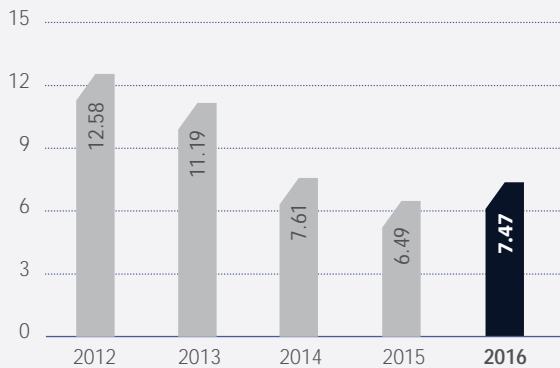
## INCOME AFTER TAXATION (REALISED)

RM'000



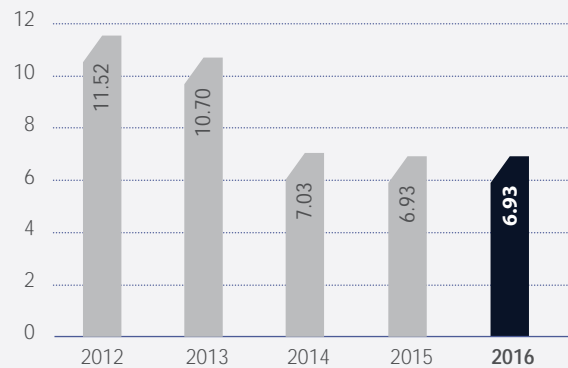
## EARNING PER UNIT (REALISED)

SEN



## DISTRIBUTION PER UNIT

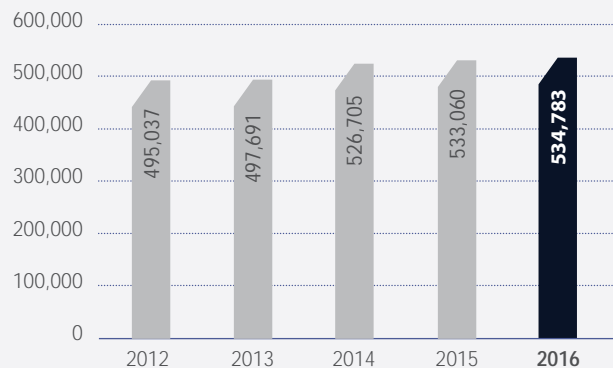
SEN



## NET ASSET VALUE ("NAV")

(AFTER INCOME DISTRIBUTION)

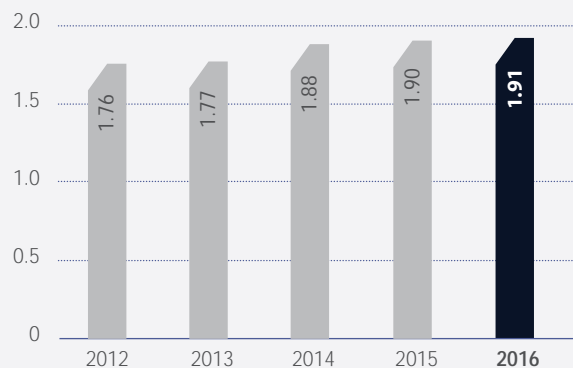
RM'000



## NAV PER UNIT

(AFTER INCOME DISTRIBUTION)

RM



# FUND PERFORMANCE

Cont'd

	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000
<b>STATEMENT OF FINANCIAL POSITION</b>					
Total Asset Value	645,204	644,661	682,544	568,316	<b>568,089</b>
Total Borrowings	114,070	114,400	116,400	100	<b>100</b>
NAV before income distribution	511,979	513,427	535,681	543,523	<b>545,246</b>
NAV after income distribution	495,037	497,691	526,705	533,060	<b>534,783</b>
Units in Circulation/Listed	280,500,000	280,500,000	280,500,000	280,500,000	<b>280,500,000</b>
NAV Per Unit (RM)					
- Before income distribution	1.8252	1.8304	1.9097	1.9377	<b>1.9438</b>
- After income distribution	1.7648	1.7743	1.8777	1.9004	<b>1.9065</b>
- Highest NAV per unit (ex-distribution)	1.8252	1.8361	1.8178	1.9377	<b>1.9438</b>
- Lowest NAV per unit (ex-distribution)	1.6609	1.7865	1.7948	1.8922	<b>1.9230</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>					
Total Revenue	54,485	52,871	44,482	37,297	<b>36,591</b>
Income After Taxation					
- Realised and distributable	35,284	31,396	21,355	18,194	<b>20,948</b>
- Unrealised from fair value adjustment	36,103	1,271	27,378	7,600	<b>214</b>
	71,387	32,667	48,733	25,794	<b>21,162</b>
Earnings Per Unit (sen) <sup>(1)</sup>					
- Realised	12.58	11.19	7.61	6.49	<b>7.47</b>
- Unrealised	12.87	0.45	9.76	2.71	<b>0.08</b>
	25.45	11.64	17.37	9.20	<b>7.55</b>
Income Distribution					
- Interim	15,371	14,277	10,743	8,976	<b>8,976</b>
- Final	16,942	15,736	8,976	10,463	<b>10,463</b>
	32,313	30,013	19,719	19,439	<b>19,439</b>
Distribution Per Unit (sen)					
- Interim	5.48	5.09	3.83	3.20	<b>3.20</b>
- Final	6.04	5.61	3.20	3.73	<b>3.73</b>
	11.52	10.70	7.03	6.93	<b>6.93</b>
Date of Distribution					
- Interim	25/08/2012	27/08/2013	27/08/2014	28/08/2015	<b>14/09/2016</b>
- Final	28/02/2013	28/02/2014	27/02/2015	29/02/2016	<b>28/02/2017</b>
<b>RATIOS</b>					
Management Expenses Ratio ("MER") <sup>(2)</sup> (%)	0.63	0.60	0.58	0.65	<b>0.47</b>
Interest Cover Ratio <sup>(3)</sup> (times)	7.6	6.9	4.9	10.8	<b>150.6</b>
Gearing Ratio <sup>(4)</sup> (%)	18	18	17	0	<b>0</b>

**Notes:**

<sup>(1)</sup> Based on weighted average number of units in issue during the respective financial years.

<sup>(2)</sup> Based on total fees, including Manager's fees, Trustee's fees, audit fees, tax agent's fees and administration expenses, to the average NAV during the respective financial years.

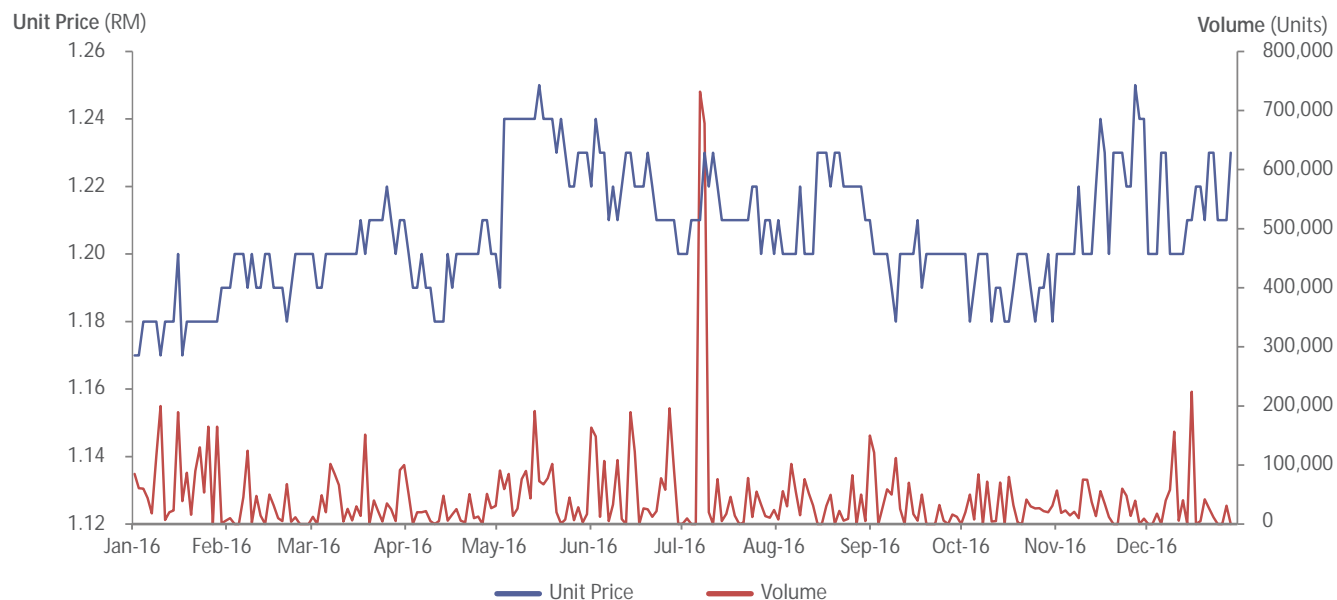
<sup>(3)</sup> Based on realised net income before interest and tax (realised) over interest expenses.

<sup>(4)</sup> Based on total borrowings over total assets.

# FUND PERFORMANCE

Cont'd

## MARKET UNIT PRICE AND TRADING PERFORMANCE



UNIT PRICE PERFORMANCE	2012 RM	2013 RM	2014 RM	2015 RM	2016 RM
Unit price per unit at close of respective years	1.46	1.50	1.27	1.23	1.17
Highest traded price during the year	1.51	1.66	1.55	1.30	1.25
Lowest traded price during the year	1.28	1.42	1.16	1.10	1.17
Average unit price for the year <sup>(1)</sup>	1.41	1.53	1.38	1.20	1.21

ANNUAL TOTAL RETURN	2012	2013	2014	2015	2016
Total Return for the year	22%	15%	-6%	-9%	7%

Total Return of the Trust for the year is derived by:

$$\frac{\text{Gross Distribution per unit} + \text{Net Change in Average Unit Price}}{\text{Average Unit Price}}$$

AVERAGE TOTAL RETURN	2014	2015	2016
1 year	-6%	-9%	7%
3 years	10%	0%	-3%
Since inception	10%	8%	9%

Average Total Return of the Trust is derived by:

$$\frac{\text{Total Return over the Year}}{\text{Number of Years under review}}$$

## FUND PERFORMANCE

Cont'd

DISTRIBUTION YIELD	2012	2013	2014	2015	2016
Annualised Distribution Yield	8.2%	7.0%	5.1%	5.8%	5.7%

Annualised Distribution Yield of the Trust is derived by: 
$$\frac{\text{Gross Distribution per Unit of the Year}}{\text{Average Unit Price of the Year}}$$

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

*Note:*

<sup>(1)</sup> Average unit price is derived from the average of the daily market closing price for the respective years.

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors and management of GLM REIT Management Sdn Bhd ("GLM REIT" or the "Manager"), the Manager of Tower Real Estate Investment Trust ("Tower REIT" or the "Trust"), I am pleased to present the annual report and the audited financial statements of Tower REIT for the financial year ended 31 December 2016.

## MARKET REVIEW

Malaysia's GDP grew by 4.05% and 4.15% (year-on-year) during the first half and first nine months of 2016 respectively. The growth was supported by domestic demand and attributed mainly to private consumption and investment, according to Bank Negara Malaysia.

Despite the challenging operating environment, in general, Malaysia's real estate investment trusts ("REIT") were able to record positive revenue and earnings growth in 2016, partially due to the rate cut by Bank Negara Malaysia in mid 2016 as investors seek higher returns amid declining bond yields during that period.

## FINANCIAL REVIEW

For the financial year ended 31 December 2016, Tower REIT registered a gross revenue of RM36.59 million and realised income after taxation of RM20.95 million, a decrease of 1.9% and an increase of 15.1% respectively compared to the preceding financial year's performance of RM37.3 million and RM18.19 million respectively. The decrease was mainly attributed to lower occupancy rate.

Tower REIT is pleased to declare a final income distribution of 3.73 sen per unit, totalling RM10,462,650 which will be paid on 28 February 2017 for the financial year ended 31 December 2016. The final income distribution, together with the interim income distribution of 3.20 sen per unit paid on 14 September 2016, represent a total income distribution of 6.93 sen per unit for the financial year ended 31 December 2016. This translates to a distribution yield of 5.9% (2015: 5.6%), based on the Trust's closing price of RM1.17 per unit on 31 December 2016 (2015: RM1.23).

## BUSINESS REVIEW

Securing new tenants as well as renewing existing tenants to boost occupancy rates for our portfolio have been challenging as many private businesses are cautious over the cost of their business operations. Foreign direct investments have also lacked growth and therefore new space requirements from foreign firms have been muted, especially in the oil and gas sector. New supply of office space continues to come into the market, putting office rental rates under pressure.

# CHAIRMAN'S STATEMENT

Cont'd

We believe the outlook for Tower REIT remains stable in view of its prudent gearing level and capital management, as well as proactive asset management strategies. Progressing into the next financial year, Tower REIT will continue to maximise the return of its properties by focusing on tenant retention, capital management and cost efficiency measures, while pursuing growth by actively exploring acquisition opportunities. These measures will enhance the quality of Tower REIT's portfolio and deliver sustainable income distribution for unitholders.

## PROSPECTS

Global economy is expected to grow around 2.5% and remains soft in 2017.

Overall, growth in developing East Asia and Pacific is expected to remain resilient over the next two years, growing at 5.8% in 2016 and 5.7% in 2017-2018, while Malaysia's economic growth is expected to rebound slightly by 4.3% in 2017 on a recovery in oil prices and export goods, according to the World Bank. Private consumption will continue to remain expansionary and drive growth, with various consumption stimulating measures from the Budget 2017 to support household spending, as well as ongoing job prospects and fiscal consolidation.

<sup>1</sup> In Kuala Lumpur and Selangor, there was already a total of 92.7 million sq. ft. of purpose built office space in the first half of 2016, with a further 5.8 million sq. ft. of new supply coming into the market in the second half of the same year. In view of this, office space supply-demand imbalance may continue to pose a strong challenge for most REIT players in 2017. Newly completed office buildings may continue to exert some downward pressure on the rental rates of existing and older buildings.

Moving forward, we will continue to focus on preserving the financial performance of the Trust's underlying assets through proactive asset management while pursuing acquisition opportunities.

<sup>1</sup> Source: Malaysian Institute of Estate Agents

## ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to extend our thanks and appreciation to Mr Tang Hong Cheong who resigned from the Board on 1 September 2016, for his past services and invaluable contributions to GLM REIT.

On behalf of the Board of Directors, I would also like to thank the Board members, the management and staff for their dedication and commitment. My sincere appreciation also goes to our valued tenants, business associates, government authorities and unitholders of Tower REIT for their continuous support and confidence throughout the year.

**DATUK EDMUND KONG WOON JUN**

Chairman

20 February 2017



# MANAGER'S REPORT

**GLM REIT Management Sdn Bhd ("GLM REIT" or the "Manager"), the Manager of Tower Real Estate Investment Trust ("Tower REIT" or the "Trust"), is pleased to submit the Manager's Report and the audited financial statements of Tower REIT for the financial year ended 31 December 2016.**

## THE TRUST

Tower REIT was constituted under the Deed dated 17 February 2006 (as restated by a Deed dated 29 May 2014) (the "Deed") entered into between the Manager and MTrustee Berhad (formerly known as AmTrustee Berhad), acting as the Trustee of Tower REIT. Tower REIT was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 12 April 2006.

The principal activity of the Trust is to own and invest primarily in prime commercial properties in Malaysia's major growth areas. There has been no significant change in the principal activity of the Trust during the year and up to the date of this Manager's Report.

## THE MANAGER

The Manager is responsible for the overall management and administration of the Trust, including its investments, asset enhancement and capital management initiatives. The Manager, incorporated in Malaysia, is a wholly-owned subsidiary of GuocoLand (Malaysia) Berhad. The principal activity of the Manager is the provision of management services to real estate investment trusts. There has been no significant change in the principal activity of the Manager during the year under review.

## INVESTMENT OBJECTIVE

The investment objective of the Trust is to invest in a portfolio of quality office buildings and commercial properties to:

- provide unitholders with stable distribution per unit as well as sustainable long term growth of such distributions; and
- achieve medium to long term growth in the net asset value ("NAV") per unit.

As a result of our proactive strategies and the strong underlying assets under the portfolio, we have achieved our investment objective by delivering stable distribution and growth in NAV to our valued unitholders.

## INVESTMENT STRATEGIES

Since the Trust's listing in 2006, the Manager has always been prudent and cautious in its acquisition strategies as well as risk management and asset management initiatives. In times of potential economic uncertainty, the Manager will carry out more fact-based analysis based on existing and new environment intelligence in order to mitigate any impending risk to the Trust's portfolios. Measures to enhance capital value of the Trust's property portfolio are ongoing to maintain competitiveness, improve revenue and ensure fair return to unitholders.

# MANAGER'S REPORT

Cont'd

## FINANCIAL REVIEW

	2016	2015	Variance
	RM'000	RM'000	%
<b>Gross Revenue</b>	36,591	37,297	-1.89
Property operating expenses	(13,500)	(12,666)	-6.58
Net property income	23,091	24,631	-6.25
Change in fair value of investment properties	-	18,000	-100.00
Finance income	214	-	100.00
Gain on disposal of investment property	-	659	-100.00
Net non-property expenses	(2,143)	(4,623)	53.62
<b>Income before taxation</b>	21,162	38,667	-45.27
Taxation	-	(12,873)	-100.00
<b>Income after taxation</b>	21,162	25,794	-17.96
<b>Income after taxation</b>			
- Realised and distributable	20,948	18,194	15.13
- Unrealised and non-distributable	214	7,600	-97.18
	<b>21,162</b>	<b>25,794</b>	<b>-17.96</b>

The Trust registered gross revenue and realised and distributable income of RM36.59 million and RM20.95 million respectively for the financial year ended 31 December 2016.

The income after taxation for the financial year ended 31 December 2016 was RM21.2 million, comprising realised and distributable net income of RM20.9 million and unrealised gain of RM0.2 million, resulting from fair value adjustment of tenant deposits.

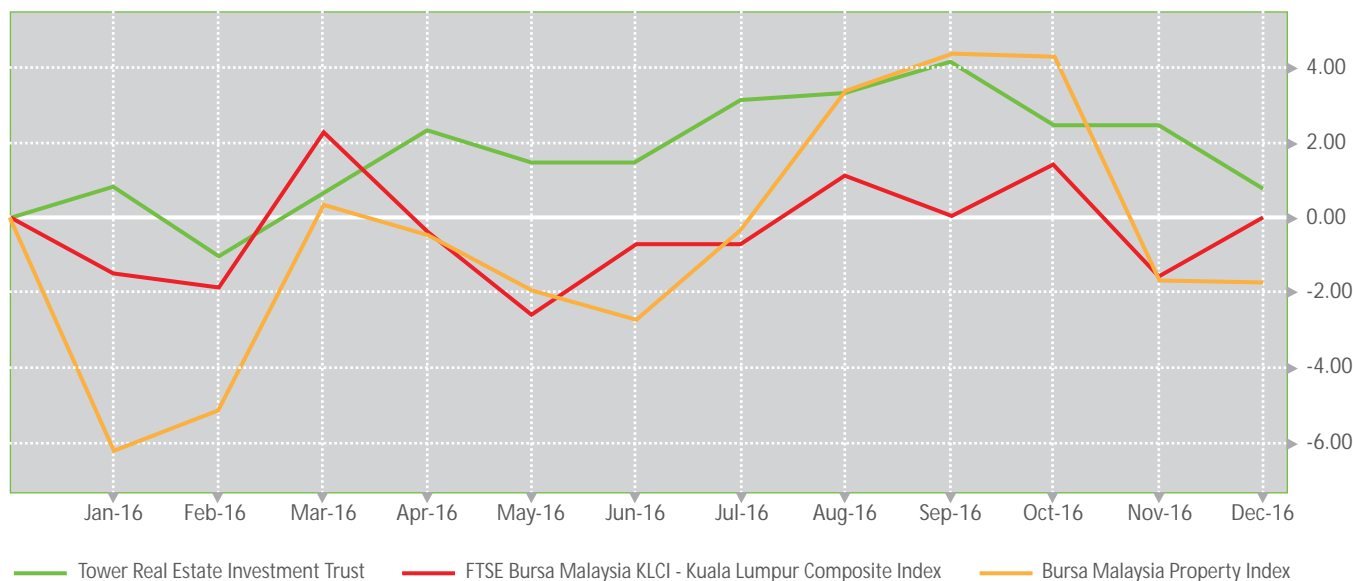
## INCOME DISTRIBUTION

The Trust had distributed 3.20 sen per unit, amounting to RM8,976,000 as interim income distribution from the first-half year results. For the remaining half of the financial year ended 31 December 2016, we are pleased to declare a final income distribution of 3.73 sen per unit, amounting to RM10,462,650, payable on 28 February 2017. The total income distribution of 6.93 sen per unit for 2016, representing a distribution of about 93% of the realised and distributable income after taxation for the financial year ended 31 December 2016, is in line with our policy to distribute at least 90% of the distributable income.

# MANAGER'S REPORT

Cont'd

## UNIT PRICE PERFORMANCE



Malaysia's real GDP growth is projected to recover gradually from 4.1% year-on-year in the first half of 2016 to around 4.3% in the second half of 2016, averaging 4.2% estimated for full-year 2016 (5% in 2015). Against a backdrop of modest but healthy growth in the global economy, we expect the country's real GDP growth to improve to 4.4% in 2017, supported by domestic demand, especially from private consumption and investment. However, as a highly open and trade-dependent economy, Malaysia's real GDP growth and external demand will likely be influenced by the health of the global economy in 2017.

The international reserves of Bank Negara Malaysia amounted to RM424.2 billion as at 31 December 2016 compared to RM409.1 billion as at end 2015. The level of reserves remained supported by the current account surplus and inflows of foreign direct investments. These were, however, offset by direct investments abroad by Malaysian companies and some reversals of non-resident portfolio investments.

Tower REIT's unit price has been affected by the challenging market environment and closed at RM1.17 per unit on 31 December 2016 with a 5% decrease from the 31 December 2015 closing price of RM1.23 per unit. Tower REIT's market capitalisation stood at RM328.2 million as at 31 December 2016.

## CHANGES IN NET ASSET VALUE

	As at 31 December 2016 RM	As at 31 December 2015 RM
Net Asset Value ("NAV")	545,246,010	543,522,327
NAV per unit		
- before income distribution	1.9438	1.9377
- after income distribution	1.9065	1.9004

# MANAGER'S REPORT

Cont'd

## PORTFOLIO REVIEW

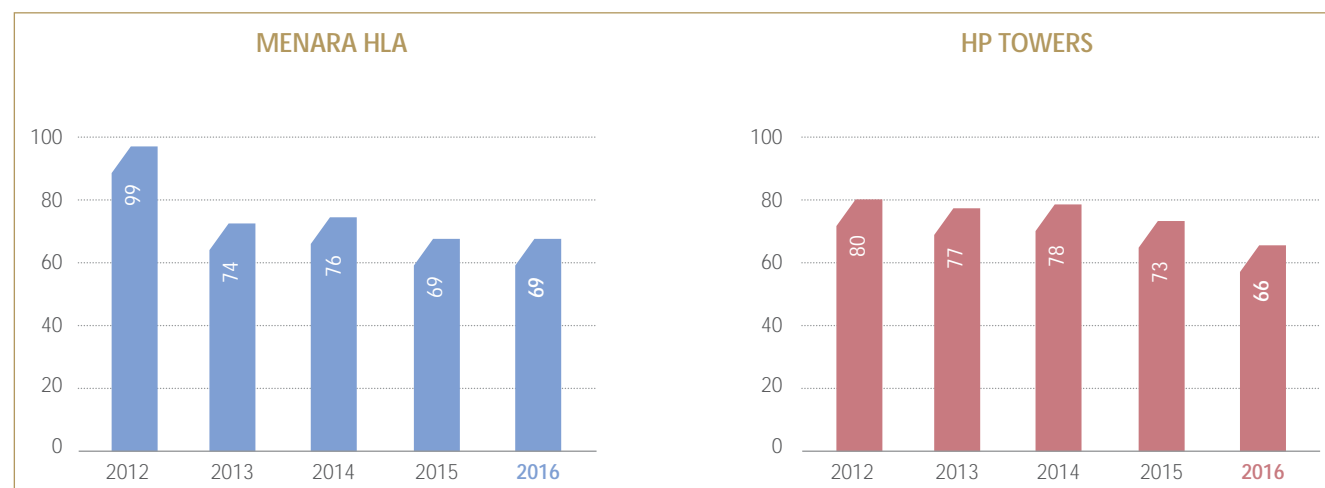
As at 31 December 2016, the Trust's investment portfolio covered the following prime commercial office buildings in Kuala Lumpur:

Property	Net Lettable Area sq.ft.	Acquisition Date	Acquisition Cost RM	Incidental Cost/ Addition/ Enhancement RM	Fair Value Adjustment RM	At Market Value 31 December 2016 RM	% of Portfolio %
Menara HLA	385,215	17 April 2006	221,000,000	1,144,201	117,855,799	340,000,000	61
HP Towers	349,802	17 April 2006	130,000,000	3,190,085	85,809,915	219,000,000	39
<b>Total</b>	<b>735,017</b>		<b>351,000,000</b>	<b>4,334,286</b>	<b>203,665,714</b>	<b>559,000,000</b>	<b>100</b>

## OCCUPANCY AND RENTAL RATES

As at 31 December 2016, Menara HLA, situated within the Golden Triangle of Kuala Lumpur, had an occupancy rate of 69%. HP Towers, which is located in Damansara Heights, Kuala Lumpur, was 66% occupied.

## OCCUPANCY RATES



In tandem with strong marketing strategies and efforts to secure more tenants and to retain high occupancy and rental rates, the Manager will continue to proactively monitor any potential reduction in tenancy so that appropriate countermeasures can be taken.

# MANAGER'S REPORT

Cont'd

## LEASE EXPIRY PROFILE

A typical tenure of the tenancy is three years while lease renewals are staggered over the upcoming years. The following is the expiry profile of the properties within the portfolio of the Trust:

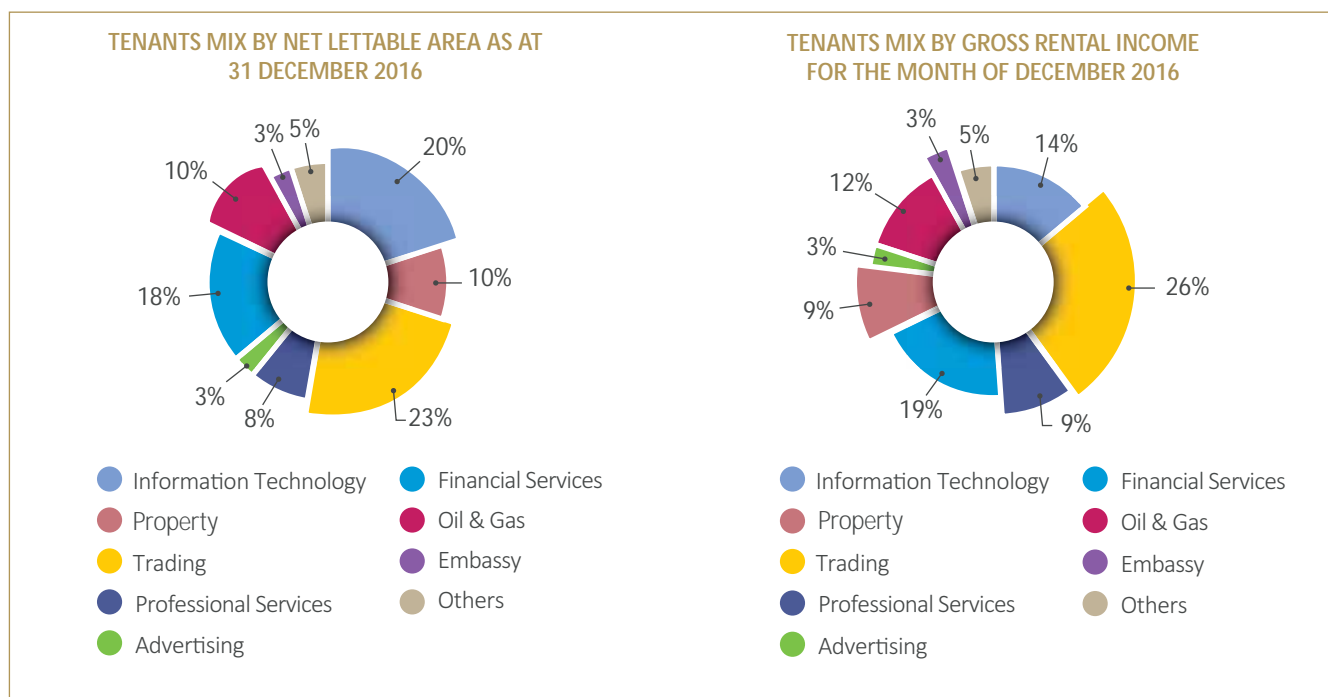
	2017			2018		2019	
	No. of Tenants	No. of Tenants	% of Net Lettable Area	No. of Tenants	% of Net Lettable Area	No. of Tenants	% of Net Lettable Area
Menara HLA	26	18	55%	4	9%	4	5%
HP Towers	16	3	12%	8	47%	5	7%
<b>Total</b>	<b>42</b>	<b>21</b>	<b>35%</b>	<b>12</b>	<b>27%</b>	<b>9</b>	<b>6%</b>

Approximately 35% of the tenancies from the previous year were due for renewal during the financial year ended 31 December 2016. Through our proactive negotiations and active tenant engagement, we renewed 77% of the tenancies which had expired during the year.

On the overall portfolio's tenancies lease tenure, 35%, 27% and 6% are due for renewal in 2017, 2018 and 2019 respectively.

## DIVERSIFIED TENANT BASE

The Trust's portfolio has a balanced and well diversified tenant base. The diversified tenant mix had enabled the Trust to diversify its business risks and tap into the growth of the respective sectors. As at 31 December 2016, there were 42 tenants and collectively, the five largest tenants accounted for approximately 34% of the portfolio's gross rental income.



# MANAGER'S REPORT

Cont'd

## DIVERSIFIED TENANT BASE cont'd

Major Tenants as at 31 December 2016	Trade Sector	% of Portfolio's Net Lettable Area
Hewlett-Packard (M) Sdn Bhd	Information Technology	12%
TWM Corporate Services Sdn Bhd	Trading	7%
Valuecap Sdn Bhd	Financial Services	6%
Hong Leong Investment Bank Berhad	Financial Services	5%
Lundin Malaysia B.V.	Oil & Gas	4%
		34%

## ASSET ENHANCEMENT INITIATIVE

Tower REIT will continue to embark on asset enhancement programmes to enhance the buildings' appeal and value.

## CAPITAL STRUCTURE AND INTEREST RATE

As at 31 December 2016, the Trust has RM100,000 of term loan, maturing in April 2017.

For the financial year ended 31 December 2016, the Trust's average all-in costs of debt remained at a competitive rate of approximately 4.06% per annum with interest cover ratio of 150.6 times.

## OFFICE MARKET REVIEW

Demand for office space in the Klang Valley is expected to be limited in the short term mainly due to the low business sentiment, rising costs of doing business, economic slowdown, increasing inflation as well as weaker oil and commodity prices. In general, market rentals are expected to come under pressure due to the large incoming supply and the large amount of existing vacant space available in the market. Although gross asking rentals are unlikely to decrease significantly, many landlords, particularly those with poorly occupied buildings, will be more willing to offer longer rent free period which will result in lower effective rents. Landlords of newer buildings, with better specifications, are unlikely to significantly reduce their rental rates due to rising operational and maintenance costs, but may offer generous incentives to entice potential tenants.

## PROSPECTS

Overall, the occupancy and rental rates are expected to be subdued in 2017. We hope for some positive corrections in the second half of 2017 if the external economic headwinds are reduced. Notwithstanding the difficult operating environment, the Manager will continue to take active steps to manage the portfolio assets to maximise return to unitholders.

# MANAGER'S REPORT

Cont'd

## MANAGER'S FEES AND COMMISSION

Pursuant to the Deed constituting the Trust, the Manager's fees consist of a base fee (excluding any goods and services tax payable) of up to 0.75% per annum of the gross asset value ("GAV") and a performance fee (excluding any goods and services tax payable) of up to 4.00% per annum of the net property income, but before deduction of property management fee. During the financial year under review, the Manager charged 0.22% and 3.48% for the base fee and performance fee respectively.

In addition, the Manager will also be entitled to the following fees for any acquisition or disposal of real estate by Tower REIT:

- i) an acquisition fee of 1.00% of the acquisition price of any real estate or single-purpose company which principal assets comprise real estate, purchased for Tower REIT (pro-rate if applicable to the proportion of the interest of Tower REIT in the asset acquired); and
- ii) a divestment fee of 0.50% of the sale price of any real estate or a single-purpose company which principal assets comprise real estate, sold or divested by Tower REIT (pro-rate if applicable to the proportion of the interest of Tower REIT in the asset sold).

## SOFT COMMISSION

During the financial year ended 31 December 2016, the Manager did not receive any soft commission from its broker by virtue of transactions conducted by Tower REIT.

## DIRECTORS

The Directors who served on the Board of GLM REIT during the year under review are:

- YBhg Datuk Edmund Kong Woon Jun – Chairman (*Non-Independent Executive Director*)
- Mr Tang Hong Cheong (*Chairman, Non-Independent Non-Executive Director*) – Resigned on 1 September 2016
- YBhg Dato' Koh Hong Sun (*Independent Non-Executive Director*)
- YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah (*Independent Non-Executive Director*)
- YBhg Dato' Paul Poh Yang Hong (*Non-Independent Non-Executive Director*)
- Ms Lim Chew Yan (*Non-Independent Non-Executive Director*)

## DIRECTORS' BENEFITS

During the financial year under review, there were no arrangements for the Directors of GLM REIT to acquire benefits by means of the acquisition of units in or debentures of Tower REIT.

Since the establishment of Tower REIT, no Director has received or become entitled to receive any benefit by reason of a contract made by GLM REIT for Tower REIT or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the notes to the financial statements.

# MANAGER'S REPORT

Cont'd

## DIRECTORS' INTERESTS

The Directors of GLM REIT, holding office as at 31 December 2016, had no interests in the units of Tower REIT as at 31 December 2016.

## OTHER INFORMATION

- a) Before the statement of comprehensive income and statement of financial position of Tower REIT were made out, the Manager took reasonable steps:
  - i. to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and adequate provision has been made for doubtful debts; and
  - ii. to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- b) At the date of this report, the Manager is not aware of any circumstances which would render:
  - i. it necessary to write off any bad debts or to amount of provision for doubtful debts in respect of the financial statements of Tower REIT; and
  - ii. the values attributed to the current assets in the financial statements of Tower REIT misleading.
- c) At the date of this report, the Directors of the Manager are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of Tower REIT misleading or inappropriate.
- d) At the date of this report, the Directors of the Manager are not aware of any circumstances not otherwise dealt with in this report or financial statements of Tower REIT, which would render any amount stated in the financial statements misleading.
- e) As at the date of this report, there does not exist:
  - i. any charge on the assets of Tower REIT which has arisen since the end of the financial year which secures the liabilities of any other person; and
  - ii. any contingent liability of Tower REIT which has arisen since the end of the financial year.
- f) In the opinion of the Directors of the Manager:
  - i. no contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which will or may affect the ability of Tower REIT to meet its obligations as and when they fall due; and
  - ii. no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of Tower REIT for the financial year in which this report is made.



# MANAGER'S REPORT

Cont'd

## STATEMENT BY MANAGER

We, GLM REIT Management Sdn Bhd, being the Manager of Tower REIT, are responsible for the preparation of the annual financial statements of Tower REIT.

We are satisfied that in preparing the financial statements of the Trust for the financial year ended 31 December 2016, the Trust has used appropriate accounting policies and applied them consistently. We are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

Signed in accordance with a resolution of the Directors of GLM REIT Management Sdn Bhd.

**DATUK EDMUND KONG WOON JUN**  
Director

**LIM CHEW YAN**  
Director

20 February 2017

## DIRECTORS' PROFILE

### YBHG DATUK EDMUND KONG WOON JUN

*Chairman*

*Executive Director/Non-Independent*

*Age 53, Male, Malaysian*

YBhg Datuk Edmund Kong graduated with a Bachelor of Architecture (Honours) from University of Wales Institute of Science and Technology (UWIST), Wales, United Kingdom in 1989. He is a Member of the Architects Registration Board (ARB) in United Kingdom and a corporate member of Pertubuhan Arkitek Malaysia (PAM).

YBhg Datuk Edmund Kong has more than 26 years of experience in property development and construction industry. He started his career as a Senior Architect in BEP Arkitek Sdn Bhd in charge of high-end property developments in year 1994. He served as the Director of Project and Product Planning of Perdana Parkcity Sdn Bhd from year 2003 to 2008, where he played a major role in the planning and designing of the township called Desa ParkCity, Kuala Lumpur. Prior to joining Tropicana Corporation Berhad ("Tropicana"), he joined TA Global Berhad in April 2008 as the Director of Planning & Design and was then promoted to Chief Operating Officer in August 2008. With his experience in township master planning, he was actively involved in concept master plan and product design for the projects under his supervision. He was appointed as an Executive Director of Tropicana on 1 March 2011 and was promoted to Deputy Group Managing Director on 1 March 2013. On 14 March 2014, he was promoted to the position of Group Managing Director. He was also a Director of Tropicana Golf & Country Resort Berhad, a wholly-owned subsidiary of Tropicana.

YBhg Datuk Edmund Kong was appointed to the Board of GLM REIT Management Sdn Bhd ("GLM REIT") on 4 January 2016. He was appointed as the Chairman of the Board of GLM REIT on 1 September 2016.

YBhg Datuk Edmund Kong is the Group Managing Director of GuocoLand (Malaysia) Berhad which is listed on the Main Market of Bursa Malaysia Securities Berhad.

### YBHG DATO' KOH HONG SUN

*Non-Executive Director/Independent*

*Age 64, Male, Malaysian*

YBhg Dato' Koh Hong Sun graduated with a Masters Degree in Strategic and Security Studies from Universiti Kebangsaan Malaysia.

YBhg Dato' Koh had a distinguished career with the Royal Malaysian Police (RMP) for almost 40 years, having joined RMP as a Probationary Inspector in 1971 and retired in October 2010 as the Director of Commercial Crime Investigation Department.

During the period as an officer of the RMP, YBhg Dato' Koh had held various important command posts, including as Commandant of The Police Training Centre in Kuala Lumpur, Assistant Director NCB-Interpol, Officer-in-Charge of Brickfields Police District, Federal Traffic Chief, Deputy Chief Police Officer of Johor, Chief Police Officer of Penang and Commissioner of Police as Director of Commercial Crime Investigation Department.

YBhg Dato' Koh was appointed to the Board of GLM REIT on 22 December 2010.

YBhg Dato' Koh is the Chairman of QBE Insurance (Malaysia) Berhad which is a non-listed public company. YBhg Dato' Koh also sits on the Boards of Mega First Corporation Berhad, Genting Malaysia Berhad and DeGem Berhad which are listed on the Main Market of Bursa Malaysia Securities Berhad.

## DIRECTORS' PROFILE

Cont'd

### YBHG DATO' NICHOLAS JOHN LOUGH @ SHARIF LOUGH BIN ABDULLAH

*Non-Executive Director/Independent*

*Age 64, Male, British citizen holding Malaysian permanent residency*

YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah holds a Gemmology Diploma from The National Association of Goldsmiths, London, Great Britain and is a Fellow member of The Gemmological Association of Great Britain.

YBhg Dato' Lough has extensive experience in the corporate sector, serving in various capacities, including Group Executive Director of Melewar Corporation Berhad from 1987 to 1995. He currently sits on the Boards of several private limited companies.

YBhg Dato' Lough was appointed to the Board of GLM REIT on 17 February 2014.

YBhg Dato' Lough is currently a Director of Scicom (MSC) Berhad and Hong Leong Bank Berhad which are listed on the Main Market of Bursa Malaysia Securities Berhad.

### YBHG DATO' PAUL POH YANG HONG

*Non-Executive Director/Non-Independent*

*Age 43, Male, Malaysian*

YBhg Dato' Paul Poh Yang Hong graduated from Monash University, Melbourne, Australia with a Bachelor of Economics degree. He had held various positions in the Hong Leong Group, including as the Managing Director of Corporate & Private Equity Department, Group Investment Office of HL Management Co Sdn Bhd. He is currently the Chief Executive Officer of Caprice Capital International Ltd, a private investment vehicle.

YBhg Dato' Paul Poh was appointed to the Board of GLM REIT on 1 August 2008.

YBhg Dato' Paul Poh is a Director of GuocoLand (Malaysia) Berhad which is listed on the Main Market of Bursa Malaysia Securities Berhad.

### MS LIM CHEW YAN

*Non-Executive Director/Non-Independent*

*Age 60, Female, Malaysian*

Ms Lim Chew Yan holds Bachelor of Law, Masters in Law and Masters in Business Administration degrees. She joined Hong Leong Group in year 1986, holding various positions within the Hong Leong Group before assuming her current position as Corporate Finance Director and Group General Counsel of HL Management Co Sdn Bhd.

Ms Lim was appointed to the Board of GLM REIT on 1 August 2008.

#### Notes:

**1. Family Relationship with Directors and/or Major Unitholders**

*None of the Directors has any family relationship with any Director and/or major unitholder of Tower REIT.*

**2. Conflict of Interests**

*None of the Directors has any conflict of interest with Tower REIT.*

**3. Convictions of Offences**

*None of the Directors has been convicted of any offences (exclude traffic offences) within the past 10 years and there were no public sanctions or penalties been imposed by the relevant regulatory bodies during the financial year ended 31 December 2016.*

**4. Attendance of Directors**

*Details of Board meeting attendance of each Director are disclosed in the Statement on Corporate Governance in the Annual Report.*

## CORPORATE GOVERNANCE

GLM REIT Management Sdn Bhd (“GLM REIT” or the “Manager”), the Manager of Tower Real Estate Investment Trust (“Tower REIT” or the “Trust”), has adopted an overall corporate governance framework that is designed to meet best practice principles and which recognises that an effective corporate governance culture is critical to the performance of the Manager and consequently, the success of Tower REIT which it manages.

In particular, the Manager has an obligation to act honestly, with due care and diligence, and in the best interest of unitholders. This obligation ties in with the Manager’s prime responsibility in managing the assets and liabilities of Tower REIT for the benefit of unitholders, and the Manager will endeavour to continue enhancing returns to unitholders.

### THE MANAGER OF TOWER REIT

The Manager’s primary responsibility is to manage and administer Tower REIT in accordance with the investment policy of the Trust for the benefit of the unitholders. Amongst others, the Manager will be responsible for the following:

- determining the investment policies of Tower REIT;
- formulating the strategies direction of Tower REIT;
- developing business plans for investments in the short, medium and long-term, and the budgets of Tower REIT;
- formulating Tower REIT’s risk management policies;
- recommending acquisition, divestment or asset enhancement of the Tower REIT’s assets to the Trustee;
- devising the leasing strategies and managing tenants;
- ensuring compliance with the applicable provisions of the Deed constituting Tower REIT (as restated by a Deed dated 29 May 2014) (the “Deed”), the Securities Commission (the “SC”) Guidelines on Real Estate Investment Trusts (the “REITs”), the SC Guidelines on Unit Trust Funds, Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“MMLR”) and other relevant legislations;
- supervising the Property Manager; and
- performing any other duties and obligations as provided under the Deed, the SC Guidelines on REITs and the SC Guidelines on Unit Trust Funds.

Tower REIT, constituted as a trust, is externally managed by the Manager and accordingly, it has no personnel of its own. The Manager appoints experienced and well-qualified management personnel to handle the day-to-day operations of the Manager. All directors and employees of the Manager are remunerated by the Manager, and not Tower REIT.

# CORPORATE GOVERNANCE

Cont'd

## A. ROLES AND RESPONSIBILITIES OF THE BOARD

The Board of Directors of the Manager (the “Board”) assumes responsibility for effective stewardship and control of the Manager and has established terms of reference to assist in the discharge of this responsibility.

The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Manager’s businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure.

The Chairman leads the Board and ensures its smooth and effective functioning.

The day-to-day business of the Manager is managed by the Chief Executive Officer (“CEO”) assisted by the management team. The CEO and his management team are accountable to the Board for the performance of the Manager.

The CEO is responsible for the vision and strategic direction of the Manager, implementing the policies and decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing unitholder wealth, setting the benchmark and targets for the Manager, overseeing the day-to-day operations and tracking compliance and business progress.

Independent Non-Executive Directors (“INEDs”) are responsible for providing insights, unbiased and independent views, advice and judgement to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. INEDs do not participate in the day-to-day management of the Manager and there are no relationships or circumstances that could interfere with or are likely to affect the exercise of their independent judgement or the ability to act in the best interest of the Manager and the unitholders of the Trust.

The Board observes the Company Directors’ Code of Ethics established by the Companies Commission of Malaysia (“CCM”) which is available at CCM’s website at [www.ssm.com.my](http://www.ssm.com.my). In addition, the Manager also has a Code of Ethics that sets out sound principles and standards of good practice which are observed by the employees.

## B. BOARD COMPOSITION

The Board comprises five (5) directors, four (4) of whom are non-executive directors. Of the non-executive directors, two (2) are independent. The profiles of the members of the Board are provided in the Annual Report.

The Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Manager’s business.

## C. COMMITMENT

The directors are aware of their responsibilities and will devote sufficient time to carry out such responsibilities. In line with the MMLR, directors are required to comply with the restrictions on the number of directorships in public listed companies. Directors provide notifications to the Board for acceptance of any new Board appointments. This ensures that their commitment, resources and time are focused on the affairs on the Manager to enable them to discharge their duties effectively. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Directors are required to attend at least 50% of Board meetings pursuant to the MMLR.

The Board meets quarterly with timely notices to be discussed. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of written resolutions by the Board.

# CORPORATE GOVERNANCE

Cont'd

## C. COMMITMENT cont'd

The Company has moved towards electronic Board reports since 2015. Board reports are circulated electronically prior to the Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Trust and of the Manager and management's proposals which require the approval of the Board.

All directors have access to the advice and services of qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016. They are responsible for providing support and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate governance. All directors also have access to the advice and services of the internal auditors and in addition, independent professional advice, where necessary, at the Manager's expense, in consultation with the Chairman or the CEO of the Manager.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretaries accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

The Board met 4 times during the financial year ended 31 December 2016. Details of attendance of each director are as follows:

Directors	Attendance
YBhg Datuk Edmund Kong Woon Jun ( <i>Appointed on 4 January 2016</i> )	4/4
YBhg Dato' Koh Hong Sun	4/4
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	4/4
YBhg Dato' Paul Poh Yang Hong	4/4
Ms Lim Chew Yan	4/4
Mr Tang Hong Cheong ( <i>Resigned on 1 September 2016</i> )	2/2

*Note:*

*Mr Tang Hong Cheong attended all the Board Meetings held during his tenure of office as the Chairman and director of the Manager.*

The Board recognises the importance of continuous professional development and training for its directors.

An induction programme which includes visits to the Manager's business operations and meetings with senior management is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Manager's business.

All directors of the Manager have completed the Mandatory Accreditation Programme.

The Manager regularly organises in-house programmes, briefings and updates by its in-house professionals. The directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

# CORPORATE GOVERNANCE

Cont'd

## C. COMMITMENT cont'd

In assessing the training needs of directors, the Board has determined that appropriate training programmes covering issues on corporate governance, finance, legal, risk management and/or statutory/regulatory compliance, and property industry related matters, be recommended and arranged for the directors to enhance their contributions to the Board.

During the financial year ended 31 December 2016, the directors received regular briefings and updates on the Manager's businesses, operations, risk management, internal controls, corporate governance, finance and any new or changes to the companies and other relevant legislation, rules and regulations from in-house professionals. The Manager also organised an in-house programme for its directors and senior management.

The directors of the Manager have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as directors.

During FY 2016, the directors of the Manager, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops, including:

- Perbadanan Insurance Deposit Malaysia ("PIDM") and Bank Negara Malaysia ("BNM") – Financial Institutions Directors' Education ("FIDE") Forum – A Dialogue on "The New And Revised Auditor Reporting Standards: Implications To Financial Institutions"
- PIDM and BNM – FIDE Forum – Special Invitation To Industry Briefing On Directors Register Implementation
- PIDM and BNM – FIDE Forum – Directors' Remuneration Report 2015: Briefing Session for Directors. A special briefing on the implementation of the Recommendations by FIDE FORUM
- PIDM and BNM – FIDE Forum – Focus Group Discussion in preparation for Dialogue with BNM's Senior Management (for the Banking, Islamic Banking and Investment Banking Businesses)
- Bursatra – Ring the Bell for Gender Equality
- PIDM and BNM – FIDE Forum – Annual Dialogue with the Governor of BNM
- Minority Shareholder Watchdog Group – Institutional Investor Council Governance Week 2016 "Stewardship Matters – For Long Term Sustainability"
- PIDM and BNM – FIDE Forum – Invitation to the Launch of Directors Register "Handbook On Board Leadership Framework For Financial Institutions In Malaysia"
- PIDM and BNM – FIDE Forum – 2nd Distinguished Board Leadership Series "Avoiding Financial Myopia"
- BNM – Bank Negara Malaysia Concept Paper on Corporate Governance
- BNM – Bank Negara Malaysia Concept Paper on Shareholder Suitability
- Update on amendments to Bursa Securities Main Market Listing Requirements
- Institute of Enterprise Risk Practitioners – Global Conference 2016 "Enterprise Risk Management And Power Of Disruption"
- The Most Innovative Companies – Four Factors That Differentiate Leaders
- Anti-Money Laundering and Counter Financing of Terrorism
- Seminar Health Facility Planning
- Amanie Academy – The Essence Of Shariah Compliance In Modern Islamic Financial Institutions – Shariah Standards

# CORPORATE GOVERNANCE

Cont'd

## C. COMMITMENT cont'd

- Corporate Governance Breakfast Series with Directors
  - Cybersecurity Threat and How Board Should Mitigate The Risks
  - Anti-corruption & Integrity - Foundation Of Corporate Sustainability
  - The Game Changer For Boardroom
- Current Challenges of Investing in London Properties
- The Trans-Pacific Partnership Agreement: Impact on Malaysia
- Dawn Raids – The Cup Of Morning Coffee That I Do Not Need
- Companies Bill 2015 – Overview of Key Changes
- Companies Commission of Malaysia – Interpreting Financial Statements For Company Director
- Companies Commission of Malaysia – Crisis Management & Corporate Governance – Governance Tools To Help Companies Prevent & Manage Crisis
- Malaysian Institute of Accountants – Audit Committee Conference 2016
- Dialogue/Review Session on the “Securities Commission’s Draft Malaysian Code On Corporate Governance 2016”
- Federation of Public Listed Companies Berhad – Latest Updates on Directors’ Remuneration Seminar 2016
- The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) Annual Conference 2016: Sustainability – Shaping The Future
- Bursatra – Independent Directors Programme: The Essence Of Independence
- Amendments to Bursa’s Listing Requirements – How To Rise Up To Meet Those Challenges

## D. APPOINTMENTS TO THE BOARD

Given the current size of the Board, the Board is of the view that it is not necessary for GLM REIT to establish a Nominating Committee for the time being and the Board as a whole will serve as the Nominating Committee. All new nominations received are assessed and approved by the entire Board in line with its policy of ensuring nominees are persons of sufficient caliber and experience.

The process of assessing the directors is an on-going responsibility of the entire Board.

## E. RE-ELECTION

Both the independent directors and non-independent directors are required to submit themselves for re-election at the Annual General Meeting (“AGM”) of GLM REIT every 3 years under the MMLR.



# CORPORATE GOVERNANCE

Cont'd

## F. ACCOUNTABILITY AND AUDIT

### I. Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of Tower REIT. The directors are satisfied that in preparing the financial statements of Tower REIT for the FY 2016, Tower REIT has used the appropriate accounting policies and applied them consistently. The directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

### II. Relationship with Auditors

The external auditors are appointed by the Trustee which may be nominated by the Manager. The auditors appointed must be independent of the Manager and Trustee. The remuneration of the auditors is approved by the Trustee.

## G. INTERNAL CONTROL

The Board has overall responsibility for maintaining a system of internal control which covers financial and operation controls and risk management. This system provides reasonable but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

## H. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS

The Manager has established procedures that will ensure that related party transactions and conflict of interests are undertaken in full compliance with the SC Guidelines on REITs, the Deed and the MMLR; and on an arm's length basis and on terms which are not more favourable than those extended to related parties.

The Board is under a fiduciary duty to Tower REIT to act in the best interest in relation to decision affecting Tower REIT when they are voting as a member of the Board. In addition, the directors and the executive officers of the Manager are expected to act with honesty and integrity at all times.

## I. RISK ASSESSMENT AND MANAGEMENT OF BUSINESS RISK

The Manager operates within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed to understand the risks involved. Responsibility for managing risk lies initially with the business unit concerned, working within the overall strategy outlined by the Board.

The Board reviews the risk to the assets of Tower REIT and acts upon any comment of the auditors of Tower REIT. In assessing business risk, the Board considers the economic environment and the property industry risk.

## J. DISCLOSURE

All timely disclosure and material information documents will be posted on Tower REIT website after release to Bursa Securities.

# CORPORATE GOVERNANCE

Cont'd

## K. COMMUNICATION WITH UNITHOLDERS

### I. Dialogue with Unitholders and Investors

The Board acknowledges the importance of regular communication with unitholders and investors via the annual reports, circulars to unitholders and quarterly financial reports and the various announcements made during the year, through which unitholders and investors can have an overview of the Tower REIT's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on Tower REIT website, Bursa Securities website, in the media and by post to unitholders. This allows unitholders to make the necessary arrangements to attend and participate either in person, by corporate representative, by proxy or by attorney.

Shareholders can access for information at the Tower REIT website, which includes corporate information, announcements and financial information.

In addition, unitholders and investors can have a channel of communication with the Chairman of the Manager to direct queries and provide feedback to the Manager.

Queries may be conveyed to the following person:

Name	: YBhg Datuk Edmund Kong
Tel No.	: 603-2726 1000
Fax No.	: 603-2726 1120
E-mail address	: glmreit@guocoland.com

### II. AGM

The AGM provides an opportunity for the unitholders to seek and clarify any issues and to have a better understanding of the Tower REIT's performance. Unitholders are encouraged to meet and communicate with the Board of Directors of GLM REIT at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to unitholders' queries during the AGM.

Pursuant to Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meeting will be put to vote by way of a poll and the voting results will be announced at the meetings and through Bursa Securities.

*This statement on Corporate Governance is made in accordance with the resolution of the Board of Directors of GLM REIT.*

# FINANCIAL STATEMENTS

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# STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 RM'000	2015 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	3	559,000	559,000
Trade and other receivables	4	921	1,472
Deposits placed with licensed banks	5	7,680	6,705
Cash and bank balances	5	488	1,139
<b>Total current assets</b>		<b>9,089</b>	<b>9,316</b>
<b>Total assets</b>		<b>568,089</b>	<b>568,316</b>
<b>Represented by:</b>			
<b>Unitholders' funds</b>			
Unitholders' capital	6	285,345	285,345
Undistributed income – realised		66,184	64,675
Undistributed income – unrealised	7	193,717	193,503
		<b>545,246</b>	<b>543,523</b>
<b>Liabilities</b>			
Trade and other payables	8	3,802	5,297
Borrowings	9	-	100
Deferred tax liability	10	10,400	10,400
<b>Total non-current liabilities</b>		<b>14,202</b>	<b>15,797</b>
Trade and other payables	8	8,541	8,996
Borrowings	9	100	-
<b>Total current liabilities</b>		<b>8,641</b>	<b>8,996</b>
<b>Total liabilities</b>		<b>22,843</b>	<b>24,793</b>
<b>Total unitholders' funds and liabilities</b>		<b>568,089</b>	<b>568,316</b>
<b>Net asset value ("NAV")</b>		<b>545,246</b>	<b>543,523</b>
<b>Number of units in circulation ('000)</b>	6	<b>280,500</b>	<b>280,500</b>
		<b>2016</b>	<b>2015</b>
		<b>RM</b>	<b>RM</b>
<b>NAV per unit</b>			
- Before income distribution		1.9438	1.9377
- After income distribution		1.9065	1.9004

The NAV as at the reporting date has taken into account distributions paid during the financial year. The final distribution declared after each respective year end is recognised in the subsequent financial year. The NAV per unit after income distribution is calculated based on the NAV as at reporting date after adjusting for final distributions declared subsequent to financial year end.

The notes on pages 40 to 65 form an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Gross revenue	11	36,591	37,297
<b>Property operating expenses</b>	12	(13,500)	(12,666)
<b>Net rental income</b>		23,091	24,631
Interest income		215	559
Change in fair value of investment properties		-	18,000
Gain on disposal of investment property		-	659
Finance income		214	-
Other income		318	140
<b>Total income</b>		23,838	43,989
Manager's fees	13	2,054	2,859
Trustee's fee	14	163	162
Auditors' fees		45	58
Administrative expenses		274	335
Valuation fee		-	60
Interest expense		140	1,848
<b>Total expenses</b>		2,676	5,322
<b>Income before tax</b>		21,162	38,667
Income tax expense	15	-	(12,873)
<b>Net income for the year/Total comprehensive income for the year</b>		21,162	25,794
<b>Total comprehensive income for the year is made up as follows:</b>			
Realised		20,948	18,194
Unrealised		214	7,600
		21,162	25,794
	Note	2016	2015
<b>Earnings per unit (sen)</b>			
Realised		7.47	6.49
Unrealised		0.08	2.71
	16	7.55	9.20

The notes on pages 40 to 65 form an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2016  
Cont'd

	Note	2016 RM'000	2015 RM'000
<b>Net income distribution</b>			
- Interim income distribution of 3.20 sen per unit paid on 14 September 2016 (2015: 3.20 sen per unit paid on 28 August 2015)	17	8,976	8,976
- Final income distribution declared after the reporting period of 3.73 sen per unit payable on 28 February 2017 (2015: 3.73 sen per unit paid on 29 February 2016)	17	10,463	10,463
		<b>19,439</b>	<b>19,439</b>
<b>Income distribution per unit</b>			
- Interim* (sen)		3.20 <sup>#</sup>	3.20 <sup>@</sup>
- Final* (sen)		3.73 <sup>§</sup>	3.73 <sup>#</sup>
		<b>6.93</b>	<b>6.93</b>

\* Withholding tax will be deducted for distributions made to the following categories of unitholders:

	Withholding tax rate		
	2017 <sup>§</sup>	2016 <sup>#</sup>	2015 <sup>@</sup>
Resident corporate	Nil <sup>^</sup>	Nil <sup>^</sup>	Nil <sup>^</sup>
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	24%	24%	25%
Non-resident institutional	10%	10%	10%

<sup>^</sup> To tax at prevailing rate.

The notes on pages 40 to 65 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN NET ASSET VALUE

For the Year Ended 31 December 2016

	Note	Undistributed income		Total RM'000	
		Unitholders' capital RM'000	<i>Non- Distributable</i> - unrealised RM'000		<i>Distributable</i> - realised RM'000
At 1 January 2015		285,345	227,177	23,159	535,681
<b>Operations for the year ended 31 December 2015</b>					
Net income for the year		-	7,600	18,194	25,794
Total comprehensive income for the year		-	7,600	18,194	25,794
Realisation of unrealised income		-	(41,274)	41,274	-
<b>Unitholders' transactions</b>					
Distribution to unitholders					
- 2014 final	17	-	-	(8,976)	(8,976)
- 2015 interim	17	-	-	(8,976)	(8,976)
Decrease in net assets resulting from unitholders' transactions		-	-	(17,952)	(17,952)
At 31 December 2015/1 January 2016		285,345	193,503	64,675	543,523
<b>Operations for the year ended 31 December 2016</b>					
Net income for the year		-	214	20,948	21,162
Total comprehensive income for the year		-	214	20,948	21,162
<b>Unitholders' transactions</b>					
Distribution to unitholders					
- 2015 final	17	-	-	(10,463)	(10,463)
- 2016 interim	17	-	-	(8,976)	(8,976)
Decrease in net assets resulting from unitholders' transactions		-	-	(19,439)	(19,439)
At 31 December 2016		285,345	193,717	66,184	545,246
		Note 6	Note 7		

The notes on pages 40 to 65 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2016

	2016 RM'000	2015 RM'000
<b>Cash flows from operating activities</b>		
Income before tax	21,162	38,667
Adjustments for:		
Interest expense	140	1,848
Interest income	(215)	(559)
Finance income	(214)	-
Change in fair value of investment properties	-	(18,000)
Gain on disposal of investment property	-	(659)
Operating profit before working capital changes	20,873	21,297
Changes in working capital:		
Trade and other receivables	551	2,906
Trade and other payables	(1,736)	(16,169)
<b>Net cash generated from operating activities</b>	<b>19,688</b>	<b>8,034</b>
<b>Cash flows from investing activities</b>		
Interest received	215	559
Net proceed from divestment of investment property	-	126,212
<b>Net cash generated from investing activities</b>	<b>215</b>	<b>126,771</b>
<b>Cash flows from financing activities</b>		
Interest paid	(140)	(1,848)
Repayment of borrowings	-	(116,300)
Distribution paid to unitholders	(19,439)	(17,952)
<b>Net cash used in financing activities</b>	<b>(19,579)</b>	<b>(136,100)</b>
Net increase/(decrease) in cash and cash equivalents	324	(1,295)
Cash and cash equivalents at beginning of year	7,544	8,839
Cash and cash equivalents at end of year	<b>7,868</b>	<b>7,544</b>

## Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

		2016 RM'000	2015 RM'000
Cash and bank balances	5	488	1,139
Deposits placed with licensed banks	5	7,680	6,705
	5	8,168	7,844
Deposits pledged as security		(300)	(300)
		<b>7,868</b>	<b>7,544</b>

The notes on pages 40 to 65 form an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

Tower Real Estate Investment Trust (“Tower REIT”) is a Malaysian-domiciled real estate investment trust constituted pursuant to the Deed dated 17 February 2006 as restated by the Deed dated 29 May 2014 (“the Deed”) between GLM REIT Management Sdn. Bhd. (“the Manager”) and MTrustee Berhad (formerly known as AmTrustee Berhad) (“the Trustee”). The Deed is regulated by the Securities Commission (“SC”) Guidelines on Real Estate Investment Trusts (“REITs”), the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), the Rules of the Depository and taxation laws and rulings. Tower REIT was listed on the Main Market of Bursa Malaysia Securities on 12 April 2006.

The address of the principal place of business of the Manager is at Level 19, Block B, HP Towers, 12 Jalan Gelenggang, Bukit Damansara, 50490 Kuala Lumpur.

The principal activity of Tower REIT is to own or invest in real estate and real estate-related assets, whether directly or indirectly through the ownership of single-purpose companies of which principal assets comprise real estate with the primary objectives of achieving an attractive level of return from rental income and of achieving medium to long term capital growth. There has been no significant change in the nature of this activity during the year.

The financial statements were approved by the Board of Directors of GLM REIT Management Sdn. Bhd. on 20 February 2017.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements of Tower REIT have been prepared in accordance with the provisions of the Deed dated 17 February 2006 as restated by the Deed dated 29 May 2014, the SC Guidelines on REITs, applicable securities laws, Malaysian Financial Reporting Standards (“MFRSs”) and International Financial Reporting Standards. These financial statements also comply with the applicable disclosure provisions of the Main Market Listing Requirements of Bursa Securities.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by Tower REIT:

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017***

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 1. BASIS OF PREPARATION cont'd

### (a) Statement of compliance cont'd

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018***

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*

#### ***MFRSs, Interpretations and amendments effective for a date yet to be confirmed***

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Tower REIT plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards that are effective for annual periods beginning on or after 1 January 2018, except for MFRS 2, MFRS 4 and MFRS 128 which are not applicable to Tower REIT.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual period beginning on or after 1 January 2019.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 1. BASIS OF PREPARATION cont'd

### (a) Statement of compliance cont'd

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of Tower REIT except as mentioned below:

#### **MFRS 15, *Revenue from Contracts with Customers***

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

Tower REIT is currently assessing the financial impact that may arise from the adoption of MFRS 15.

#### **MFRS 9, *Financial Instruments***

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

Tower REIT is currently assessing the financial impact that may arise from the adoption of MFRS 9.

#### **MFRS 16, *Leases***

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Tower REIT is currently assessing the financial impact that may arise from the adoption of MFRS 16.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in note 2.

### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is Tower REIT's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 1. BASIS OF PREPARATION cont'd

### (d) Use of estimates and judgements cont'd

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 3 - Investment properties and Note 10 - Deferred tax liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Tower REIT, unless otherwise stated.

### (a) Financial instruments

#### (i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, Tower REIT becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

#### (ii) Financial instrument categories and subsequent measurement

Tower REIT categorises financial instruments as follows:

##### *Financial assets*

#### (a) *Financial assets at fair value through profit or loss*

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

#### (b) *Loans and receivables*

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 2. SIGNIFICANT ACCOUNTING POLICIES cont'd

### (a) Financial instruments cont'd

#### (ii) Financial instrument categories and subsequent measurement cont'd

##### *Financial assets* cont'd

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(d)).

##### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

#### (iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all risks and rewards of the asset is transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

### (b) Investment property

#### (i) Investment property carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

#### (ii) Determination of fair value

Investment properties are measured initially at cost and subsequently at fair values with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 2. SIGNIFICANT ACCOUNTING POLICIES cont'd

### (b) Investment property cont'd

#### (ii) Determination of fair value cont'd

An external, independent valuation firm, having appropriately recognised professional qualifications and recent experience in the location and category of property being valued, values Tower REIT's investment property portfolio:

- (a) in the event of an acquisition or disposal of investment property by Tower REIT; and
- (b) in such manner and frequency (at least once every 3 years) of revaluation as required by the SC Guidelines on REITs.

The last valuation by an independent valuer was done on 10 November 2015. When an independent valuer is not appointed, valuation will be performed by the Manager internally with the assistance of an external valuer.

### (c) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks, which have an insignificant risk of changes in value with original maturities of three months or less, and are used by Tower REIT in the management of its short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of pledged deposits.

### (d) Impairment

#### Financial assets

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment losses in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 2. SIGNIFICANT ACCOUNTING POLICIES cont'd

### (e) Equity instruments

Instruments classified as equity are stated at cost on initial recognition and are not remeasured subsequently.

Cost directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

### (f) Provisions

A provision is recognised if, as a result of a past event, the Trust has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

### (g) Revenue and other income

#### (i) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease unless collectibility is in doubt, in which case, it is recognised on a receipt basis.

Rental is recognised on an accrual basis except where default in payment of rent has already occurred and rent dues remain outstanding for over six months, in which case, recognition of rental income is suspended. Subsequent to suspension, income is recognised on the receipt basis until all arrears have been paid.

#### (ii) Car park income

Car park income is recognised on an accrual basis except where default in payment of rent has already occurred and rent dues remain outstanding for over six months, in which case, recognition of car park income is suspended. Subsequent to suspension, income is recognised on the receipt basis until all arrears have been paid.

#### (iii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

### (h) Expenses

#### (i) Property operating expenses

Property operating expenses consist of property management fee, quit rent and assessment and other property outgoings in relation to investment properties where such expenses are the responsibility of Tower REIT. Property management fees are recognised on an accrual basis.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 2. SIGNIFICANT ACCOUNTING POLICIES cont'd

### (h) Expenses cont'd

#### (ii) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

#### (iii) Manager's and Trustee's fees

The Manager's and Trustee's fees are recognised on an accrual basis.

### (i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in unitholders' fund.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will realised simultaneously.



# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 2. SIGNIFICANT ACCOUNTING POLICIES cont'd

### (i) Income tax cont'd

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (j) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement date assumes that the transaction to sell the asset or transfer the liability take place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, Tower REIT uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Trust can access at the measurement date.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

Tower REIT recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

## 3. INVESTMENT PROPERTIES

	2016 RM'000	2015 RM'000
At 1 January	559,000	541,000
Changes in fair value of investment properties	-	18,000
At 31 December	559,000	559,000

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 3. INVESTMENT PROPERTIES cont'd

Description of property	Tenure of land	Location	Existing use	Fair value	Total cost	Percentage of fair value to net asset value
				RM'000	RM'000	%
Menara HLA	Freehold	Kuala Lumpur	Office	340,000	222,144	62
HP Towers *	Freehold	Kuala Lumpur	Office	219,000	132,953	40
				<u>559,000</u>	<u>355,097</u>	

\* A lienholder caveat has been entered by Public Bank Berhad over the property (Note 9).

### Fair value information

Fair value of investment properties are categorised as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>2016</b>				
Menara HLA	-	-	340,000	340,000
HP Towers	-	-	219,000	219,000
	-	-	<u>559,000</u>	<u>559,000</u>
<b>2015</b>				
Menara HLA	-	-	340,000	340,000
HP Towers	-	-	219,000	219,000
	-	-	<u>559,000</u>	<u>559,000</u>

### Level 3 fair value

The following table shows a reconciliation of Level 3 fair values:

	2016 RM'000	2015 RM'000
At 1 January	559,000	541,000
Changes in fair value recognised in profit or loss	-	18,000
At 31 December	<u>559,000</u>	<u>559,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 3. INVESTMENT PROPERTIES cont'd

### Level 3 fair value cont'd

The following are the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models:

Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The comparison method considers the sales of similar or substitute properties and related market data, and establishes a value estimated by processes involving comparison. In general, the property being valued is compared with sales of similar properties that have been transacted in the open market. Listings and offerings may also be considered.	Price per net lettable area (p.s.f) RM634.64 – RM885.22 (2015: RM504.89 – RM881.34)	The estimated fair value would increase (decrease) if the price per net lettable area is higher (lower).
The investment method entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income. The annual net income is capitalised using a rate of interest to arrive at the capital value of the property. The range of yield applied to net annual rentals to determine fair value of the property is ranging between 6.00% and 6.50% (2015: 6.00 % and 6.40%).	Expected market rental rate (p.s.f) RM4.30 – RM7.60 (2015: RM4.50 – RM7.00)  Outgoing (p.s.f) RM1.25 – RM1.50 (2015: RM1.30)  Term yield 6.00% (2015: 6.00%)  Reversionary yield: 6.50% (2015: 6.40%)  Void periods 5%-10% (2015: 10% - 15%)	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> <li>• Expected net rental income were higher (lower);</li> <li>• Void periods were shorter (longer); and</li> <li>• Expected yield were lower (higher).</li> </ul>

### Valuation processes applied by the Manager for Level 3 fair value

The fair value of investment properties is determined by the Manager with assistance from external, independent property valuers, having appropriately recognised professional qualifications and recent experience in the location and category of property being valued.

In relying on the valuation reports, the Manager has exercised its judgement and is satisfied that the valuation method and estimates are reflective of current market condition.

### Highest and best use

Tower REIT's investment properties are currently office buildings. Both properties on its own is the highest and best use as the properties are located on prime land in the city centre.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 4. TRADE AND OTHER RECEIVABLES

	2016 RM'000	2015 RM'000
Trade receivables	605	1,158
Other receivables, deposits and prepayments	316	314
	<u>921</u>	<u>1,472</u>

Included in trade receivables are rental outstanding from companies related to the Manager amounting to RM10,358 (2015: RM274,484).

## 5. CASH AND CASH EQUIVALENTS

	2016 RM'000	2015 RM'000
Cash and bank balances	488	1,139
Deposits placed with licensed banks	7,680	6,705
	<u>8,168</u>	<u>7,844</u>

Included in the cash and cash equivalents are balances arising from normal business transactions with companies related to the Manager, amounting to:

	2016 RM'000	2015 RM'000
Cash and bank balances	405	1,070
Deposits placed with a licensed bank	7,380	6,406
	<u>7,785</u>	<u>7,476</u>

## NOTES TO THE FINANCIAL STATEMENTS

Cont'd

### 6. UNITHOLDERS' CAPITAL

	2016 '000	2015 '000
Issued and fully paid-up (Number of units)	280,500	280,500
	2016 RM'000	2015 RM'000
Issued and fully paid-up	285,345	285,345

As at 31 December 2016, the Manager did not hold any units in Tower REIT. However, the related parties of the Manager held units in Tower REIT as follows:

	2016		2015	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Direct/Indirect* unitholdings in Tower REIT of the related parties of the Manager:				
GLM Equities Sdn Bhd (formerly known as HLP Equities Sdn Bhd)	60,769	71,099	60,769	74,746
Hong Leong Assurance Berhad	57,771	67,592	57,771	71,058
Asia Fountain Investment Company Limited	14,000	16,380	14,000	17,220
Associated Land Sendirian Berhad	13,409	15,689	13,409	16,493
Hong Leong Investment Bank Berhad	5,887	6,888	5,887	7,241
Dato' Poh Yang Hong	3,085*	3,609	3,085*	3,795

\* Indirect holdings

The market value is determined by multiplying the number of units with the market closing price of RM1.17 (2015: RM1.23) per unit as at 31 December 2016.

### 7. UNREALISED UNDISTRIBUTED INCOME

	2016 RM'000	2015 RM'000
Cumulative net change arising from fair value movement of:		
- investment properties	193,503	193,503
- tenant deposits	214	-
	193,717	193,503

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 8. TRADE AND OTHER PAYABLES

	2016 RM'000	2015 RM'000
<b>Non-current</b>		
Tenants' deposits		
- payable after 12 months	3,802	5,297
	3,802	5,297
<b>Current</b>		
<b>Trade</b>		
Trade payables	350	618
Tenants' deposits		
- payable within 12 months	6,841	5,722
<b>Total trade</b>	7,191	6,340
<b>Non-trade</b>		
Other payables and accrued expenses	1,350	2,656
	8,541	8,996
	12,343	14,293

Included in other payables and accrued expenses are amounts due to the Manager and the Trustee of RM148,683 (2015: RM343,139) and RM13,849 (2015: RM27,855) respectively which are unsecured, interest free and payable monthly in arrears.

Included in tenants' deposits are rental deposits received from companies related to the Manager, amounting to:

	2016 RM'000	2015 RM'000
Payable within 12 months	1,585	1,801
Payable after 12 months	4	173
	1,589	1,974

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 9. BORROWINGS

	2016 RM'000	2015 RM'000
<b>Non-current</b>		
Term loan	-	100
<b>Current</b>		
Term loan	100	-

A lienholder caveat has been entered by the lender over HP Towers (Note 3).

### Term and debt repayment schedule

The term loan is repayable upon its maturity on 1 April 2017 (2015: 1 April 2017).

The term loan bore interests at rates ranging from 3.95% to 4.14% (2015: 3.99% to 4.12%) p.a. during the financial year.

## 10. DEFERRED TAX LIABILITIES

In the past financial years, the REIT did not provide for any deferred tax on the fair value gain of investment properties because of the management's interpretation that Tower REIT was not subject to real property gain tax ("RPGT") for investment properties held more than 5 years. In 2015, deferred tax liability had been provided on the fair value gain of investment properties because the Inland Revenue Board ("IRB") issued a tax assessment in 2015 to Tower REIT on its disposal of Menara ING whereby the gains from the disposal was subjected to RPGT. Tower REIT is currently appealing against the assessment.

Based on the position taken by IRB, the management is of the view that it is appropriate to provide deferred tax liability on the fair value gain arising from its investment properties. If the outcome of the appeal to IRB is favorable to Tower REIT, management will reverse the deferred tax liability in the future.

Deferred tax liability is attributable to the following:

	2016 RM'000	2015 RM'000
Investment properties	10,400	10,400

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 11. GROSS REVENUE

	2016 RM'000	2015 RM'000
Gross rental income	32,038	32,762
Car park income	3,618	3,409
Other income	935	1,126
	<b>36,591</b>	<b>37,297</b>

## 12. PROPERTY OPERATING EXPENSES

	2016 RM'000	2015 RM'000
Assessment	2,963	3,503
Service contracts and maintenance	5,578	3,687
Property management fees	336	341
Utilities	3,486	3,671
Others	1,137	1,464
	<b>13,500</b>	<b>12,666</b>

Property management fees of RM336,000 (2015: RM341,040) were charged by property managers, in accordance with the Valuers, Appraisers and Estate Agent Acts 1981 with permissible discount.

## 13. MANAGER'S FEES

Pursuant to the Deed constituting Tower REIT, the Manager's fees consist of a base fee (excluding any goods and services tax payable) of up to 0.75% per annum of the gross asset value and a performance fee (excluding any goods and services tax payable) of up to 4% per annum of the net property income, but before deduction of property management fee. Both fees are based on the agreed scale rate. The base fee and performance fee for the year ended 31 December 2016 of RM1,250,372 and RM803,935 (2015: RM1,296,599 and RM860,907) are 0.22% and 3.48% (2015: 0.24% and 3.50%) of the gross asset value and net property income respectively. Divestment fee of RMnil (2015: RM701,406), equivalent to 0.5% of the sale price, is being charged by the Trustee for disposal of Menara ING in prior year.

## 14. TRUSTEE'S FEE

Pursuant to the Deed constituting Tower REIT, the Trustee is entitled to receive a fee of 0.03% (2015: 0.03%) per annum of the net asset value of Tower REIT with a cap of RM200,000 (2015: RM200,000). The Trustee's fee for the year ended 31 December 2016 is RM162,683 (2015: RM162,181).



# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 15. INCOME TAX EXPENSE

	2016 RM'000	2015 RM'000
<b>Current tax expense</b>		
- under provision in prior years	-	2,473
<b>Deferred tax expense</b>		
- current year	-	900
- under provision in prior years	-	9,500
	-	10,400
Total income tax expense	-	12,873
<b>Reconciliation of tax expense</b>		
Income before tax	21,162	38,667
Income tax using Malaysian tax rate of 24% (2015: 25%)	5,079	9,667
Non-deductible expenses	64	265
Effect of fair value adjustment which is not taxable		
- Investment properties	-	(3,600)
- Tenant deposits	(51)	-
Under provision in prior years	-	11,973
Effect of income exempted from tax	(5,092)	(5,432)
	-	12,873

Pursuant to the amendment of Section 61A of the Income Tax Act, 1967 under the Finance Act 2006 which was gazetted on 31 December 2006, where in the basis period for a year of assessment, 90% or more of the total income of the trust is distributed to its unitholders, the total income of the trust for that year of assessment shall be exempt from tax.

## 16. EARNINGS PER UNIT

The calculation of earnings per unit is based on net income for the financial year of RM21,162,000 (2015: RM25,794,000) and on the number of units in circulation during the financial year of 280,500,000 (2015: 280,500,000).

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 17. DISTRIBUTION TO UNITHOLDERS

	Gross/Net distribution per unit sen	Total amount RM'000	Date of payment
<b>2016</b>			
2015 Final income distribution	3.73	10,463	29 February 2016
2016 Interim income distribution	3.20	8,976	14 September 2016
		<u>19,439</u>	
<b>2015</b>			
2014 Final income distribution	3.20	8,976	27 February 2015
2015 Interim income distribution	3.20	8,976	28 August 2015
		<u>17,952</u>	

On 23 January 2017, the Directors of the Manager declared a final income distribution of 3.73 sen (2015: 3.73 sen) per unit amounting to RM10,462,650 (2015: RM10,462,650) in respect of the financial year ended 31 December 2016. The distribution will be recognised in the subsequent year.

The total income distribution for the financial year ended 31 December 2016 which comprises the interim income distribution of 3.20 sen (2015: 3.20 sen) per unit and the proposed final income distribution of 3.73 sen (2015: 3.73 sen) per unit are from the following sources:

	2016 RM'000	2015 RM'000
Net rental income	23,091	24,631
Interest income	215	559
Realised gain on disposal of investment property	-	659
Other income	318	140
	<u>23,624</u>	<u>25,989</u>
Less: Expenses	(2,676)	(5,322)
Less: Taxation	-	(2,473)
	<u>20,948</u>	<u>18,194</u>
Less: (Current year's undistributed gain)/previous year's realised gain	(1,509)	1,245
	<u>19,439</u>	<u>19,439</u>

## NOTES TO THE FINANCIAL STATEMENTS

Cont'd

### 18. PORTFOLIO TURNOVER RATIO

	2016	2015
Portfolio turnover ratio ("PTR") (times)	-	0.25

The calculation of PTR is based on the average of total acquisitions and total disposals of investments in Tower REIT for the financial year to the average net asset value during the financial year.

Since the basis of calculating PTR can vary among real estate investment trusts, there is no sound basis for providing an accurate comparison of Tower REIT's PTR against that of other real estate investment trusts.

### 19. MANAGEMENT EXPENSE RATIO

	2016	2015
Management expense ratio ("MER") (%)	0.47	0.65

The calculation of MER is based on total fees incurred by Tower REIT, including Manager's fees, Trustee's fees, audit fees, tax agent's fees and administrative expenses, to the average net asset value during the financial year. Since the average net asset value is calculated on a quarterly basis, comparison of the MER of Tower REIT with that of other real estate investment trusts which use different bases of calculation, may not be accurate.

### 20. TRANSACTIONS WITH RELATED PARTIES

For the purposes of these financial statements, the parties which the Manager has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Manager and the party are subject to common control are related parties. Related parties may be individuals or other entities.

	2016 RM'000	2015 RM'000
Rental charged	4,657	5,978

The above transaction has been established based on negotiated terms.

The outstanding balances arising from the above transaction have been disclosed in Note 4 and 8 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 21. OPERATING LEASES

Tower REIT leases out its investment properties under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2016 RM'000	2015 RM'000
Less than one year	22,287	21,120
Between one and five years	12,201	13,731
	<b>34,488</b>	<b>34,851</b>

## 22. FINANCIAL INSTRUMENTS

### 22.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables ("L&R"); and
- (b) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R/ (FL) RM'000
<b>2016</b>		
<b>Financial assets</b>		
Trade and other receivables	786	786
Deposits placed with licensed banks	7,680	7,680
Cash and bank balances	488	488
	<b>8,954</b>	<b>8,954</b>
<b>Financial liabilities</b>		
Borrowings (secured)	(100)	(100)
Trade and other payables	(12,343)	(12,343)
	<b>(12,443)</b>	<b>(12,443)</b>

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 22. FINANCIAL INSTRUMENTS cont'd

### 22.1 Categories of financial instruments cont'd

	Carrying amount RM'000	L&R/ (FL) RM'000
<b>2015</b>		
<b>Financial assets</b>		
Trade and other receivables	1,337	1,337
Deposits placed with licensed banks	6,705	6,705
Cash and bank balances	1,139	1,139
	<u>9,181</u>	<u>9,181</u>
<b>Financial liabilities</b>		
Borrowings (secured)	(100)	(100)
Trade and other payables	(14,293)	(14,293)
	<u>(14,393)</u>	<u>(14,393)</u>

### 22.2 Net gains and losses arising from financial instruments

	2016 RM'000	2015 RM'000
Net gain/(loss) arising on:		
- Loans and receivables	215	559
- Financial liabilities at amortised cost	74	(1,848)

### 22.3 Financial risk management

Risk management is integral to the whole business of Tower REIT. Tower REIT has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The Manager continually monitors Tower REIT's risk management process to ensure that an appropriate balance between risk and control is achieved.

Tower REIT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 22. FINANCIAL INSTRUMENTS cont'd

### 22.4 Credit risk

Credit risk is the risk of a financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the Trust, as and when they fall due.

Cash and bank deposits are placed with financial institutions which are regulated.

#### Receivables

*Risk management objectives, policies and processes for managing the risk*

The Manager monitors tenants' balances on an ongoing basis. Credit evaluations are performed by the Manager before lease agreements are entered into with tenants.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. The Manager uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 30 days, which are deemed to have higher credit risk, are monitored individually.

Tower REIT maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Carrying amount	
	2016 RM'000	2015 RM'000
Not past due	374	494
Past due 31 – 60 days	93	369
Past due 61 – 90 days	28	66
Past due 91 – 120 days	102	229
>121 days	8	-
	605	1,158

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 22. FINANCIAL INSTRUMENTS cont'd

### 22.5 Liquidity risk

Liquidity risk is the risk that Tower REIT will not be able to meet its financial obligations as they fall due. Tower REIT's exposure to liquidity risk arises principally from its various payables and borrowings.

Tower REIT maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

#### *Maturity analysis*

The table below analyses the maturity profile of Tower REIT's financial liabilities as at the end of the reporting period, based on undiscounted contractual payments.

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Within 1 year RM'000	Within 2 - 5 years RM'000
<b>2016</b>					
<i>Non-derivative financial liabilities</i>					
Term loan	100	4.06	100	100	-
Tenants' deposits	10,643	4.06	10,858	6,841	4,017
Trade and other payables	1,700	-	1,700	1,700	-
	<u>12,443</u>		<u>12,658</u>	<u>8,641</u>	<u>4,017</u>
<b>2015</b>					
<i>Non-derivative financial liabilities</i>					
Term loan	100	4.09	111	5	106
Tenants' deposits	11,019	-	11,019	5,722	5,297
Trade and other payables	3,274	-	3,274	3,274	-
	<u>14,393</u>		<u>14,404</u>	<u>9,001</u>	<u>5,403</u>

### 22.6 Market risk

Market risk is the risk that changes in market prices, such as interest rates and other prices will affect Tower REIT's financial position or cash flows.

#### 22.6.1 Interest rate risk

Tower REIT's exposure to changes in interest rate relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 22. FINANCIAL INSTRUMENTS cont'd

### 22.6 Market risk cont'd

#### 22.6.1 Interest rate risk cont'd

Where necessary, Tower REIT adopts an appropriate hedging policy to minimise interest rate exposure. This may involve fixing certain portion of the interest payable on its underlying debt liabilities via financial derivatives or other suitable financial products.

##### *Exposure to interest rate risk*

The interest rate profile of Tower REIT's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2016 RM'000	2015 RM'000
<b>Fixed rate instruments</b>		
Financial assets		
Deposits placed with licensed banks	7,680	6,705
<b>Floating rate instruments</b>		
Financial liabilities		
Term loan	100	100

##### *Interest rate risk sensitivity analysis*

#### *(a) Fair value sensitivity analysis for fixed rate instruments*

Tower REIT does not account for any fixed rate instruments at fair value. Therefore, a change in interest rate at the end of the financial year would not affect profit or loss.

#### *(b) Cash flow sensitivity analysis for variable rate instruments*

Cash flow risk arising from variable rate instruments is not material to Tower REIT. Hence, sensitivity analysis is not presented.



# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 22. FINANCIAL INSTRUMENTS cont'd

### 22.7 Fair value information

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables and borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>2016</b>										
<b>Financial liabilities</b>										
Tenants' deposits	-	-	-	-	-	-	(10,643)	(10,643)	(10,643)	(10,858)
Borrowings	-	-	-	-	-	-	(100)	(100)	(100)	(100)
	-	-	-	-	-	-	(10,743)	(10,743)	(10,743)	(10,958)
<b>2015</b>										
<b>Financial liabilities</b>										
Tenants' deposits	-	-	-	-	-	-	(10,877)	(10,877)	(10,877)	(11,019)
Borrowings	-	-	-	-	-	-	(100)	(100)	(100)	(100)
	-	-	-	-	-	-	(10,977)	(10,977)	(10,977)	(11,119)

### Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

#### *Financial instruments not carried at fair value*

Type	Description of valuation technique and inputs used
Borrowings	Discounted cash flows using a rate based on the current market rate of borrowing of Tower REIT at the reporting date.

The discount rates used above have incorporated credit risk of Tower REIT. The inputs for these risks are unobservable because there are no identical or similar instruments to benchmark to.

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 23. CAPITAL MANAGEMENT

Tower REIT's objectives when managing capital are to safeguard Tower REIT's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise unitholders' value.

The Manager monitors capital based on gearing ratio. Under the SC Guidelines on REITs, Tower REIT is required to maintain a gearing threshold of not exceeding 50% of total assets.

The gearing is calculated as gross borrowings divided by total assets, based on the latest valuations. Gross borrowings refer to the gross interest-bearing borrowings as set out in Note 9 to the financial statements.

	Note	2016 RM'000	2015 RM'000
Gross borrowings	9	100	100
Total assets		568,089	568,316
Gearing		0.02%	0.02%

## 24. OPERATING SEGMENTS

Segment information is presented based on the information reviewed by Tower REIT's Chief Operating Decision Makers ("CODM") for performance assessment and resource allocation. For the purpose of the assessment of segment performance, the Trust's CODMs have focused on its investment properties. This forms the basis of identifying the operating segments of Tower REIT under MFRS 8, *Operating Segments*.

As each investment property is mainly used for commercial purposes, these investment properties are similar in terms of economic characteristics and nature of services. The CODMs are of the view that Tower REIT only has one reportable segment – leasing of investment properties.

Accordingly, no operating segment information has been prepared as Tower REIT only has one reportable segment.

No geographical segment information has been prepared as all the investment properties of Tower REIT are located in Malaysia.

### Major customers

The following are major customers with revenue equal or more than 10% of the REIT's total revenue:

	Revenue		Properties
	2016 RM'000	2015 RM'000	
- Hewlett-Packard (Malaysia) Sdn. Bhd.	3,897	4,208	HP Towers
- TWM Corporate Services Sdn. Bhd.	3,747	3,747	Menara HLA

# NOTES TO THE FINANCIAL STATEMENTS

Cont'd

## 25. BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the undistributed income of Tower REIT into realised and unrealised profits or losses, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	2016 RM'000	2015 RM'000
Total undistributed income of Tower REIT:		
- realised	66,184	64,675
- unrealised	193,717	193,503
	<u>259,901</u>	<u>258,178</u>

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

## STATEMENT BY THE DIRECTORS OF THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 35 to 65 are drawn up in accordance with the provisions of the Deed constituting Tower Real Estate Investment Trust (“Tower REIT”), the Securities Commission’s Guidelines on Real Estate Investment Trusts, applicable securities laws and Malaysian Financial Reporting Standards, and International Financial Reporting Standards so as to give a true and fair view of the financial position of Tower REIT as at 31 December 2016 and of its financial performance and cash flows for the year then ended.

The information set out in Note 25 on page 66 to the financial statements have been compiled in accordance with the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on format prescribed by Bursa Malaysia Securities Berhad.

Signed for and on behalf of the Manager

**GLM REIT Management Sdn Bhd**

in accordance with a resolution of the Directors of the Manager

DATUK KONG WOON JUN

LIM CHEW YAN

Kuala Lumpur

Date: 20 February 2017

## STATUTORY DECLARATION

I, Lai Tak Loi, being the person primarily responsible for the financial management of Tower Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 35 to 66 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 20 February 2017.

LAI TAK LOI

D. SELVARAJ  
Pesuruhjaya Sumpah  
Commissioner for Oaths  
Kuala Lumpur

# TRUSTEE'S REPORT

To the Unitholders of **Tower Real Estate Investment Trust**

We have acted as Trustee of Tower Real Estate Investment Trust ("Tower REIT") for the financial year ended 31 December 2016. To the best of our knowledge, GLM REIT Management Sdn Bhd ("the Manager") has managed Tower REIT in accordance with the following:

- (a) limitations imposed on the investment powers of the Manager and the Trustee under the Deed constituting Tower REIT (the "Deed"), the Securities Commission's Guidelines on Real Estate Investment Trusts, the Capital Markets and Services Act 2007, and other applicable laws;
- (b) valuation/pricing is carried out in accordance with the Deed and relevant regulatory requirements; and
- (c) the distribution of returns of 6.93 sen per unit for the financial year ended 31 December 2016 by Tower REIT is tied to and reflects the objectives of the fund.

For and on behalf of the Trustee  
**MTrustee Berhad (formerly known as AmTrustee Berhad)**

**TAN KOK CHEENG**  
Chief Executive Officer

Petaling Jaya, Selangor  
Date: 20 February 2017

# INDEPENDENT AUDITORS' REPORT

## To the Unitholders of Tower Real Estate Investment Trust

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Tower Real Estate Investment Trust ("Tower REIT"), which comprise the statements of financial position as at 31 December 2016, and the statements of comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 35 to 65.

In our opinion, the financial statements give a true and fair view of the financial position of Tower REIT as at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditor's report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence and Other Ethical Responsibilities

We are independent of Tower REIT in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of Tower REIT of the current year. These matters were addressed in the context of our audit of the financial statements of Tower REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Valuation of investment properties

*Refer to Note 2(b) – significant accounting policy: investment property and Note 3 – investment properties*

#### The key audit matter

Tower REIT owns investment properties comprising two commercial office buildings located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position.

These investment properties are measured at their fair values based on valuations performed by GLM REIT Management Sdn Bhd ("the Manager") internally with the assistance of an external valuer.

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and the underlying assumptions to be applied. The fair values of the investment properties were derived using comparison method and investment method, of which were highly sensitive to key assumptions, in particular, those unobservable inputs as disclosed in Note 3 to the financial statements.

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of **Tower Real Estate Investment Trust**

Cont'd

This is a key audit matter because of the complexities involved in the valuation and the significant judgement required from us to evaluate the unobservable inputs.

### **How the matter was addressed in our audit**

In this area, our audit procedures, amongst others, include:

- a) assessed the valuation methodology applied by Tower REIT against those applied by external valuers for similar type of property;
- b) considered the qualifications and competence of the external valuer and assessed the scope of work of the external valuer to determine whether the valuation was appropriate to be applied for financial reporting purposes;
- c) read the valuation report produced by the external valuer and challenged the key assumptions applied by the external valuer with internal and external sources; and
- d) considered the adequacy of the disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates.

### **Recognition of deferred tax liabilities**

*Refer to Note 2(i) – significant accounting policy: income tax and Note 10 – deferred tax liabilities*

### **The key audit matter**

Tower REIT provided deferred tax liabilities of RM10,400,000 on the fair value gain of the investment properties. As explained in Note 10, the Manager exercised significant judgement to provide for the deferred tax following the imposition of real property gain tax by Inland Revenue Board on the sale of an investment property.

This is a key audit matter because of the technical complexities involved in evaluating the appropriateness of the Manager's significant judgement.

### **How the matter was addressed in our audit**

In this area, our audit procedures, amongst others, include:

- a) assessed the appropriateness of the accounting treatment by comparing it with the requirements of the financial reporting standards; and
- b) obtained an update of the appeal with the Inland Revenue Board until the date of this report from the Manager and determined whether the latest status of the appeal was considered.



# INDEPENDENT AUDITORS' REPORT

To the Unitholders of **Tower Real Estate Investment Trust**

Cont'd

## Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Manager are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements of Tower REIT and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of Tower REIT does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of Tower REIT, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements of Tower REIT or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

## Responsibilities of the Directors of the Manager for the Financial Statements

The Directors of the Manager are responsible for the preparation of financial statements of Tower REIT that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors of the Manager are also responsible for such internal control as the Directors of the Manager determine is necessary to enable the preparation of financial statements of Tower REIT that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of Tower REIT, the Directors of the Manager are responsible for assessing the ability of Tower REIT to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Manager either intend to liquidate Tower REIT or to cease operations, or have no realistic alternative but to do so.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of Tower REIT as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of Tower REIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of **Tower Real Estate Investment Trust**  
Cont'd

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Tower REIT.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Manager.
- Conclude on the appropriateness of the Directors of the Manager use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Tower REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of Tower REIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Tower REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of Tower REIT, including the disclosures, and whether the financial statements of the Tower REIT represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with Directors of the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors of the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors of the Manager, we determine those matters that were of most significance in the audit of the financial statements of Tower REIT of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 25 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Manager is responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of **Tower Real Estate Investment Trust**  
Cont'd

## OTHER MATTER

This report is made solely to the unitholders of Tower REIT in accordance with the trust deed of Tower REIT and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants

**THONG FOO VUNG**  
Approval Number: 02867/08/2018 J  
Chartered Accountant

Petaling Jaya, Selangor  
Date: 20 February 2017

## OTHER INFORMATION

### ANALYSIS OF UNITHOLDINGS AS AT 3 FEBRUARY 2017

#### DISTRIBUTION SCHEDULE OF UNITHOLDERS

Size of Holding	No. of Unitholders	% of Unitholders	No. of Units Held	% of Units Held
Less than 100	13	0.43	300	0.00
100 – 1,000	393	12.94	303,900	0.11
1,001 – 10,000	1,514	49.87	8,800,800	3.14
10,001 – 100,000	913	30.07	32,308,600	11.52
100,001 – less than 5% of issued units	201	6.62	120,546,600	42.97
5% and above of issued units	2	0.07	118,539,800	42.26
	3,036	100.00	280,500,000	100.00

#### LIST OF THIRTY LARGEST UNITHOLDERS

Names of Unitholders	No. of Units	%
1. Assets Nominees (Tempatan) Sdn Bhd - GLM Equities Sdn Bhd (formerly known as HLP Equities Sdn Bhd)	60,768,800	21.66
2. Hong Leong Assurance Berhad - As Beneficial Owner	57,771,000	20.60
3. HLIB Nominees (Asing) Sdn Bhd - Hong Leong Fund Management Sdn Bhd for Asia Fountain Investment Company Limited	14,000,000	4.99
4. Yong Yoon Kiong	14,000,000	4.99
5. Assets Nominees (Tempatan) Sdn Bhd - Associated Land Sendirian Berhad	13,409,300	4.78
6. Hong Leong Investment Bank Berhad - IVT-A	5,887,000	2.10
7. Loh Cheng Yean	4,600,000	1.64
8. RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Poh Soon Sim (CEB)	3,084,500	1.10
9. Citigroup Nominees (Tempatan) Sdn Bhd - MCIS Insurance Berhad (Life Par FD)	2,545,200	0.91
10. Lian Mong Yee @ Lian Mung Yee	2,351,000	0.84
11. Citigroup Nominees (Tempatan) Sdn Bhd - MCIS Insurance Berhad (Shh FD)	2,075,700	0.74
12. HLIB Nominees (Tempatan) Sdn Bhd - Hong Leong Fund Management Sdn Bhd for Hong Leong Foundation	1,653,800	0.59
13. CIMSEC Nominees (Asing) Sdn Bhd - Exempt AN for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	1,428,200	0.51

## OTHER INFORMATION

Cont'd

### ANALYSIS OF UNITHOLDINGS AS AT 3 FEBRUARY 2017 cont'd

#### LIST OF THIRTY LARGEST UNITHOLDERS cont'd

	Names of Unitholders	No. of Units	%
14.	CIMSEC Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Lim Chen Yik (Penang-CL)</i>	1,370,000	0.49
15.	Tan Kim Chuan	1,253,100	0.45
16.	Citigroup Nominees (Tempatan) Sdn Bhd - <i>MCIS Insurance Berhad (Ann FD)</i>	1,164,000	0.42
17.	HLB Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Liew Sun Yick</i>	1,138,900	0.41
18.	CIMB Group Nominees (Asing) Sdn Bhd - <i>Exempt AN for DBS Bank Ltd (SFS)</i>	1,100,000	0.39
19.	Ong Ee Nah	1,100,000	0.39
20.	Lim Kew Seng	1,065,000	0.38
21.	Goh Siew Cheng	1,048,200	0.37
22.	Yap Ah Ngah @ Yap Neo Nya	1,000,000	0.36
23.	Affin Hwang Investment Bank Berhad - <i>IVT (JBD)</i>	869,900	0.31
24.	DynaQuest Sdn Berhad	860,000	0.31
25.	Gan Peoy Hong	738,600	0.25
26.	Ling Thik Ping	700,000	0.25
27.	Tan Onn Poh	700,000	0.25
28.	Chow Hon Keong	658,700	0.23
29.	CIMSEC Nominees (Asing) Sdn Bhd - <i>Exempt AN for CIMB Securities (Singapore) Pte Ltd (Remisiers Account)</i>	635,500	0.23
30.	Cartaban Nominees (Asing) Sdn Bhd - <i>Credit Agricole (Suisse) SA, Singapore Branch for Pierre Marti Chassaing</i>	600,000	0.21
		<b>199,576,400</b>	<b>71.15</b>

## OTHER INFORMATION

Cont'd

### ANALYSIS OF UNITHOLDINGS AS AT 3 FEBRUARY 2017 cont'd

#### MAJOR UNITHOLDERS

Names of Unitholders	No. of Units	%
1. Assets Nominees (Tempatan) Sdn Bhd - GLM Equities Sdn Bhd ( <i>formerly known as HLP Equities Sdn Bhd</i> )	60,768,800	21.66
2. Hong Leong Assurance Berhad - As beneficial owner	57,771,000	20.60

#### DIRECTORS' INTERESTS AS AT 3 FEBRUARY 2017

Subsequent to the financial year end, there is no change to the Directors' interests in the units of Tower Real Estate Investment Trust appearing in the Manager's Report on page 23.

#### MATERIAL CONTRACTS

The Manager or major unitholders of Tower Real Estate Investment Trust ("Tower REIT") have not entered into any other contracts in relation to Tower REIT which are material and still subsisting at the end of the year or, if not then subsisting, entered into since the end of the previous year, except for the Deed dated 17 February 2006 (as restated by a Deed dated 29 May 2014) entered into between the Manager and the Trustee constituting Tower REIT. The Manager's fees are set out in the Manager's Report.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of the unitholders of Tower Real Estate Investment Trust ("Tower REIT") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 27 April 2017 at 10.00 a.m. in order:-

1. To lay before the meeting the audited financial statements of Tower REIT together with the reports of the Trustee and Auditors thereon for the financial year ended 31 December 2016.

## SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions as Ordinary Resolutions, with or without modifications:

2. **Ordinary Resolution 1**  
**Proposed Renewal Of Unitholders' Mandate To Allot and Issue Up To 56,100,000 New Units In Tower Real Estate Investment Trust ("Tower REIT"), Representing Up To 20% Of The Existing Approved Fund Size of Tower REIT Of 280,500,000 Units ("Proposed Renewal Of Unitholders' Mandate")**

"THAT pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by the Securities Commission, as may be amended from time to time and subject to the passing of Ordinary Resolution 2 below and the requisite approvals being obtained, approval be and is hereby given to the Directors of GLM REIT Management Sdn Bhd, the Manager of Tower Real Estate Investment Trust ("Tower REIT") (the "Manager"), to issue new units from time to time to such persons and for such purposes as the Directors of the Manager may deem fit provided that the aggregate number of the new units to be issued, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of Tower REIT for the time being comprising 280,500,000 units and the Directors of the Manager be and are hereby also empowered to obtain the approval for the listing of and quotation for such new units on the Main Market of Bursa Malaysia Securities Berhad;

AND THAT such approval shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting of the unitholders at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (ii) revoked or varied by resolution passed by the unitholders in a unitholders' meeting,

whichever is the earlier;

AND THAT such new units shall, upon allotment and issue, rank equally in all respects with the existing units except that the new units will not be entitled to any income distribution, right, benefit, entitlement and/or any other distributions that may be declared before the date of allotment and issue of such new units;

AND THAT authority be and is hereby given to the Directors of the Manager and MTrustee Berhad (formerly known as AmTrustee Berhad), acting as Trustee of Tower REIT (the "Trustee"), for and on behalf of Tower REIT, to give effect to the Proposed Renewal Of Unitholders' Mandate with full powers to assent to any condition, modification, variation and/or amendment as they may deem fit in the best interest of Tower REIT and/or as may be imposed by the relevant authorities; AND FURTHER THAT the Directors of the Manager and the Trustee, for and on behalf of Tower REIT, are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Renewal Of Unitholders' Mandate."

**(Resolution 1)**

# NOTICE OF ANNUAL GENERAL MEETING

Cont'd

### 3. Ordinary Resolution 2

**Proposed Increase In The Existing Approved Fund Size Of Tower Real Estate Investment Trust From 280,500,000 Units To A Maximum Of 336,600,000 Units Pursuant To The Proposed Renewal Of Unitholders' Mandate ("Proposed Increase In Fund Size")**

"THAT subject to the passing of Ordinary Resolution 1 above and the requisite approvals being obtained, the approved fund size of Tower Real Estate Investment Trust ("Tower REIT") be and is hereby increased from 280,500,000 units to a maximum of 336,600,000 units by the creation of up to 56,100,000 new units;

AND THAT authority be and is hereby given to the Directors of GLM REIT Management Sdn Bhd, the Manager of Tower REIT (the "Manager"), and MTrustee Berhad (formerly known as AmTrustee Berhad), acting as the Trustee (the "Trustee"), for and on behalf of Tower REIT, to give effect to the Proposed Increase In Fund Size, with full power to assent to any condition, modification, variation and/or amendment as they may deem fit in the best interest of Tower REIT and/or as may be imposed by the relevant authorities; AND FURTHER THAT the Directors of the Manager and the Trustee, for and on behalf of Tower REIT, are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Increase In Fund Size."

**(Resolution 2)**

4. To consider any other business of which due notice shall have been given.

By Order of the Board of

**GLM REIT Management Sdn Bhd**

*The Manager of Tower Real Estate Investment Trust*

**LIM YEW YOKE** (LS 000431)

**CHIN MIN YANN** (MAICSA 7034011)

*Company Secretaries*

Kuala Lumpur

28 February 2017

### Notes

1. For the purpose of determining unitholders' eligibility to attend this meeting, only unitholders whose names appear in the Record of Depositors as at 21 April 2017 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.
2. Save for unitholder who is an exempt authorised nominee, a unitholder entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy may but need not be a unitholder of Tower REIT. A unitholder who is an authorised nominee may appoint not more than two proxies in respect of each securities it holds. A unitholder who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.
3. Where two or more proxies are appointed, the proportions of unitholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which, the appointments shall be invalid.
4. The Form of Proxy must be deposited at the Registered Office of GLM REIT Management Sdn Bhd at Level 10, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting.
5. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all resolutions set out in this Notice will be put to vote by way of a poll.



# NOTICE OF ANNUAL GENERAL MEETING

Cont'd

## **Explanatory Notes**

### **1. Ordinary Resolution 1 - Proposed Renewal Of Unitholders' Mandate**

*The Proposed Renewal Of Unitholders' Mandate, if passed, will give a renewed mandate to the Directors of the Manager of Tower REIT to issue units of Tower REIT from time to time provided that the aggregate number of the new units to be issued, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of Tower REIT for the time being. The Proposed Renewal Of Unitholders' Mandate, unless revoked or varied at a unitholders' meeting, will expire at the conclusion of the next Annual General Meeting of unitholders ("AGM") of Tower REIT.*

*As at to date, no new units of Tower REIT have been issued pursuant to the mandate granted to the Directors of GLM REIT at the last AGM of Tower REIT held on 26 April 2016 and which will lapse at the conclusion of the forthcoming Fifth AGM of Tower REIT.*

*The Proposed Renewal Of Unitholders' Mandate will enable the Directors of the Manager to take swift action in case of, inter-alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issue of new units, and to avoid delay and cost in convening unitholders' meetings to approve such issue of units.*

### **2. Ordinary Resolution 2 - Proposed Increase In Fund Size**

*The purpose of the Proposed Increase In Fund Size is to accommodate the issuance of such new units pursuant to the Proposed Renewal Of Unitholders' Mandate.*



Tower Real Estate Investment Trust

# Form of Proxy

I/We \_\_\_\_\_

NRIC/Passport/Company No. \_\_\_\_\_

of \_\_\_\_\_

being a unitholder of **Tower Real Estate Investment Trust** ("Tower REIT"), hereby appoint \_\_\_\_\_

\_\_\_\_\_

NRIC/Passport No. \_\_\_\_\_

of \_\_\_\_\_

\_\_\_\_\_

or failing him/her \_\_\_\_\_

\_\_\_\_\_

NRIC/Passport No. \_\_\_\_\_

of \_\_\_\_\_

\_\_\_\_\_

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifth Annual General Meeting of unitholders of Tower REIT to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 27 April 2017 at 10.00 a.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote on a poll as indicated below with an "X":

NO.	RESOLUTIONS	FOR	AGAINST
1.	As a special business, to approve the ordinary resolution on the proposed renewal of unitholders' mandate to allot and issue new units of Tower REIT		
2.	As a special business, to approve the ordinary resolution on the proposed increase in the existing approved fund size of Tower REIT		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2017

\_\_\_\_\_  
Number of units held

\_\_\_\_\_  
Signature(s) of Unitholder(s)

Fold This Flap For Sealing

Then Fold Here

Affix  
Stamp

The Company Secretary  
**GLM REIT MANAGEMENT SDN BHD** (659312-H)  
The Manager of Tower Real Estate Investment Trust  
Level 10, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur  
Malaysia

1st Fold Here

NOTES:

1. For the purpose of determining unitholders' eligibility to attend this meeting, only unitholders whose names appear in the Record of Depositors as at 21 April 2017 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.
2. If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
3. If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
4. A proxy may but need not be a unitholder of Tower REIT.
5. Save for a unitholder who is an exempt authorised nominee, a unitholder shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where a unitholder of Tower REIT is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two proxies in respect of each securities account it holds with units of Tower REIT standing to the credit of the said securities account. A unitholder who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.
6. Where two or more proxies are appointed, the proportions of unitholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which, the appointments shall be invalid (please see note 9 below).
7. In the case where a unitholder is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
8. All Forms of Proxy must be duly executed and deposited at the Registered Office of GLM REIT Management Sdn Bhd at Level 10, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting.
9. In the event two or more proxies are appointed, please fill in the ensuing section:

Name of Proxies	% of unitholdings to be represented

10. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the Fifth Annual General Meeting will be put to vote by way of a poll.

**GLM REIT MANAGEMENT SDN BHD** (659312-H)  
**The Manager of Tower Real Estate Investment Trust**

Level 19, Block B, HP Towers  
12 Jalan Gelenggang, Bukit Damansara  
50490 Kuala Lumpur  
Tel : 03-2726 1000  
Fax : 03-2726 1001

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