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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, 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	<i>(Non-Independent Executive Chairman)</i>
YBHG DATO' KOH HONG SUN	<i>(Independent Non-Executive Director)</i>
YBHG DATO' NICHOLAS JOHN LOUGH @ SHARIF LOUGH BIN ABDULLAH	<i>(Independent Non-Executive Director)</i>
YBHG DATO' PAUL POH YANG HONG	<i>(Non-Independent Non-Executive Director)</i>
MS LIM CHEW YAN	<i>(Non-Independent Non-Executive Director)</i>

MANAGER

GLM REIT MANAGEMENT SDN BHD
(659312-H)

MANAGER'S PRINCIPAL ADDRESS

Level 13, Wisma Guocoland
Damansara City
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel No. : 03-2726 1000
Fax No. : 03-2726 1001

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 SECRETARY OF THE MANAGER

Chew Ann Nee (MAICSA 7030413)

TRUSTEE

MTRUSTEE BERHAD

Level 15, Menara AmFirst
No. 1, Jalan 19/3
46300 Petaling Jaya
Selangor Darul Ehsan
Tel No. : 03-7954 6862
Fax No. : 03-7954 3712

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 (LLP0010081-LCA & 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

AMBANK (M) 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 OBJECTIVES	<p>To invest in a portfolio of quality office buildings and commercial properties in order to:</p> <ul style="list-style-type: none"> • provide unitholders with stable distributions per unit as well as sustainable long term growth of such distributions; and • achieve medium to long term growth in the net asset value per unit.
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 RM562 million as at 31 December 2017. 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 2017, Tower REIT's investment portfolio comprised two prime commercial 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	342,000,000	61
HP Towers	349,802	220,000,000	39
Total	735,017	562,000,000	100

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 the 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, The KL 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 and banking facilities. In general, the building has good ingress and egress and is accessible from Jalan Ampang, Jalan Sultan Ismail, Jalan Tun Razak, as well as via various rail systems like the KL monorail, the Light Rail Transit (LRT) and the Mass Rapid Transit (MRT).

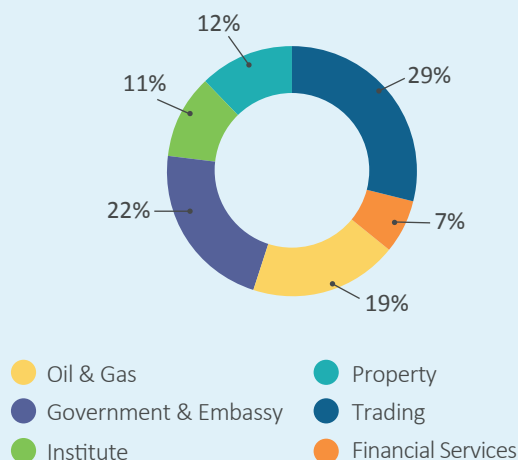
The finishes and specifications of Menara HLA embodies elegance and corporate sophistication. The building has high-grade granite for its façade and polished granite slabs for the entrance lobby on the ground floor and all office lifts. A triple-volume main entrance lobby with glass

panels create an aura of grandeur and the positioning of the building columns to the sides further creates an expansive column-free space, thereby increasing efficiency of usage. Security turnstiles and access control ensure that all visitors to the building are properly monitored.

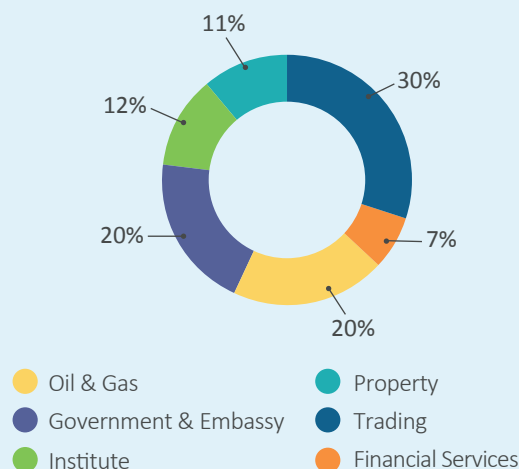
Menara HLA offers an unrivalled, uninterrupted view of KLCC Park and the iconic KLCC Twin Towers. To the north, one will enjoy a scenic view of skyscrapers in the city centre and to the south, views of bustling crowds enjoying the Bukit Bintang shopping enclave.

TENANT MIX BY NET LETTABLE AREA

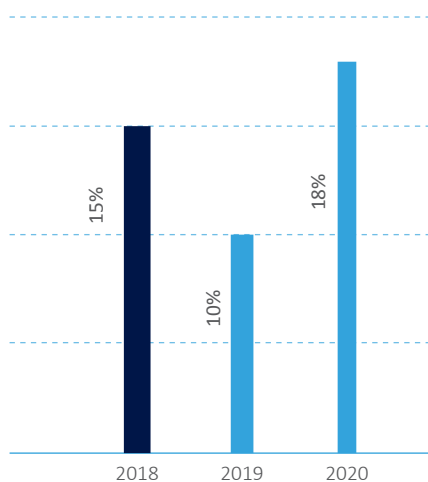
As at 31 December 2017

**TENANT MIX BY GROSS RENTAL INCOME**

For the Month of December 2017

**EXPIRY PROFILE**

As at 31 December 2017

**MAJOR TENANTS**

As at 31 December 2017

Name	Trade Sector	% of Total Net Lettable Area
RZ Corporation Sdn Bhd	Trading	7%
Malaysia Blue Ocean Strategy Institute	Institute	5%
THSB Services Sdn Bhd	Trading	5%
Lundin Malaysia B.V.	Oil & Gas	4%
Mulia Property Development	Property	4%
		25%

ADDRESSMenara 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

18 years

TITLE DETAILSLot 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

51%

PARKING SPACE

723 car park bays

DATE OF ACQUISITION

17 April 2006

ACQUISITION PRICE

RM221,000,000

MARKET VALUE

RM342,000,000

DATE OF LATEST VALUATION

10 November 2015

NAME OF VALUERRaine & Horne International
Zaki + Partners Sdn Bhd**NET BOOK VALUE ***

RM342,000,000

PROPERTY MANAGER

LaurelCap Sdn Bhd

* As at 31 December 2017

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 is situated 8 km west of the Kuala Lumpur city centre and comprises two tower blocks: Block A (9 storeys), and Block B (21 storeys).

HP Towers has good ingress and egress and is linked to major highways such as the North Klang Valley Expressway (NKVE), Federal Highway, Damansara-Puchong

Highway (LDP) and North South Expressway (NSE). The extensive road network developed in the vicinity greatly reduces the travelling time to the city centre and Petaling Jaya. The building is only several minutes' drive from the nearby shopping malls of Bangsar and Mid Valley. On top of this, the newly completed Semantan MRT station, which links directly to Bukit Bintang, is a mere 3 minutes' walk away.

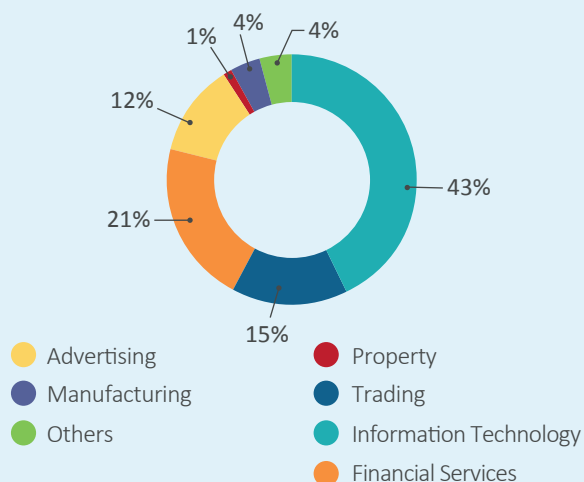
HP Towers provide occupiers with functional, quality office space, with easy access and ample parking space. A triple-volume lobby greets visitors, creating a sense of class and

sophistication. Security turnstiles and access control, together with 24-hour security ensure that occupants can go about their business with absolute peace of mind.

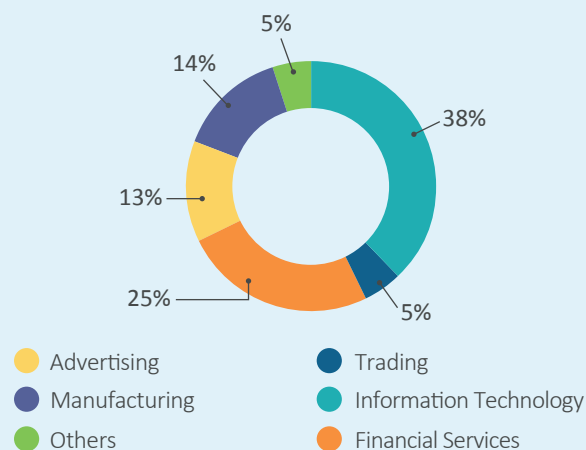
The modern, external facade is of high quality alucabond curtain-walling, whilst the entrance lobby on the ground floor and all the office lift lobbies are of polished granite slabs.

TENANT MIX BY NET LETTABLE AREA

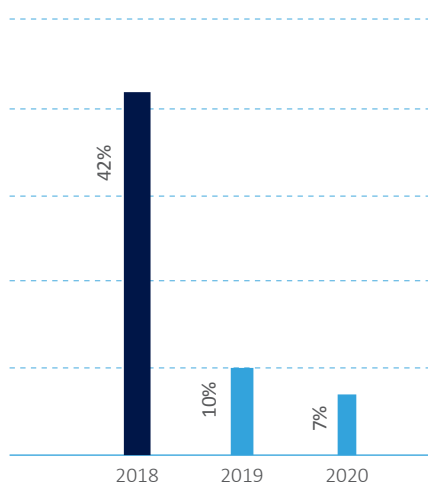
As at 31 December 2017

**TENANT MIX BY GROSS RENTAL INCOME**

For the Month of December 2017

**EXPIRY PROFILE**

As at 31 December 2017

**MAJOR TENANTS**

As at 31 December 2017

Name	Trade Sector	% of Total Net Lettable Area
Hewlett-Packard (M) Sdn Bhd	Information Technology	24%
Valuecap Sdn Bhd	Financial Services	13%
Stream Enterprise (M) Sdn Bhd	Manufacturing	5%
TBWA Kuala Lumpur Sdn Bhd	Advertising	5%
Accorn Marketing & Research Consultants (M) Sdn Bhd	Consultancy	2%
		49%

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

25 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

58%

PARKING SPACE

545 car park bays

DATE OF ACQUISITION

17 April 2006

ACQUISITION PRICE

RM130,000,000

MARKET VALUE

RM220,000,000

DATE OF LATEST VALUATION

10 November 2015

NAME OF VALUER

Raine & Horne International
Zaki + Partners Sdn Bhd

NET BOOK VALUE *

RM220,000,000

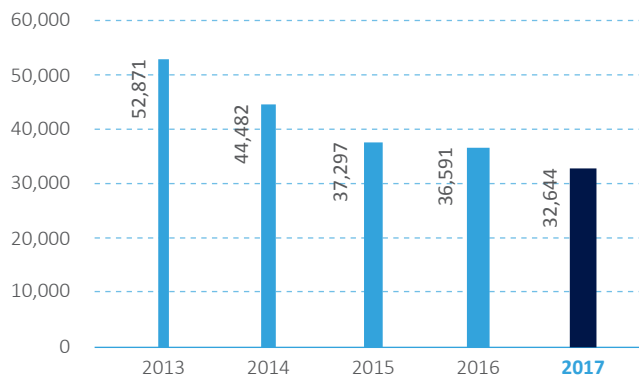
PROPERTY MANAGER

LaurelCap Sdn Bhd

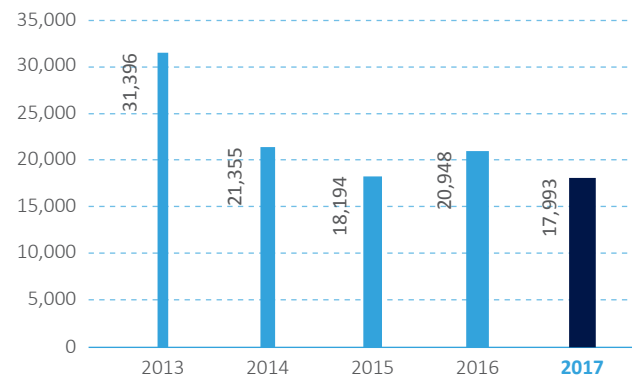
* As at 31 December 2017

Fund Performance

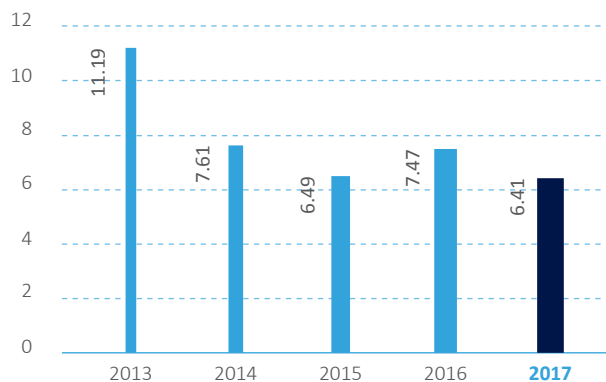
GROSS REVENUE RM'000



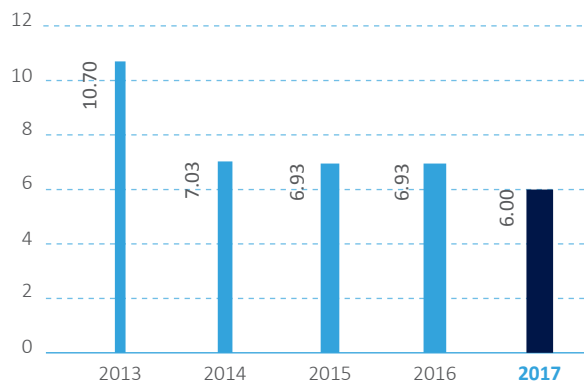
INCOME AFTER TAXATION (REALISED) RM'000



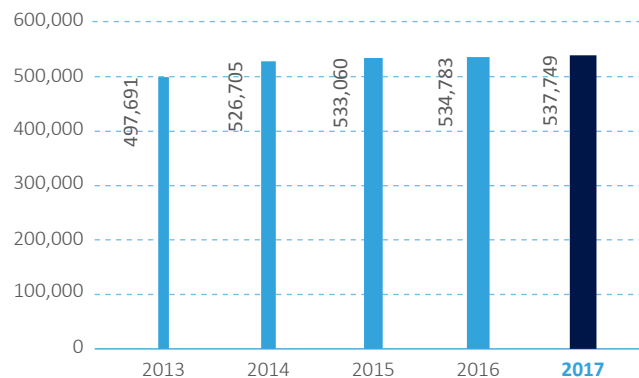
EARNING PER UNIT (REALISED) SEN



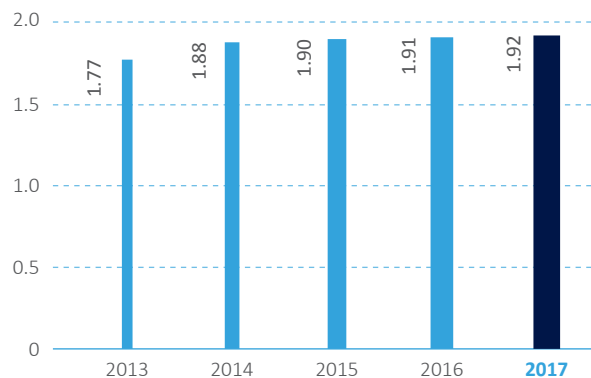
DISTRIBUTION PER UNIT SEN



NET ASSET VALUE ("NAV") (AFTER INCOME DISTRIBUTION) RM'000



NAV PER UNIT (AFTER INCOME DISTRIBUTION) RM



Fund Performance

Cont'd

	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000
STATEMENT OF FINANCIAL POSITION					
Total Asset Value	644,661	682,544	568,316	568,090	567,370
Total Borrowings	114,400	116,400	100	100	100
NAV before income distribution	513,427	535,681	543,523	545,246	545,603
NAV after income distribution	497,691	526,705	533,060	534,783	537,749
Units in Circulation/Listed	280,500,000	280,500,000	280,500,000	280,500,000	280,500,000
NAV Per Unit (RM)					
- Before income distribution	1.8304	1.9097	1.9377	1.9438	1.9451
- After income distribution	1.7743	1.8777	1.9004	1.9065	1.9171
- Highest NAV per unit (ex-distribution)	1.8361	1.8178	1.9377	1.9438	1.9451
- Lowest NAV per unit (ex-distribution)	1.7865	1.7948	1.8922	1.9230	1.9256
STATEMENT OF COMPREHENSIVE INCOME					
Total Revenue	52,871	44,482	37,297	36,591	32,644
Income After Taxation					
- Realised and distributable	31,396	21,355	18,194	20,948	17,993
- Unrealised from fair value adjustment	1,271	27,378	7,600	214	1,803
	32,667	48,733	25,794	21,162	19,796
Earnings Per Unit (sen) ⁽¹⁾					
- Realised	11.19	7.61	6.49	7.47	6.41
- Unrealised	0.45	9.76	2.71	0.08	0.64
	11.64	17.37	9.20	7.55	7.06
Income Distribution					
- Interim	14,277	10,743	8,976	8,976	8,976
- Final	15,736	8,976	10,463	10,463	7,854
	30,013	19,719	19,439	19,439	16,830
Distribution Per Unit (sen)					
- Interim	5.09	3.83	3.20	3.20	3.20
- Final	5.61	3.20	3.73	3.73	2.80
	10.70	7.03	6.93	6.93	6.00
Date of Distribution					
- Interim	27/08/2013	27/08/2014	28/08/2015	14/09/2016	06/09/2017
- Final	28/02/2014	27/02/2015	29/02/2016	28/02/2017	28/02/2018
RATIOS					
Management Expenses Ratio ("MER") ⁽²⁾ (%)	0.60	0.58	0.65	0.47	0.48
Interest Expenses	5,366	5,410	1,848	140	237
Interest Cover Ratio ⁽³⁾ (times)	6.9	4.9	10.8	150.6	76.9
Gearing Ratio ⁽⁴⁾ (%)	18	17	0	0	0

Notes:

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

⁽²⁾ 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.

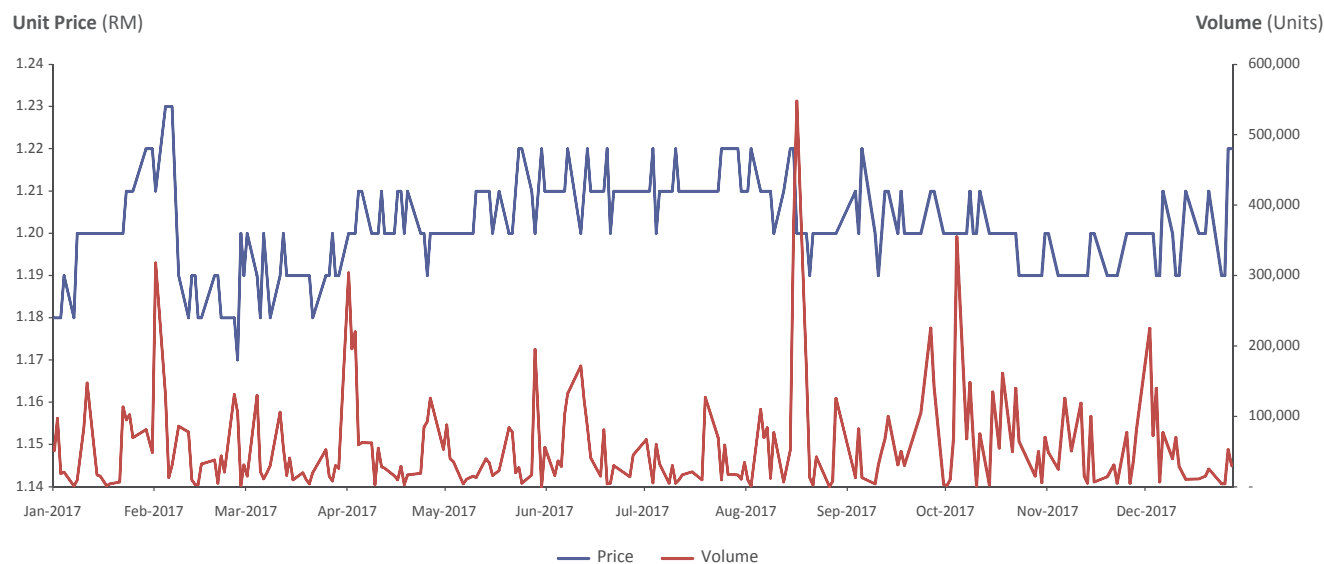
⁽³⁾ Based on realised net income before interest and tax (realised) over interest expenses.

⁽⁴⁾ Based on total borrowings over total assets.

Fund Performance

Cont'd

MARKET UNIT PRICE AND TRADING PERFORMANCE



	IPO	2013	2014	2015	2016	2017
UNIT PRICE PERFORMANCE	RM'000	RM	RM	RM	RM	RM
Unit price per unit at close of respective years	1.07	1.50	1.27	1.23	1.17	1.22
Highest traded price during the year		1.66	1.55	1.30	1.25	1.23
Lowest traded price during the year		1.42	1.16	1.10	1.17	1.17
Average unit price for the year ⁽¹⁾		1.53	1.38	1.20	1.21	1.20

ANNUAL TOTAL RETURN	2013	2014	2015	2016	2017
Total Return for the year	15%	-6%	-9%	7%	4%
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	2013	2014	2015	2016	2017
1 year	15%	-6%	-9%	7%	4%
3 years	16%	10%	0%	-3%	0%
Since inception	13%	10%	8%	9%	8%

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	2013	2014	2015	2016	2017
Annualised Distribution Yield	7.0%	5.1%	5.8%	5.7%	5.0%

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:

⁽¹⁾ 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 (the "Manager"), the Manager of Tower Real Estate Investment Trust ("Tower REIT"), I am pleased to present the annual report and audited financial statements of Tower REIT for the financial year ended 31 December 2017.

ECONOMIC REVIEW

The Malaysian property market's performance in 2018 is expected to be similar to its performance in 2017 in terms of transactions. There are supply-demand imbalances in residential housing, commercial office and retail shopping complex. Despite higher gross domestic product in 2017 and recovery of crude oil prices which are expected to improve the overall consumer sentiment, key issues such as an overhang of high end residential properties, oversupply of office, availability of funding and affordability will continue to have a dampening effect on the property market. The commercial segment would remain flat in 2018, and the industry would instead focus on affordable housing.

FINANCIAL REVIEW

For the financial year ended ("FYE") 31 December 2017, Tower REIT registered a gross revenue of RM32.64 million and realised income after taxation of RM17.99 million, a decrease of 10.8% and 14.1% respectively compared to the preceding financial year's performance of RM36.59 million and RM20.95 million respectively. The decrease was mainly due to lower occupancy rate for both HP Towers and Menara HLA.

Chairman's Statement

Cont'd

Tower REIT is pleased to declare a final income distribution of 2.80 sen per unit, totaling RM7,854,000 which will be paid on 28 February 2018 for the FYE 31 December 2017. The final distribution together with the interim income distribution of 3.20 sen per unit paid on 6 September 2017, represent a total income distribution of 6.00 sen per unit for the FYE 31 December 2017. This amounts to a total income distribution of RM16.83 million for the year and translates to a distribution yield of 4.92%, based on the Tower REIT's closing price of RM1.22 per unit on 31 December 2017.

BUSINESS REVIEW

Securing new tenants as well as renewing existing tenants to boost occupancy rates for our portfolio remain challenging in the short to medium term as many private businesses are cautious over the cost of their business operations. There is an oversupply in the overall property market, impacting revenues and our distribution of dividends.

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. For the current financial year, Tower REIT will continue to maximize the return of its properties by focusing on tenant retention, capital management and cost efficiency measures. At the same time, we are pro-actively exploring yield-accretive investment opportunities, which will enhance the quality of Tower REIT's portfolio, income growth and capital appreciation for unitholders in the long-term.

PROSPECTS

The occupancy and rental rates will continue to be influenced by uncertainties in the domestic and global economy. While the overall property market remains soft, Tower REIT's portfolio of properties will continue to appeal to tenants who demand strategic location and reasonable prices. The Manager will continue to actively market the vacant spaces in the building as well as seek potential investments in yield-accretive assets for inclusion in Tower REIT's portfolio of properties.

For the current financial year, we remain confident that our asset management strategy and focus on sustainable long term growth will allow us to weather the short-term challenges ahead and continue to create value for all our unitholders.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, it is with great pleasure to welcome Mr Eusoffe Chua, who was appointed as Chief Executive Officer of the Manager on 5 September 2017.

I would also like to express my gratitude and appreciation to the Board members, the management and staff for their dedication and commitment. My sincere appreciation also goes to valued tenants, business associates and our unitholders for their continued support and confidence in us.

DATUK EDMUND KONG WOON JUN

Chairman

6 February 2018

Manager's Report

GLM REIT Management Sdn Bhd (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 2017.

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, 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 on-going to maintain competitiveness, improve revenue and ensure fair return to unitholders.

Manager's Report

Cont'd

FINANCIAL REVIEW

	2017	2016	Variance
	RM'000	RM'000	%
Gross Revenue	32,644	36,591	-10.79
Property operating expenses	(12,211)	(13,500)	9.55
Net property income	20,433	23,091	-11.51
Change in fair value of investment properties	1,953	-	100.00
Change in fair value of tenant deposits	-	214	-100.00
Net non-property expenses	(2,440)	(2,143)	-13.85
Income before taxation	19,946	21,162	-5.74
Taxation	(150)	-	-100.00
Income after taxation	19,796	21,162	-6.45
Income after taxation			
- Realised and distributable	17,992	20,948	-14.11
- Unrealised and non-distributable	1,804	214	742.99
	19,796	21,162	-6.45

The Trust registered gross revenue and realised and distributable income of RM32.66 million and RM17.99 million respectively for the financial year ended 31 December 2017.

The income after taxation for the financial year ended 31 December 2017 was RM19.80 million, comprising realised and distributable net income of RM17.99 million and unrealised gain of RM1.80 million, resulting from fair value adjustment of investment properties.

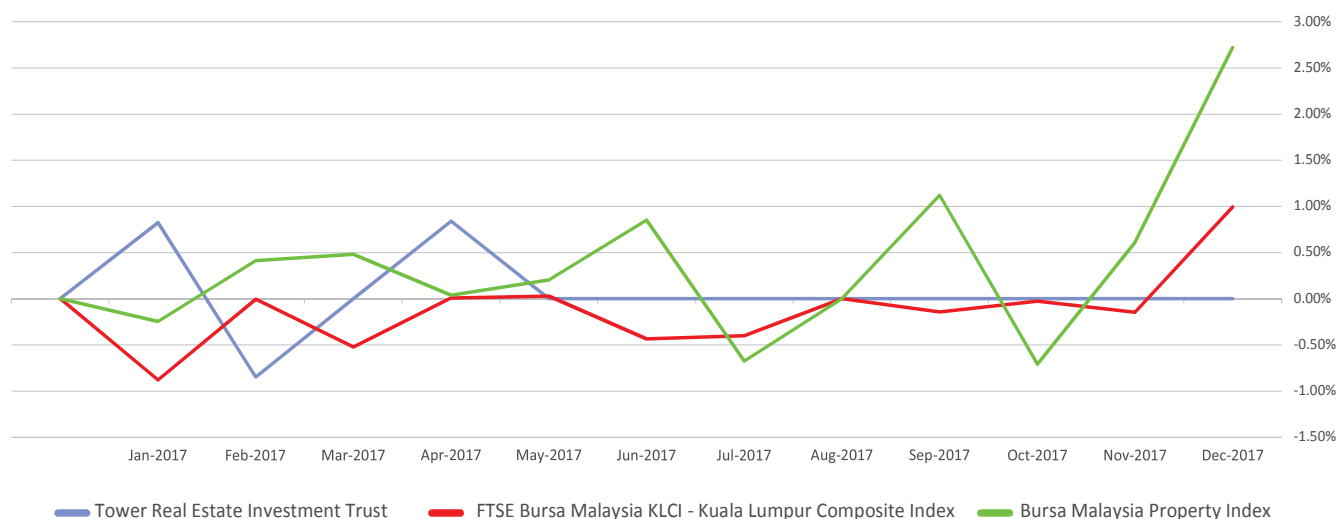
INCOME DISTRIBUTION

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 2017, we are pleased to declare a final income distribution of 2.80 sen per unit, amounting to RM7,854,000, payable on 28 February 2018. The total income distribution of 6.00 sen per unit for 2017, representing a distribution of about 94% of the realised and distributable income after taxation for the financial year ended 31 December 2017, 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 gross domestic product ("GDP") growth is projected to recover gradually from 5.6% year-on-year in the first half of 2017 to around 6.2% in the second half of 2017, averaging 5.9% estimated for full-year 2016 (4.2% in 2016). Against a backdrop of modest but healthy growth in the global economy, we expect the country's real GDP growth to improve to 5.2-5.7% 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 RM416.2 billion as at 31 December 2017 compared to RM424.2 billion as at end 2016. The level of reserves was supported by higher current account surplus and continued inflows of foreign direct investment. These were, however, partly offset by direct investments abroad by Malaysian companies and portfolio investments abroad by resident institutional investors.

Tower REIT's unit price closed at RM1.22 per unit on 31 December 2017 with a 4.3% increase from the 31 December 2016 closing price of RM1.17 per unit. Tower REIT's market capitalisation stood at RM342.2 million as at 31 December 2017.

CHANGES IN NET ASSET VALUE

	As at 31 December 2017	As at 31 December 2016
	RM	RM
Net Asset Value ("NAV")	545,602,285	545,246,010
NAV per unit		
- before income distribution	1.9451	1.9438
- after income distribution	1.9171	1.9065

Manager's Report

Cont'd

PORTFOLIO REVIEW

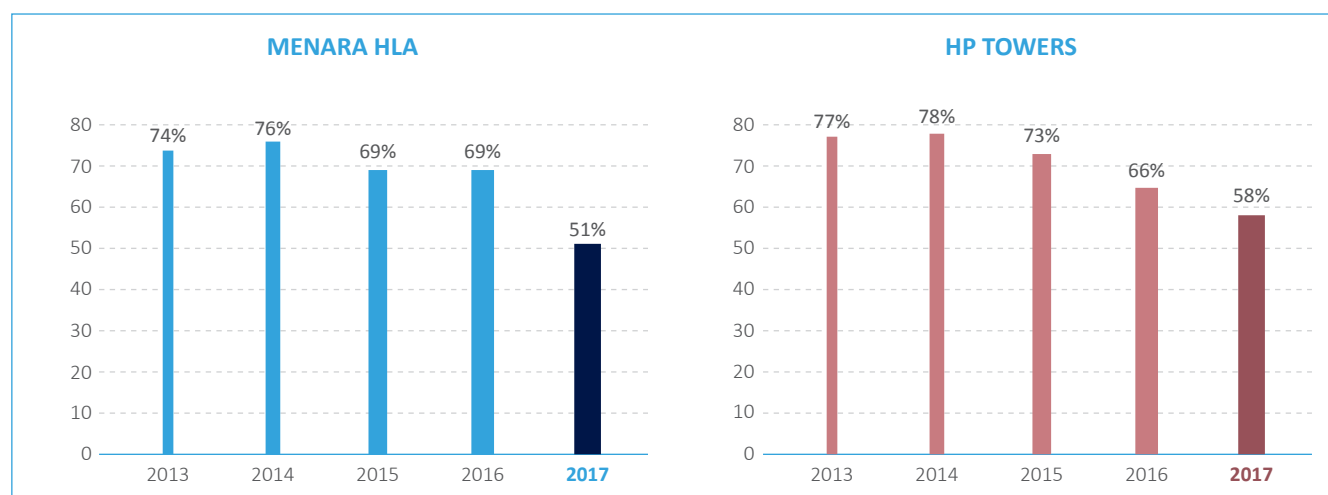
As at 31 December 2017, the Trust's investment portfolio covered the following prime commercial buildings in Kuala Lumpur:

Property	Net Lettable Area sq.ft.	Acquisition Date	Acquisition Cost RM	Incidental Cost/ Addition/ Enhancement RM	Fair Value Adjustment RM	At Market Value 31 Dec 2017 RM	% of Portfolio %
Menara HLA	385,215	17 April 2006	221,000,000	1,734,076	119,265,924	342,000,000	61
HP Towers	349,802	17 April 2006	130,000,000	3,647,164	86,352,836	220,000,000	39
TOTAL	735,017		351,000,000	5,381,240	205,618,760	562,000,000	100

OCCUPANCY AND RENTAL RATES

As at 31 December 2017, Menara HLA, situated within the Golden Triangle of Kuala Lumpur, had an occupancy rate of 51%. HP Towers, which is located in Damansara Heights, Kuala Lumpur, was 58% occupied.

OCCUPANCY RATES



During the financial year, our occupancy rate decreased for both Menara HLA and HP Towers. This was due to the exit and contraction of tenanted space by oil & gas and trading services companies due to the continual slump in the sector.

The Manager was able to secure some new tenants during the period and will continue its efforts to secure more tenants and to increase occupancy. In addition, the Manager is also continuously looking to reduce maintenance cost of each building intelligently.

With the completion of the Semantan MRT Station adjacent to HP Towers, we have received stronger interest via new enquiries, which should lead to higher take-up in 2018.

Manager's Report

Cont'd

LEASE EXPIRY PROFILE

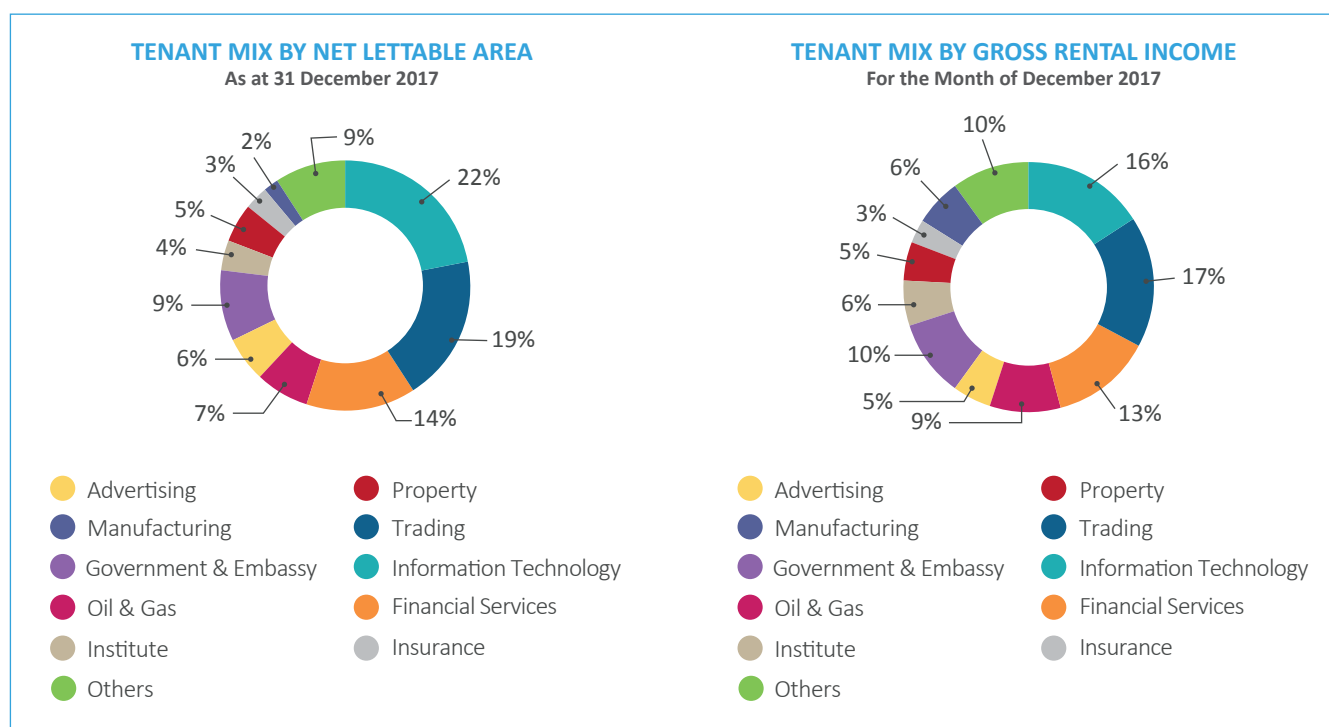
A typical tenure of the tenancy is three years while lease renewals are staggered over the upcoming years. The following is the expiry profile of the properties within the portfolio of the Trust:

	2018			2019		2020	
	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	25	7	15%	7	10%	11	18%
HP Towers	18	6	42%	9	10%	3	7%
Total	43	13	28%	16	10%	14	13%

28% of the tenants in the current portfolio are due for renewal in 2018, followed by 10% in 2019, and 13% in 2020. The Manager's priority is to retain all tenants in 2018 and beyond by early engagement and value added services such as additional security turnstiles and upgrade of lifts and corridors.

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 2017, there were 43 tenants and collectively, the five largest tenants accounted for approximately 47% of the portfolio's gross rental income.



Manager's Report

Cont'd

DIVERSIFIED TENANT BASE cont'd

Major Tenants as at 31 December 2017	Trade Sector	% of Portfolio's Net Lettable Area
Hewlett-Packard (M) Sdn Bhd	Information Technology	11%
Valuecap Sdn Bhd	Financial Services	6%
RZ Corporation Sdn Bhd	Trading	4%
Malaysia Blue Ocean Strategy Institute	Others	3%
Stream Enterprise (M) Sdn Bhd	Trading	3%
		26%

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 2017, the Trust has RM100,000 of term loan, maturing in March 2020.

For the financial year ended 31 December 2017, the Trust's average all-in costs of debt remained at a competitive rate of approximately 4.00% per annum with interest cover ratio of 76.9 times.

OFFICE MARKET REVIEW

Demand for office space in 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 continue to be 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 2018. Notwithstanding the difficult operating environment, the Manager will continue to take active steps to manage the portfolio assets to maximise returns 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 3.49% 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 2017, 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 the Manager during the year under review are:

- YBhg Datuk Edmund Kong Woon Jun – Chairman (*Non-Independent Executive Director*)
- YBhg Dato' Koh Hong Sun (*Independent Non-Executive Director*)
- YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah (*Independent Non-Executive Director*)
- YBhg Dato' 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 the Manager 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 the Manager 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 the Manager, holding office as at 31 December 2017, had no interests in the units of Tower REIT as at 31 December 2017.

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 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 2017, 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
Chairman

LIM CHEW YAN
Director

6 February 2018

Directors' Profile

YBHG DATUK EDMUND KONG WOON JUN

*Chairman
Executive Director/
Non-Independent*

*Age 54,
Male,
Malaysian*

YBhg Datuk Edmund Kong Woon Jun 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 Akitek Malaysia (PAM).

Datuk Edmund Kong has more than 28 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.

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

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 65,
Male,
Malaysian*

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

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, 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.

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

Dato' Koh is the Chairman of QBE Insurance (Malaysia) Berhad which is a non-listed public company. 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 65,
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.

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.

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

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

YBHG DATO' PAUL POH YANG HONG

*Non-Executive Director/
Non-Independent*

*Age 44,
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.

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

Dato' Paul Poh is a Director of IRIS Corporation Berhad and GuocoLand (Malaysia) Berhad which are both listed on the Main Market of Bursa Malaysia Securities Berhad.

MS LIM CHEW YAN

*Non-Executive Director/
Non-Independent*

*Age 61,
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.

Chief Executive Officer's Profile

CHUA SONG YONG @ EUSOFFE CHUA

Chief Executive Officer

*Age 39,
Male,
Malaysian*

Mr Chua Song Yong @ Eusoffe Chua holds a Bachelor of Engineering (Honours) in Electronics majoring in Telecommunications from Multimedia University, Cyberjaya. Mr Eusoffe Chua brings with him more than 16 years of work experience in banking, sales and marketing, property investment management and corporate and strategic planning. His last posting was as Head of Group Sales & Marketing and Head of Group Leasing & Property Management with TA Global Berhad. Before that, he worked for Skateline Malaysia Sdn Bhd from 2005 to 2007 as Managing Director and took on a regional role as Managing Director of Skateline Pte Ltd overseeing Skateline's operations in Malaysia and Singapore. He started his career with United Overseas Bank (Malaysia) Bhd, under the consumer banking division.

Mr Eusoffe Chua was appointed as the Chief Executive Officer of GLM REIT Management Sdn Bhd on 5 September 2017.

Notes:

1. Family Relationship with Directors and/or Major Unitholders

None of the Directors nor the Chief Executive Officer has any family relationship with any Director and/or major unitholder of Tower REIT.

2. Conflict of Interests

None of the Directors nor the Chief Executive Officer has any conflict of interest with Tower REIT.

3. Convictions of Offences

None of the Directors nor the Chief Executive Officer has been convicted of any offences (exclude traffic offences) within the past 10 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 31 December 2017.

4. Attendance of Directors

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

Sustainability Statement

This is the first report on the sustainability performance of Tower REIT. This Statement describes to our unitholders our approach to sustainability matters and the measures we have implemented in the financial year ended 31 December 2017 to support responsible business practices. Our Sustainability Statement has been prepared in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and the Sustainability Reporting Guide issued by Bursa Securities.

OUR COMMITMENT TO SUSTAINABILITY

We are committed to building responsible and sustainable business practices throughout the organisation. We instill the principles of sustainability into our strategies, policies and procedures and we integrate economic, environmental and social governance considerations into our decision making.

Our approach to safeguarding the economic, environmental and social well-being of our unitholders has helped us embrace innovations, put in place policies that allow for more efficient use of energy and water, improves on waste management and enhances employee wellness and engagement. Going forward, we will continue to work to enhance our sustainability practices and ensure greater value creation is delivered to our unitholders beyond financial performance.

ECONOMIC

In line with our commitment to improve the quality of our business operations and building practices, one of our strategies is to reorganise the team for better tenant relationship management, i.e. one dedicated relationship manager per building. This will enable us to respond to issues quickly and more efficiently and improve our engagement with tenants. We also emphasize on long-term planning to achieve significant and consistent cost savings without impairing maintenance quality.

ENVIRONMENTAL

We are constantly seeking new ways to reduce energy consumption as well as improve energy efficiency practices by implementing new technologies throughout the premises. Among our efforts taken to achieve long-term energy savings are:

1. Lighting – setting timers to control lightings throughout the premises and conversion of all fluorescent tubes to Light-Emitting Diode (“LED”) type tubes at car parks, staircases, food court and toilets, resulting in lower energy consumption.
2. Energy Management – we are in the process of implementing electricity consumption monitoring and data analysis of our energy usage in order to examine areas where strategic savings can be achieved. Electricity consumption will be monitored monthly and any unusual deviations will be investigated and appropriately addressed.
3. Maintenance – we appointed Architect Centre Sdn Bhd, an independent consultant, to audit, evaluate and study our building services and facilities so that we are benchmarked against current best practices.
4. Water – self-closing faucets have been installed on all toilet basins with each press releasing water for 3-5 seconds to minimise water wastage. Water consumption is monitored monthly to detect any unusual usage or potential leakage.
5. Dryers – hand dryers are used instead of paper towels to reduce paper consumption.
6. Waste management – recycling bins are placed in our buildings to encourage our tenants to recycle waste.

Sustainability Statement

Cont'd

SOCIAL

During the financial year, we have executed various community activities including blood donation drives in collaboration with Hewlett Packard and Pusat Darah Negara. We also participated in conservation programs such as the World Wildlife Fund (“WWF”) Malaysia – Campaign: Switch Off Lights for Earth Hour to raise awareness on climate change, and WWF Awareness and Direct Debit Donor Programme to support WWF’s work on a regular basis.

In cultivating a caring culture towards the less fortunate, we have taken the initiative to participate in the Budimas Charitable Foundation Fundraising Event as well as partnering with the United Nations High Commission for Refugees: The United Nation Refugee Agency in an effort to create awareness and raise funds.

HUMAN CAPITAL MANAGEMENT

We recognise that our employees are our greatest asset and GLM REIT Management Sdn Bhd (the “Manager”), the Manager of Tower Real Estate Investment Trust, has a range of human resource policies to maintain the welfare of our employees. To facilitate the continuous development and motivation of our employees, the Human Resource department implements a range of training programmes based on a comprehensive annual training plan for the workforce across all levels and functions. We also believe in and practice diversity in work force.

For management succession planning, it has been embedded in the Manager’s process over the years to continuously identify, groom and develop key talents from within the Company. The Manager also has a talent development programme to identify, retain and develop young high potential talents.

Corporate Governance Overview Statement

GLM REIT Management Sdn Bhd (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.

Tower REIT is regulated by the Securities Commission (“SC”) pursuant to the provisions of Real Estate Investment Trusts (“REIT”) Guidelines and Capital Markets and Services Act 2007 (“CMSA”) as well as Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“MMLR”). This statement outlines the Manager’s corporate governance practices during the financial year ended 31 December 2017 (“FY 2017”) and guided by the principles set out in the new Malaysian Code on Corporate Governance published in April 2017 (“MCCG 2017”).

THE MANAGER OF TOWER REIT

Tower REIT, constituted as a trust, is externally managed by the Manager and accordingly, it has no personnel of its own. The Manager, led by an experienced Board with a wide and varied range of expertise, appoints experienced and well-qualified management personnel to handle its day-to-day operations. All directors and employees of the Manager are remunerated by the Manager and not by 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 strategic 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 SC Guidelines on REITs, the SC Guidelines on Unit Trust Funds, Bursa Securities MMLR and other relevant legislations;
- supervising the property manager (LaurelCap Sdn Bhd) for the Tower REIT buildings; 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.

The Manager holds a Capital Markets Services Licence issued by SC to carry out regulated activity of fund management in relation to asset management restricted to REIT. The Manager has two licensed representatives in compliance with the minimum requirement prescribed by SC.

Corporate Governance Overview Statement

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 Chief Executive Officer ("CEO") and his management team are accountable to the Board for the performance of the Manager.

The CEO is responsible for formulating the vision and recommending policies and the strategic direction to the Board, implementing the policies and decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing unitholders' wealth, providing management of 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 judgment to the Board and bring impartiality to Board's 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 judgment 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. In addition, the Manager also established 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 which is in line with MMLR and SC Guidelines on REITs. 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. To facilitate participation of directors' attendance, board meetings as well as annual unitholders meeting are scheduled in advance of the calendar year in order to allow directors to plan ahead. The directors have demonstrated their commitment fulfilling their roles and responsibilities as directors and all directors have complied with the minimum requirement of at least 50% attendance at Board meetings pursuant to the MMLR.

Corporate Governance Overview Statement

Cont'd

C. COMMITMENT cont'd

The Board meets quarterly with timely notices of matters to be discussed. Additional meetings may be convened on an ad-hoc basis as and when necessary.

The Manager has moved towards electronic Board reports to enable directors to access the reports in a timely manner. 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 the Manager and management's proposals which require the approval of the Board.

All directors have access to the advice and services of experienced, qualified and competent Company Secretary to facilitate the discharge of their duties. The Company Secretary supports the effective functioning of the Board, provide advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow between the Board and senior management. All directors also have access to the advice and services of the internal auditors and in addition, to 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 Secretary accordingly. The Chairman ensures that its members are given ample opportunity to express their views and opinions during meetings to enable the Board to make informed and effective decisions. 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 2017 ("FY 2017"). Details of attendance of each director are as follows:

Directors	Attendance
YBhg Datuk Edmund Kong Woon Jun	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	3/4
Ms Lim Chew Yan	4/4

The Board recognises the importance of continuous professional development and training for its directors. All directors are aware of the continuing education programme requirements pursuant to the MMLR.

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 as prescribed by Bursa Securities.

Corporate Governance Overview Statement

Cont'd

C. COMMITMENT cont'd

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.

In assessing the training needs of directors, the Board has determined that appropriate training programmes covering issues on corporate governance, finance, legal, risk management, information technology, internal control 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 2017 ("FY 2017"), the directors received regular briefings and updates on the Manager's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Manager also organised in-house programmes 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 and considered as relevant to enhance their business acumen and professionalism in discharging their duties as directors.

During FY 2017, the directors of the Manager, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops covering a range of pertinent matters including investment analysis and trend in the Property Industry, Malaysian Code on Corporate Governance, Companies Act 2016 and other legal development, Board's role and responsibility and Sustainability Reporting.

D. APPOINTMENTS TO THE BOARD

Given the current size of the Board, the Board is of the view that it is not necessary for the Manager 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. There were no new appointments to the Board during FY 2017.

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 the Manager every 3 years under the MMLR.

Corporate Governance Overview Statement

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 2017, 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. The Manager's responsibility in respect of the preparation of the financial statements of Tower REIT FY 2017 is set out in the Manager's Report of this Annual Report.

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 the Trustee. The remuneration of the auditors is approved by the Trustee.

The Board maintains a formal and professional relationship with the external auditors, KPMG PLT. For the financial year under review, the auditors confirmed that they are and have been independent throughout the conduct of the audit engagement.

G. INTERNAL CONTROL

The Board has overall responsibility for maintaining a system of internal control which covers financial and operational 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.

The Manager does not have its own in-house Internal Audit ("IA") function. The IA function is outsourced to the Group IA Department of its holding company, GuocoLand (Malaysia) Berhad, to assist the Board in discharging its duties and responsibilities.

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 unrelated parties.

The Board is under a fiduciary duty to Tower REIT to act in the best interest in relation to decisions affecting Tower REIT when they are voting as a member of the Board and to refrain from any or all deliberations or decisions which concerns their personal, commercial or professional interests. In addition, the directors and the executive officers of the Manager are expected to act with honesty and integrity at all times.

Information on transactions entered with related party during FY 2017 is disclosed in this Annual Report under Notes to the Financial Statements.

Corporate Governance Overview Statement

Cont'd

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 comments 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.

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, quarterly financial reports and the various announcements made during the year, through which unitholders and investors can have an overview of 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's website, Bursa Securities's 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 information at the Tower REIT's website, which includes corporate information, announcements and financial information.

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

Queries may be conveyed to the following person:

Name	: Mr Eusoffe Chua Song Yong
Tel No.	: 603-2726 1000
Fax No.	: 603-2726 1120
E-mail address	: glmreit@guocoland.com

Corporate Governance Overview Statement

Cont'd

K. COMMUNICATION WITH UNITHOLDERS cont'd

II. AGM

The AGM provides an opportunity for the unitholders to seek and clarify any issues and to have a better understanding of Tower REIT's performance. Unitholders are encouraged to meet and communicate with the Board of Directors of the Manager 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. All Directors attended the last AGM held on 27 April 2017.

In line with Paragraph 8.29A(1) of the MMLR, all resolutions put forth for unitholders' approval at the last AGM were voted by poll and the voting results were announced at the said meeting and to Bursa Securities.

This Overview Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors of the Manager.

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Independent Auditors' Report

Statement of Financial Position

As at 31 December 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Non-current assets			
Investment properties	3	562,000	559,000
Current assets			
Trade and other receivables	4	1,020	921
Deposits placed with licensed banks	5	3,920	7,680
Cash and bank balances	5	430	488
Total current assets		5,370	9,089
Total assets		567,370	568,089
Represented by:			
Unitholders' funds			
Unitholders' capital	6	285,345	285,345
Undistributed income – realised		64,738	66,184
Undistributed income – unrealised	7	195,520	193,717
		545,603	545,246
Liabilities			
Trade and other payables	8	4,092	3,802
Borrowings	9	100	-
Deferred tax liability	10	10,550	10,400
Total non-current liabilities		14,742	14,202
Trade and other payables	8	7,025	8,541
Borrowings	9	-	100
Total current liabilities		7,025	8,641
Total liabilities		21,767	22,843
Total unitholders' funds and liabilities		567,370	568,089
Net asset value ("NAV")		545,603	545,246
Number of units in circulation ('000)	6	280,500	280,500
		2017	2016
		RM	RM
NAV per unit			
- Before income distribution		1.9451	1.9438
- After income distribution		1.9171	1.9065

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 42 to 68 form an integral part of these financial statements.

Statement of Comprehensive Income

For the Year Ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Gross revenue	11	32,644	36,591
Property operating expenses	12	(12,211)	(13,500)
Net rental income		20,433	23,091
Change in fair value of investment properties		1,953	-
Other income		173	318
Finance income		-	214
Interest income		246	215
Total income		22,805	23,838
Manager's fees	13	(1,962)	(2,054)
Trustee's fee	14	(163)	(163)
Auditors' fees		(52)	(45)
Administrative expenses		(402)	(274)
Valuation fee		(43)	-
Interest expense		(237)	(140)
Total expenses		(2,859)	(2,676)
Income before tax		19,946	21,162
Income tax expense	15	(150)	-
Net income for the year/Total comprehensive income for the year		19,796	21,162
Total comprehensive income for the year is made up as follows:			
Realised		17,993	20,948
Unrealised		1,803	214
		19,796	21,162
	Note	2017	2016
Earnings per unit (sen)			
Realised		6.41	7.47
Unrealised		0.65	0.08
	16	7.06	7.55

The notes on pages 42 to 68 form an integral part of these financial statements.

Statement of Changes in Net Asset Value

For the Year Ended 31 December 2017

	Note	Undistributed income		Total RM'000	
		Unitholders' capital RM'000	Non- Distributable - unrealised RM'000		Distributable realised RM'000
At 1 January 2016		285,345	193,503	64,675	543,523
Operations for the year ended 31 December 2016					
Net income for the year		-	214	20,948	21,162
Total comprehensive income for the year		-	214	20,948	21,162
Unitholders' transactions					
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 2016/1 January 2017		285,345	193,717	66,184	545,246
Operations for the year ended 31 December 2017					
Net income for the year		-	1,803	17,993	19,796
Total comprehensive income for the year		-	1,803	17,993	19,796
Unitholders' transactions					
Distribution to unitholders					
- 2016 final	17	-	-	(10,463)	(10,463)
- 2017 interim	17	-	-	(8,976)	(8,976)
Decrease in net assets resulting from unitholders' transactions		-	-	(19,439)	(19,439)
At 31 December 2017		285,345	195,520	64,738	545,603
		Note 6	Note 7		

The notes on pages 42 to 68 form an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended 31 December 2017

	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Income before tax	19,946	21,162
Adjustments for:		
Change in fair value of investment properties	(1,953)	-
Finance income	-	(214)
Interest income	(246)	(215)
Interest expense	237	140
Operating profit before changes in working capital	17,984	20,873
Changes in working capital:		
Trade and other receivables	(99)	551
Trade and other payables	(1,226)	(1,736)
Net cash generated from operating activities	16,659	19,688
Cash flows from investing activities		
Payment for enhancement of investment properties	(1,047)	-
Interest received	246	215
Net cash (used in)/generated from investing activities	(801)	215
Cash flows from financing activities		
Distribution paid to unitholders	(19,439)	(19,439)
Interest paid	(237)	(140)
Proceeds from borrowings	5,100	-
Repayment of borrowings	(5,100)	-
Net cash used in financing activities	(19,676)	(19,579)
Net (decrease)/increase in cash and cash equivalents	(3,818)	324
Cash and cash equivalents at beginning of year	7,868	7,544
Cash and cash equivalents at end of year	4,050	7,868

Cash and cash equivalents

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

	Note	2017 RM'000	2016 RM'000
Cash and bank balances	5	430	488
Deposits placed with licensed banks	5	3,920	7,680
Deposits pledged as security	5	4,350	8,168
		(300)	(300)
		4,050	7,868

The notes on pages 42 to 68 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 (“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 13, Wisma GuocoLand, Damansara City, 6 Jalan Damanlela, 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 6 February 2018.

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 of the MFRSs 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 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*

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 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 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 2018 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 2, MFRS 4 and MFRS 128 which are not applicable to Tower REIT.
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2019, except for amendments to MFRS 3, MFRS 11 and MFRS 128 which are not applicable to Tower REIT.

Tower REIT does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to Tower REIT.

The initial application of the 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*.

Notes to the Financial Statements

Cont'd

1. Basis of preparation cont'd

(a) Statement of compliance cont'd

MFRS 15, Revenue from Contracts with Customers cont'd

The initial application of the accounting standard, amendment and interpretation is not expected to have any material financial impacts to the current period and prior period financial statements of Tower REIT save for the disclosures and separation of leasing income from non-leasing income in profit or loss.

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*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating 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.

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.

Notes to the Financial Statements

Cont'd

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 financial guarantee contract or 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.

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

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 liabilities

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

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities 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.

(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 ownership of the financial asset are 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 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, cancelled or expires. 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 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.

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

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

An external, independent valuation firm, having appropriate 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 loss 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.

Notes to the Financial Statements

Cont'd

2. Significant accounting policies cont'd

(d) Impairment cont'd

Financial assets cont'd

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.

(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, Tower REIT 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.

(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.

Notes to the Financial Statements

Cont'd

2. Significant accounting policies cont'd

(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.

(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.

Notes to the Financial Statements

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2. Significant accounting policies cont'd

(i) Income tax cont'd

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 be realised simultaneously.

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 Tower REIT 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

	2017 RM'000	2016 RM'000
At 1 January	559,000	559,000
Enhancements/capital expenditure	1,047	-
Changes in fair value of investment properties	1,953	-
At 31 December	562,000	559,000

Notes to the Financial Statements

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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	342,000	222,734	63
HP Towers*	Freehold	Kuala Lumpur	Office	220,000	133,409	40
				<u>562,000</u>	<u>356,143</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
2017				
Menara HLA	-	-	342,000	342,000
HP Towers	-	-	220,000	220,000
	-	-	<u>562,000</u>	<u>562,000</u>
2016				
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:

	2017 RM'000	2016 RM'000
At 1 January	559,000	559,000
Enhancements/capital expenditure	1,047	-
Changes in fair value recognised in profit or loss	1,953	-
At 31 December	<u>562,000</u>	<u>559,000</u>

Notes to the Financial Statements

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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 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% (2016: 6.00% and 6.50%).	Expected market rental rate (p.s.f) RM4.40 – RM7.60 (2016: RM4.30 – RM7.60)	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> • Expected net rental income were higher (lower); • Void periods were shorter (longer); and • Expected yield were lower (higher).
	Outgoing (p.s.f) RM1.30 – RM1.50 (2016: RM1.25 – RM1.50)	
	Term yield 6% (2016: 6.00%)	
	Reversionary yield: 6.5% (2016: 6.50%)	
	Void periods 5% – 10% (2016: 5% – 10%)	

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 appropriate 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. Each property on its own is the highest and best use as the property is located on prime land in the city centre.

Notes to the Financial Statements

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4. Trade and other receivables

	2017	2016
	RM'000	RM'000
Trade receivables	89	605
Other receivables, deposits and prepayments	931	316
	1,020	921

Included in trade receivables are rental outstanding from companies related to the Manager, amounting to RM44,285 (2016: RM10,358).

5. Cash and cash equivalents

	2017	2016
	RM'000	RM'000
Cash and bank balances	430	488
Deposits placed with licensed banks	3,620	7,380
Deposits pledged as security	300	300
	4,350	8,168

Deposits pledged as security is pledged for a bank facility granted to Tower REIT.

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

	2017	2016
	RM'000	RM'000
Cash and bank balances	346	405
Deposits placed with a licensed bank	1,800	7,380
	2,146	7,785

Notes to the Financial Statements

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6. Unitholders' capital

	2017 '000	2016 '000
Issued and fully paid-up (Number of units)	280,500	280,500
	2017 RM'000	2016 RM'000
Issued and fully paid-up	285,345	285,345

As at 31 December 2017, the Manager did not hold any units in Tower REIT. However, the related parties of the Manager held units in Tower REIT as follows:

	2017		2016	
	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.	60,769	74,138	60,769	71,099
Hong Leong Assurance Berhad	57,771	70,481	57,771	67,592
Asia Fountain Investment Company Limited	14,000	17,080	14,000	16,380
Associated Land Sendirian Berhad	13,409	16,359	13,409	15,689
Hong Leong Investment Bank Berhad	5,887	7,182	5,887	6,888
Dato' Poh Yang Hong	3,085*	3,764	3,085*	3,609

* Indirect holdings

The market value is determined by multiplying the number of units with the market closing price of RM1.22 (2016: RM1.17) per unit as at 31 December 2017.

7. Unrealised undistributed income

	2017 RM'000	2016 RM'000
Cumulative net change arising from fair value movement of:		
- investment properties	195,520	193,503
- tenant deposits	-	214
	195,520	193,717

Notes to the Financial Statements

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8. Trade and other payables

	2017 RM'000	2016 RM'000
Non-current		
Tenants' deposits		
- payable after 12 months	4,092	3,802
	4,092	3,802
Current		
Trade		
Trade payables	423	350
Tenants' deposits		
- payable within 12 months	5,139	6,841
Total trade	5,562	7,191
Non-trade		
Other payables and accrued expenses	1,463	1,350
	7,025	8,541
	11,117	12,343

Included in other payables and accrued expenses are amounts due to the Manager and the Trustee of RM146,758 (2016: RM148,683) and RM13,902 (2016: RM13,849) 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:

	2017 RM'000	2016 RM'000
Payable within 12 months	1,296	1,585
Payable after 12 months	5	4
	1,301	1,589

Notes to the Financial Statements

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9. Borrowings

	2017 RM'000	2016 RM'000
Non-current		
Term loan	100	-
Current		
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 31 March 2020 (2016: 1 April 2017).

The term loan bore interests at rates ranging from 3.97% to 4.37% (2016: 3.95% to 4.14%) p.a. during the financial year.

9.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

	At 1 January 2017 RM'000	Net changes from financing cash flows RM'000	Interest expense RM'000	At 31 December 2017 RM'000
Term Loan	100	(4)	4	100
Revolving credit facility	-	(233)	233	-
	100	(237)	237	100

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 is 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.

Notes to the Financial Statements

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10. DEFERRED TAX LIABILITIES cont'd

Deferred tax liability is attributable to the following:

	2017 RM'000	2016 RM'000
Investment properties	10,550	10,400

11. GROSS REVENUE

	2017 RM'000	2016 RM'000
Gross rental income	28,591	32,038
Car park income	3,257	3,618
Other income	796	935
	32,644	36,591

12. PROPERTY OPERATING EXPENSES

	2017 RM'000	2016 RM'000
Assessment	2,929	2,963
Service contracts and maintenance	4,190	5,578
Property management fees	336	336
Utilities	3,558	3,486
Others	1,198	1,137
	12,211	13,500

Property management fees of RM336,000 (2016: RM336,000) 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 2017 of RM1,249,799 and RM712,389 (2016: RM1,250,372 and RM803,935) are 0.22% and 3.49% (2016: 0.22% and 3.48%) of the gross asset value and net property income respectively.

Notes to the Financial Statements

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14. TRUSTEE'S FEE

Pursuant to the Deed constituting Tower REIT, the Trustee is entitled to receive a fee of 0.03% (2016: 0.03%) per annum of the net asset value of Tower REIT with a cap of RM200,000 (2016: RM200,000). The Trustee's fee for the year ended 31 December 2017 is RM163,019 (2016: RM162,683).

15. INCOME TAX EXPENSE

	2017 RM'000	2016 RM'000
Current tax expense		
- under provision in prior years	-	-
Deferred tax expense		
- current year	150	-
Total income tax expense	150	-
Reconciliation of tax expense		
Income before tax	19,946	21,162
Income tax using Malaysian tax rate of 24% (2016: 24%)	4,787	5,079
Non-deductible expenses	90	64
Effect of fair value of investment properties which is taxed at a lower rate	(319)	-
Effect of income exempted from tax	(4,408)	(5,143)
	150	-

Pursuant to Section 61A of the Income Tax Act, 1967, total income of the trust for a year of assessment shall be exempted from tax when the trust distributes 90% or more of its total income to its unitholders in the basis period for that year of assessment.

16. EARNINGS PER UNIT

The calculation of earnings per unit is based on net income for the financial year of RM19,796,000 (2016: RM21,162,000) and on the number of units in circulation during the financial year of 280,500,000 (2016: 280,500,000).

Notes to the Financial Statements

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17. DISTRIBUTION TO UNITHOLDERS

	Gross/Net distribution per unit sen	Total amount RM'000	Date of payment
2017			
2016 Final income distribution	3.73	10,463	28 February 2017
2017 Interim income distribution	3.20	8,976	6 September 2017
		<u>19,439</u>	
2016			
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>	

On 6 February 2018, the Directors of the Manager declared a final income distribution of 2.80 sen (2016: 3.73 sen) per unit amounting to RM7,854,000 (2016: RM10,462,650) in respect of the financial year ended 31 December 2017. The distribution will be recognised in the subsequent year.

The total income distribution for the financial year ended 31 December 2017 which comprises the interim income distribution of 3.20 sen (2016: 3.20 sen) per unit and the proposed final income distribution of 2.80 sen (2016: 3.73 sen) per unit are from the following sources:

	2017 RM'000	2016 RM'000
Net rental income	20,433	23,091
Interest income	246	215
Other income	173	318
	<u>20,852</u>	23,624
Less: Expenses	(2,859)	(2,676)
Less: Taxation	-	-
	<u>17,993</u>	20,948
Less: Current year's undistributed gain	(1,163)	(1,509)
	<u>16,830</u>	19,439

Notes to the Financial Statements

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17. DISTRIBUTION TO UNITHOLDERS cont'd

	2017 RM'000	2016 RM'000
Net income distribution		
- Interim income distribution of 3.20 sen per unit paid on 6 September 2017 (2016: 3.20 sen per unit paid on 14 September 2016)	8,976	8,976
- Final income distribution declared after the reporting period of 2.80 sen per unit payable on 28 February 2018 (2016: 3.73 sen per unit paid on 28 February 2017)	7,854	10,463
	16,830	19,439
Income distribution per unit		
- Interim* (sen)	3.20 [#]	3.20 [@]
- Final* (sen)	2.80 [§]	3.73 [#]
	6.00	6.93

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

	Withholding tax rate		
	2018 [§]	2017 [#]	2016 [@]
Resident corporate	Nil [^]	Nil [^]	Nil [^]
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	24%	24%	24%
Non-resident institutional	10%	10%	10%

[^] To tax at prevailing rate.

18. MANAGEMENT EXPENSE RATIO

	2017	2016
Management expense ratio ("MER") (%)	0.48	0.47

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 basis of calculation, may not be accurate.

Notes to the Financial Statements

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19. 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.

	2017	2016
	RM'000	RM'000
Rental charged	4,121	4,657
Interest income	167	85

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.

20. OPERATING LEASES

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

	2017	2016
	RM'000	RM'000
Less than one year	19,013	22,287
Between one and five years	11,854	12,201
	30,867	34,488

Notes to the Financial Statements

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21. FINANCIAL INSTRUMENTS

21.1 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
2017		
Financial assets		
Trade and other receivables	876	876
Deposits placed with licensed banks	3,920	3,920
Cash and bank balances	430	430
	5,226	5,226
Financial liabilities		
Borrowings (secured)	(100)	(100)
Trade and other payables	(11,117)	(11,117)
	(11,217)	(11,217)
2016		
Financial assets		
Trade and other receivables	786	786
Deposits placed with licensed banks	7,680	7,680
Cash and bank balances	488	488
	8,954	8,954
Financial liabilities		
Borrowings (secured)	(100)	(100)
Trade and other payables	(12,343)	(12,343)
	(12,443)	(12,443)

Notes to the Financial Statements

Cont'd

21. FINANCIAL INSTRUMENTS cont'd

21.2 Net gains and losses arising from financial instruments

	2017 RM'000	2016 RM'000
Net gain/(loss) arising on:		
Loans and receivables	246	215
Financial liabilities at amortised cost	(237)	74

21.3 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

21.4 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.

Notes to the Financial Statements

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21. FINANCIAL INSTRUMENTS cont'd

21.4 Credit risk cont'd

Receivables cont'd

Exposure to credit risk, credit quality and collateral cont'd

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	
	2017 RM'000	2016 RM'000
Not past due	145	376
Past due 31 – 60 days	16	348
Past due 61 – 90 days	3	36
Past due 91 – 120 days	47	108
>121 days	245	107
Unallocated receipts	(367)	(370)
	89	605

21.5 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.

Notes to the Financial Statements

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21. FINANCIAL INSTRUMENTS cont'd

21.5 Liquidity risk cont'd

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
2017					
<i>Non-derivative financial liabilities</i>					
Term loan	100	4.00	100	-	100
Tenants' deposits	9,231	-*	9,231	5,139	4,092
Trade and other payables	1,886	-	1,886	1,886	-
	11,217		11,217	7,025	4,192
2016					
<i>Non-derivative financial liabilities</i>					
Term loan	100	4.06	100	100	-
Tenants' deposits	10,643	-*	10,858	6,841	4,017
Trade and other payables	1,700	-	1,700	1,700	-
	12,443		12,658	8,641	4,017

* There is no contractual interest rate. The carrying amount is arrived at after discounting using 4.00% (2016: 4.06%).

Notes to the Financial Statements

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21. FINANCIAL INSTRUMENTS cont'd

21.6 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.

21.6.1 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.

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:

	2017 RM'000	2016 RM'000
Fixed rate instruments		
Financial assets		
Deposits placed with licensed banks	3,920	7,680
Floating rate instruments		
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

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21. FINANCIAL INSTRUMENTS cont'd

21.7 Fair value information

The carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments. There is no material differences between the carrying amount and fair value of borrowings.

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		
2017										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	(9,231)	(9,231)	(9,231)	(9,231)
Borrowings	-	-	-	-	-	-	(100)	(100)	(100)	(100)
	-	-	-	-	-	-	(9,331)	(9,331)	(9,331)	(9,331)
2016										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	(10,643)	(10,643)	(10,643)	(10,858)
Borrowings	-	-	-	-	-	-	(100)	(100)	(100)	(100)
	-	-	-	-	-	-	(10,743)	(10,743)	(10,743)	(10,958)

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

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22. 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	2017 RM'000	2016 RM'000
Gross borrowings	9	100	100
Total assets		567,370	568,089
Gearing		0.02%	0.02%

23. 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
	2017 RM'000	2016 RM'000	
- Hewlett-Packard (M) Sdn. Bhd.	3,841	3,897	HP Towers
- TWM Corporate Services Sdn. Bhd.	-	3,747	Menara HLA

Statement by the Directors of the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 38 to 68 are drawn up in accordance with 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 2017 and of its financial performance and cash flows for the year then ended.

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: 6 February 2018

Statutory Declaration

I, Quek Ting Chin, 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 38 to 68 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 6 February 2018.

QUEK TING CHIN

Before me,

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 2017. 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 6.00 sen per unit for the financial year ended 31 December 2017 by Tower REIT is tied to and reflects the objectives of the fund.

For and on behalf of the Trustee
MTrustee Berhad

PUAN NURIZAN JALIL
Chief Executive Officer

Selangor
Date: 6 February 2018

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 2017, 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 38 to 68.

In our opinion, the financial statements give a true and fair view of the financial position of Tower REIT as at 31 December 2017 and of its 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 for 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 investment method, of which were highly sensitive to key assumptions, in particular, those unobservable inputs as disclosed in Note 3 to the financial statements.

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.

Independent Auditors' Report

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

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 RM10,550,000 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.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report

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

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 2016 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.
- 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.

Independent Auditors' Report

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

Cont'd

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 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: 6 February 2018

Other Information

ANALYSIS OF UNITHOLDINGS AS AT 30 JANUARY 2018

DISTRIBUTION SCHEDULE OF UNITHOLDERS

Size of Holding	No. of Unitholders	% of Unitholders	No. of Units Held	% of Units Held
Less than 100	13	0.47	300	0.00
100 – 1,000	378	13.55	284,500	0.10
1,001 – 10,000	1,377	49.35	7,917,300	2.82
10,001 – 100,000	835	29.93	30,206,700	10.77
100,001 – less than 5% of issued units	185	6.63	123,551,400	44.05
5% and above of issued units	2	0.07	118,539,800	42.26
	2,790	100.00	280,500,000	100.00

LIST OF THIRTY LARGEST UNITHOLDERS

Name of Unitholders	No. of Units	%
1. Assets Nominees (Tempatan) Sdn Bhd - GLM 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 Sdn Bhd	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. Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Law Kiu Kiong	3,060,700	1.09
10. Citigroup Nominees (Tempatan) Sdn Bhd - MCIS Insurance Berhad (Life Par FD)	2,545,200	0.91
11. Lian Mong Yee @ Lian Mung Yee	2,351,000	0.84
12. CIMB Group Nominees (Asing) Sdn Bhd - Exempt AN for DBS Bank Ltd (SFS)	2,340,000	0.83

Other Information

Cont'd

ANALYSIS OF UNITHOLDINGS AS AT 30 JANUARY 2018 cont'd

LIST OF THIRTY LARGEST UNITHOLDERS cont'd

Name of Unitholders	No. of Units	%
13. Citigroup Nominees (Tempatan) Sdn Bhd - MCIS Insurance Berhad (Shh FD)	2,075,700	0.74
14. Tan Kim Chuan	1,574,100	0.56
15. CIMSEC Nominees (Asing) Sdn Bhd - Exempt AN for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	1,468,200	0.52
16. AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Law Kiu Kiong	1,454,800	0.52
17. CIMSEC Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Chen Yik (Penang-CL)	1,355,000	0.48
18. HLIB Nominees (Tempatan) Sdn Bhd - Hong Leong Fund Management Sdn Bhd for Hong Leong Foundation	1,313,800	0.47
19. Citigroup Nominees (Tempatan) Sdn Bhd - MCIS Insurance Berhad (Ann FD)	1,164,000	0.42
20. HLB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Liew Sun Yick	1,160,000	0.41
21. Ong Ee Nah	1,100,000	0.39
22. Lim Kew Seng	1,065,000	0.38
23. Goh Siew Cheng	1,048,200	0.37
24. JF Apex Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Seik Ye Doong (RS2)	1,000,000	0.36
25. Yap Ah Ngah @ Yap Neo Nya	1,000,000	0.36
26. DynaQuest Sdn Berhad	860,000	0.31
27. CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB for Ram Holdings Berhad (PB)	821,900	0.29
28. Ling Thik Ping	700,000	0.25
29. Tan Onn Poh	700,000	0.25
30. Chow Hon Keong	691,700	0.25
	204,369,900	72.86

Other Information

Cont'd

ANALYSIS OF UNITHOLDINGS AS AT 30 JANUARY 2018 cont'd

MAJOR UNITHOLDERS

Name of Unitholders	No. of Units	%
1. Assets Nominees (Tempatan) Sdn Bhd - GLM Equities Sdn Bhd	60,768,800	21.66
2. Hong Leong Assurance Berhad - As Beneficial Owner	57,771,000	20.60

DIRECTORS' INTERESTS AS AT 30 JANUARY 2018

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 Sixth Annual General Meeting of the unitholders of Tower Real Estate Investment Trust ("Tower REIT") will be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 17 April 2018 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 2017.

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;

Notice of Annual General Meeting

Cont'd

AND THAT authority be and is hereby given to the Directors of the Manager and MTrustee 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)

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, acting as the Trustee of Tower REIT (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

CHEW ANN NEE (MAICSA 7030413)

Company Secretary

Kuala Lumpur

28 February 2018

Notice of Annual General Meeting

Cont'd

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 9 April 2018 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 (2) 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 (2) 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 (2) 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 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.

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 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 27 April 2017 and which will lapse at the conclusion of the forthcoming Sixth 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.

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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 Sixth 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 Tuesday, 17 April 2018 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 _____ 2018

Number of units held

Signature(s) of Unitholder

NOTES:

- For the purpose of determining unitholders' eligibility to attend this meeting, only unitholders whose names appear in the Record of Depositors as at 9 April 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.
- 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.
- 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.
- A proxy may but need not be a unitholder of Tower REIT.
- Save for a unitholder who is an exempt authorised nominee, a unitholder shall not be entitled to appoint more than two (2) proxies to attend, participate, speak 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 (2) 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.
- Where two (2) 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).
- 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.
- 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.
- In the event two (2) or more proxies are appointed, please fill in the ensuing section:

Name of Proxies	% of unitholdings to be represented

- 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 Sixth Annual General Meeting will be put to vote by way of a poll.

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

GLM REIT MANAGEMENT SDN BHD (659312-H)

The Manager of Tower Real Estate Investment Trust

Level 13, Wisma GuocoLand

Damansara City

No. 6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel : 03-2726 1000

Fax : 03-2726 1001

www.tower-reit.com.my