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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

(Non-Independent Executive Chairman)

YBHG DATO' KOH HONG SUN

(Independent Non-Executive Director)

YBHG DATO' NICHOLAS JOHN LOUGH @ SHARIF LOUGH BIN ABDULLAH

(Independent Non-Executive Director)

MS LIM TAU KIEN

(Independent Non-Executive Director)

MS LIM CHEW YAN

(Non-Independent Non-Executive Director)

MANAGER

GLM REIT Management Sdn Bhd (659312-H)

MANAGER'S PRINCIPAL ADDRESS

Level 13, Guoco Tower, Damansara City
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
B-2-9 (2nd floor)
Pusat Perdagangan Kuchai
No. 2, Jalan 1/127
Off Jalan Kuchai Lama
58200 Kuala Lumpur
Tel No. : 03-7983 1088
Fax No. : 03-7984 9612

PROPERTY MANAGER

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

REGISTRAR

Hong Leong Share
Registration Services Sdn Bhd
Level 25, Menara Hong Leong
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel No. : 03-2088 8818
Fax No. : 03-2088 8990

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”)
TERM OF TRUST	The Trust has no fixed termination date. However, the Deed provides a number of circumstances under which the Trust may be terminated.
INVESTMENT OBJECTIVE	<p>To invest in a portfolio of quality office buildings and commercial properties in order to:</p> <ul style="list-style-type: none"> • 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”) of the SC Guidelines on Listed REITs.</p>
FINANCIAL YEAR END	30 June
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 Securities Commission Guidelines on Listed REITs.
TOTAL NUMBER OF UNITS ISSUED	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 RM562.3 million as at 30 June 2019. The combined total net lettable area of the portfolio is 735,408 sq. ft. These assets provide strong and sustainable income stream to the Trust.



MENARA HLA
3 Jalan Kia Peng
50450 Kuala Lumpur

PLAZA ZURICH (formerly known as HP TOWERS)
12 Jalan Gelenggang Bukit Damansara
50490 Kuala Lumpur

As at 30 June 2019, 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	342,200,000	61
Plaza Zurich (formerly "HP Towers")	350,193	220,100,000	39
Total	735,408	562,300,000	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, banking facilities, etc. 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).

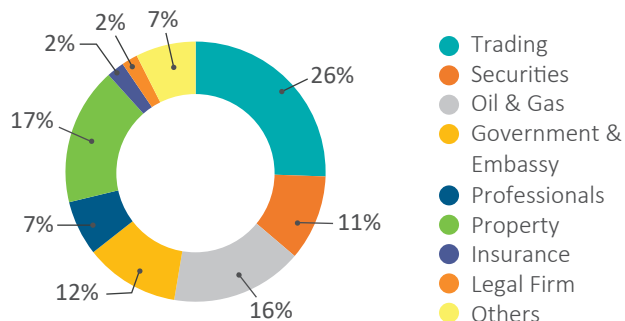
The finishes and specifications of Menara HLA embodies elegance and corporate sophistication. The building has high-grade granite for its façade, and polished granite slabs for the entrance lobby on the ground floor and all office lifts. A triple-volume

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.

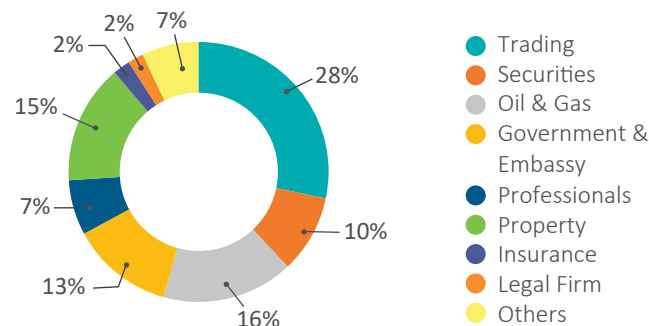
Menara HLA offers an unrivalled, uninterrupted view of KLCC Park and the iconic KLCC Twin Towers. To the north, one will enjoy a scenic view of skyscrapers in the city centre, and to the south, views of bustling crowds enjoying the Bukit Bintang shopping enclave.

TENANTS MIX BY NET LETTABLE AREA

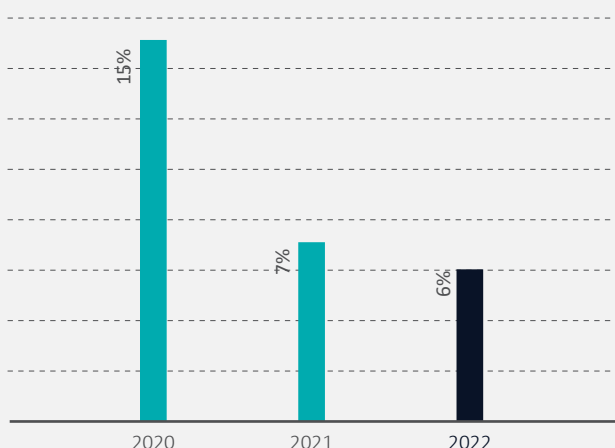
As at 30 June 2019

**TENANTS MIX BY GROSS RENTAL INCOME**

For the Month of June 2019

**EXPIRY PROFILE**

As at 30 June 2019

**MAJOR TENANTS**

As at 30 June 2019

Name	Trade Sector	% of Total Net Lettable Area
RZ Corporation Sdn Bhd	Trading	7%
IPC (formerly known as Lundin Malaysia B.V.)	Oil & Gas	4%
Mulia Property Development	Property	3%
Hong Leong Investment Bank Bhd	Securities	3%
South African Embassy	Embassy	2%
		21%

ADDRESS

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

DESCRIPTION

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

PROPERTY TYPE/USE

Commercial Office Building

AGE

20 years

TITLE DETAILS

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

ENCUMBRANCES

Nil

LIMITATION IN TITLE/INTEREST

Nil

TENURE

Freehold

NET LETTABLE AREA

385,215 sq. ft.

OCCUPANCY RATES

34%

AVERAGE TENANCY PERIOD

2-3 years

PARKING SPACE

723 car park bays

DATE OF ACQUISITION

17 April 2006

ACQUISITION PRICE

RM221,000,000

MARKET VALUE

RM342,200,000

DATE OF LATEST**VALUATION**

13 March 2019

NAME OF VALUER

Cheston International (KL)
Sdn Bhd

NET BOOK VALUE*

RM342,200,000

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

* As at 30 June 2019

Assets Profile

cont'd



PLAZA ZURICH (formerly known as HP Towers)

Plaza Zurich (formerly known as 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).

Plaza Zurich 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. The Semantan and Pusat Bandar Damansara MRT stations, which link directly to Bukit Bintang, are a mere 80 metres and 800 metres away respectively.

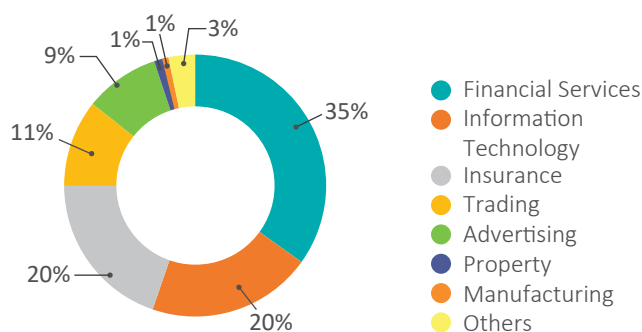
Plaza Zurich provide occupiers with functional, quality office space, with easy access and ample parking space. A triple-volume lobby greets visitors, creating a sense of class and

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

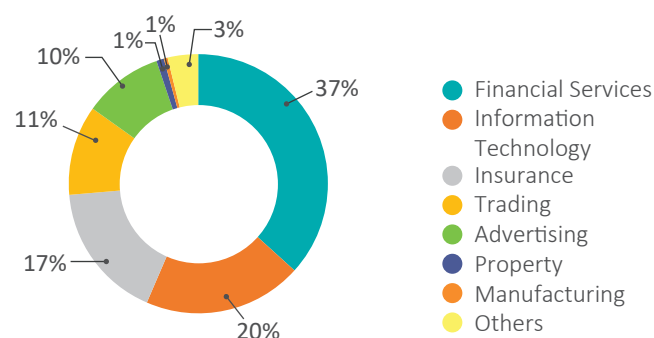
The external facade is of high quality alucabond curtain-walling, whilst the entrance lobby on the ground floor and all the office lift lobbies are of polished granite slabs.

TENANTS MIX BY NET LETTABLE AREA

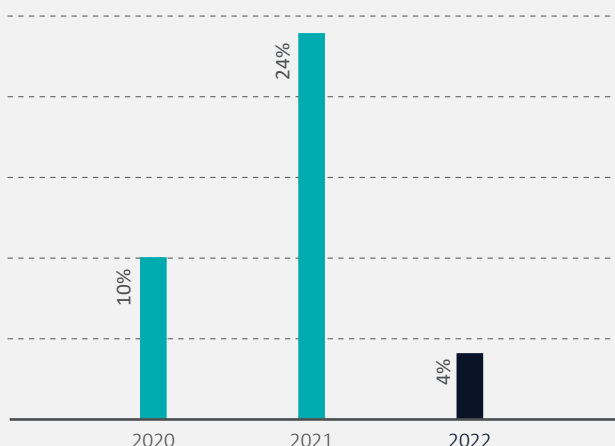
As at 30 June 2019

**TENANTS MIX BY GROSS RENTAL INCOME**

For the Month of June 2019

**EXPIRY PROFILE**

As at 30 June 2019

**MAJOR TENANTS**

As at 30 June 2019

Name	Trade Sector	% of Total Net Lettable Area
Zurich Life General Insurance	Insurance	13%
Valuecap Sdn Bhd	Financial	12%
Hong Leong Investment Bank & Asset Management	Financial	10%
HP PPS Sdn Bhd	Information technology	8%
Stream Enterprise (M) Sdn Bhd	Manufacturing	7%
		49%

ADDRESS

Plaza Zurich (formerly known as 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

26 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

350,193 sq. ft.

OCCUPANCY RATES

64%

AVERAGE TENANCY PERIOD

2-3 years

PARKING SPACE

560 car park bays

DATE OF ACQUISITION

17 April 2006

ACQUISITION PRICE

RM130,000,000

MARKET VALUE

RM220,100,000

DATE OF LATEST VALUATION

14 March 2019

NAME OF VALUER

Cheston International (KL)
Sdn Bhd

NET BOOK VALUE*

RM220,100,000

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

* As at 30 June 2019

Management Discussion and Analysis

Dear Unitholders

The financial period 2019 (FY2019) was not without its challenges which had a significant impact on the property sector in Malaysia, as it did with Tower Real Estate Investment Trust (Tower REIT). In line with our commitment to provide our unitholders with stable distributions as well as sustainable long-term growth of such distributions, we focused our efforts on weathering the short-term challenges arising from the impact from market conditions, while putting in place strategies to build long-term value.

Among others, this includes reinventing the spaces in the properties to look at factoring in relevance and innovation so that the offices offer a stronger value proposition and are attractive to tenants.

BUSINESS OVERVIEW

Tower Real Estate Investment Trust (Tower REIT) is a real estate trust fund that 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 in real estate and real estate-related assets with the primary objectives of achieving an attractive level of return from rental income and medium to long-term capital growth. Tower REIT's portfolio consists of two prime commercial buildings ie. Menara HLA and Plaza Zurich (formerly known as HP Tower) in Kuala Lumpur. Menara HLA represents 61% of the Trust's real estate portfolio, with Plaza Zurich making up the balance of 39%.

Management Discussion and Analysis

cont'd

INVESTMENT OBJECTIVE

The objective of the Trust is to invest in a portfolio of quality office buildings and commercial properties that can provide our unitholders with stable distribution per unit, as well as sustainable 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 continued to achieve our investment objective by delivering stable distribution and growth in NAV to our valued unitholders.

INVESTMENT STRATEGIES

Since the listing of the Trust in 2006, the Manager has been prudent and cautious in its acquisition strategies, as well as its risk management and asset management initiatives. In times of potential economic uncertainty, the Manager will carry out more fact-based analyses 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 optimal returns to unitholders.

Tower REIT intends to distribute at least 90% of the distributable income as a policy for the relevant financial years through semi-annual distributions to unitholders with the amount calculated as at 30 June and 31 December each year, or at other percentages and intervals at its discretion.

OPERATING LANDSCAPE

¹According to the Valuation and Property Services Department (JPPH) in its Property Market Report 2018, the commercial property sector saw an increased overhang of 11.2% while the unsold under-construction segment recorded an increase of 22.8% on a year-on-year basis. The total overhang from both residential and commercial properties in 2018 is at a worrying RM35.8 billion².

Adding more pressure to the property landscape, there were further 123,234 residential and commercial unsold units under construction as at the end of 2018 according to the report, which will undoubtedly contribute further to the overhang conditions over the next few years.

Coupled with the subdued economic growth for Malaysia, there is a high probability of continued downward pressure on commercial properties, as tenants look at pricing over location centrality in a bid to manage and consolidate their operating expenses. We observe that many companies are looking to move to the urban fringes where new sub-commercial locations have emerged such as Bangsar South, Damansara Heights, Petaling Jaya and Subang Jaya, apart from the central business district and Golden Triangle areas. Companies are able to set up offices in new and high-end buildings at approximately the same rental prices.

These companies are also rethinking the way they use their offices for enhanced efficiency and cost consolidation. Concepts such as co-working spaces address the issue of managing expenses but are also reflective of a trend towards working in close proximity with likeminded services within their respective business ecosystems.

Bursa Malaysia REIT Index closed at 995 points on 30 June 2019, translating into a decline of 5.8% from 1,057.35 points as at end December 2017ⁱ. Analysts expect market performance for REITs in 2019 to remain stable with generally flat yields at between 4% to 5%, due mainly to the property overhang situation.

¹ <https://www.thestar.com.my/business/business-news/2019/05/01/unsold-and-unconstructed-units-16-less-yearonyear/>

² <https://www.thestar.com.my/business/business-news/2019/06/29/overhang-value-exceeded-600-over-five-years/>

ⁱ <https://www.theedgemarkets.com/article/msian-reits-could-become-market-darlings-2019>

Management Discussion and Analysis

cont'd

REVIEW OF FINANCIAL RESULTS

The market conditions on the property front remained challenging for the most part of the period under review, with relatively soft market activities. With regard to the commercial property sector, we noted that many businesses continued to feel pressure on their bottom lines. Consequently, many of them have looked to reconsolidate and streamline their businesses to manage their expenses, including moving to more affordable office premises.

In reading the financial report of Tower REIT for FY2019, unitholders need to note the change in the financial period for FY2019, which comprises an 18-month review as we changed our financial year-end from 31 December 2018 to 30 June 2019. As such, this report provides audited figures for the 18-month period from 1 January 2018 to 30 June 2019, which represents the financial period 2019 (FY2019). As such, FY2019 constitutes an 18-month period compared to the preceding FY2017, which was a 12-month period.

Against the challenging market environment that underscored the period in review, Tower REIT charted a modest performance for FY2019, recording gross revenue of RM44.1 million for the 18-month financial period, compared to RM32.6 million for the preceding 12-month financial year. Menara HLA experienced a drop in occupancy to 34% in FY2019 compared to 51% occupancy in FY2017. This was marginally offset by an increase in occupancy to 64% at Plaza Zurich in FY2019 compared to 58% in FY2017.

Realised income after taxation for FY2019 was registered at RM23.6 million, after property operating expenses of RM17.4 million for the 18-month period of FY2019. We continue to maintain prudent cost management discipline and have looked at ways to trim down operating expenses.

In FY2019, Tower REIT paid interim income distributions of 2.10 sen and 2.00 sen per unit on 30 August 2018 and 28 November 2018 respectively. Together with its declared final income distribution of 3.93 sen per unit for FY2019, which will be paid on 28 August 2019, this represents 95.3% of our distributable income and is in line with our dividend policy to distribute at least 90% of the distributable income for the relevant financial years to our valued unitholders. The total income distribution of 8.03 sen for the period in review amounts to RM22,524,150. Realised earning per unit was 8.42 sen for the 18-month period of FY2019 compared to 6.41 sen for the 12-month period of the preceding financial year.

Total income available for distribution for the 18-month period of FY2019 is RM22.5 million compared to RM16.83 million in the 12-month period of FY2017. This translates to an annualised distribution yield of 5.50% based on average unit price of the period.

DISTRIBUTION YIELD	2014	2015	2016	2017	2019
Annualised Distribution Yield	5.10%	5.80%	5.73%	5.00%	5.50%
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.

The REIT's total asset value (TAV) increased marginally to RM572.2 million as of 30 June 2019 compared to RM567.4 million in the previous financial year. The change was nominal given the revaluation against the current market conditions.

Management Discussion and Analysis

cont'd

FUND PERFORMANCE

	2014	2015	2016	2017	2019 (18-month)
	RM'000	RM'000	RM'000	RM'000	RM'000
STATEMENT OF FINANCIAL POSITION					
Total Asset Value	682,544	568,316	568,090	567,370	572,166
Total Borrowings	116,400	100	100	100	100
NAV before income distribution	535,681	543,523	545,246	545,603	540,076
NAV after income distribution	526,705	533,060	534,783	537,749	529,052
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	1.9097	1.9377	1.9438	1.9451	1.9254
- After income distribution	1.8777	1.9004	1.9065	1.9171	1.8861
- Highest NAV per unit (ex-distribution)	1.8178	1.9377	1.9438	1.9451	1.9408
- Lowest NAV per unit (ex-distribution)	1.7948	1.8922	1.9230	1.9256	1.8949
STATEMENT OF COMPREHENSIVE INCOME					
Total Revenue	44,482	37,297	36,591	32,644	44,054
Income After Taxation					
- Realised and distributable	21,355	18,194	20,948	17,993	23,625
- Unrealised from fair value adjustment	27,378	7,600	214	1,803	(9,798)
	48,733	25,794	21,162	19,796	13,827
Earnings Per Unit (sen) ⁽¹⁾					
- Realised	7.61	6.49	7.47	6.41	8.42
- Unrealised	9.76	2.71	0.08	0.64	(3.49)
	17.37	9.20	7.55	7.06	4.93
Income Distribution					
- 1st Interim	10,743	8,976	8,976	8,976	5,890
- 2nd Interim	-	-	-	-	5,610
- Final	8,976	10,463	10,463	7,854	11,024
	19,719	19,439	19,439	16,830	22,524
Distribution Per Unit (sen)					
- 1st Interim	3.83	3.20	3.20	3.20	2.10
- 2nd Interim	-	-	-	-	2.00
- Final	3.20	3.73	3.73	2.80	3.93
	7.03	6.93	6.93	6.00	8.03
Date of Distribution					
- 1st Interim	27-Aug-14	28-Aug-15	14-Sep-16	6-Sep-17	30-Aug-18
- 2nd Interim	-	-	-	-	28-Nov-18
- Final	27-Feb-15	29-Feb-16	28-Feb-17	28-Feb-18	28-Aug-19
RATIOS					
Management expenses ratio ("MER") ⁽²⁾ (%)	0.58	0.65	0.47	0.48	0.62
Interest expenses	5,410	1,848	140	237	251
Interest Cover Ratio ⁽³⁾ (times)	4.9	10.8	150.6	76.9	95.1
Gearing Ratio ⁽⁴⁾ (%)	17	0	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.

Management Discussion and Analysis

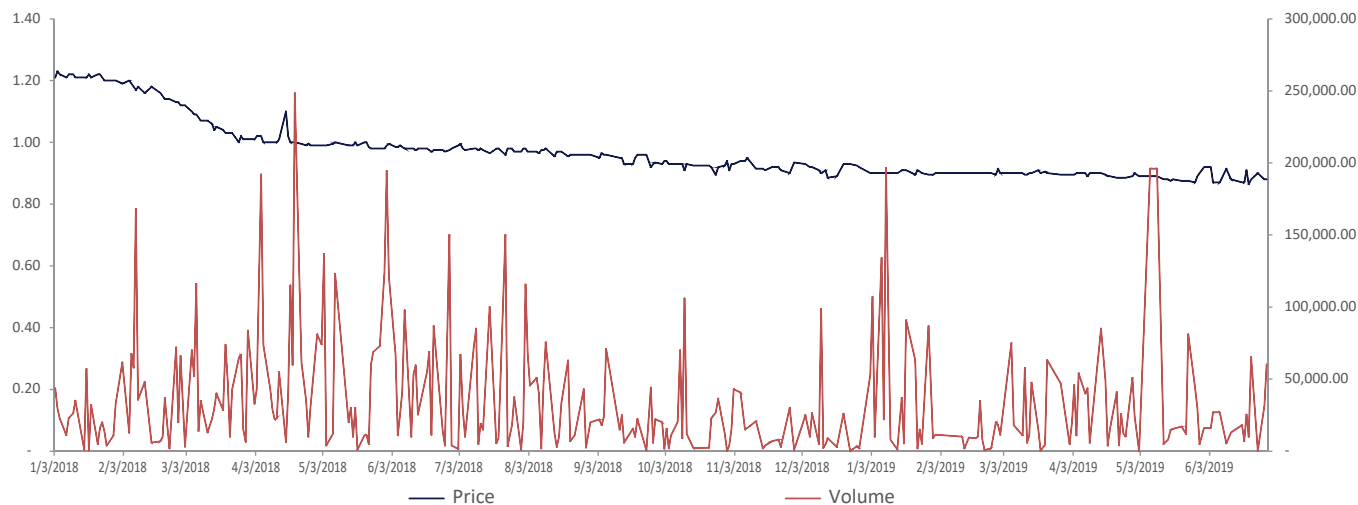
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Tower REIT's net asset value (NAV) after income distribution was down to RM529.1 million in FY2019 compared to RM537.8 million from the previous financial year, with NAV per unit down slightly at RM1.89 from RM1.92 after income distribution. This was mainly contributed by the overall dampened market conditions that prevailed during the period in review.

The Management expense ratio (MER) for the administration of the REIT, which includes fees of the Manager, Trustees, audit and tax agent and other administrative expenses was at 0.62% for the 18 months of FY2019. This translated to an annualised MER of 0.41%, which was lower than the preceding financial year at 0.48%, and significantly lower than the MER of the top three pure-play office REITs.

Office REIT	Management Expense Ratio (%)
AmFirst	0.98
UOA	0.93
MRCB - Quill	1.09

MARKET UNIT PRICE AND TRADING PERFORMANCE



Management Discussion and Analysis

cont'd

UNIT PRICE PERFORMANCE	IPO RM'000	2014 RM	2015 RM	2016 RM	2017 RM	2019 RM
Unit price per unit at close of respective years	1.07	1.27	1.23	1.17	1.22	0.88
Highest traded price during the years		1.55	1.30	1.25	1.23	1.23
Lowest traded price during the years		1.16	1.10	1.17	1.17	0.87
Average unit price for the years ⁽¹⁾		1.38	1.20	1.21	1.20	0.97

ANNUAL TOTAL RETURN	2014	2015	2016	2017	2019
Total Return for the years	-6%	-9%	7%	4%	-18%
Total Return of the Trust for the year is derived by:	$\frac{\text{Gross Distribution per unit} + \text{Net Change in Average Unit Price}}{\text{Average Unit Price}}$				

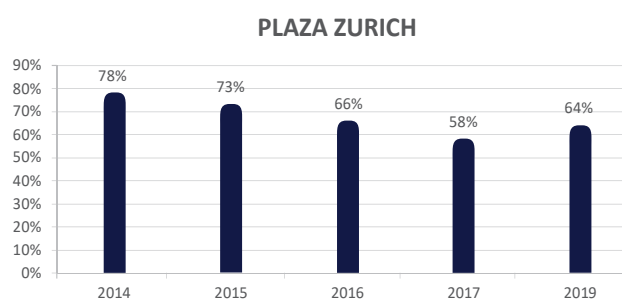
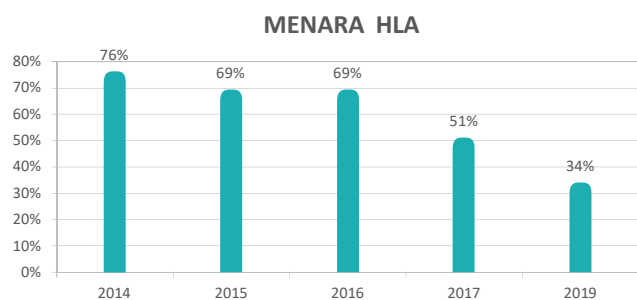
AVERAGE TOTAL RETURN	2014	2015	2016	2017	2019
1 year	-6%	-9%	7%	4%	-18%
3 years	10%	0%	-3%	0%	-2%
Since inception	10%	8%	9%	8%	7%
Average Total Return of the Trust is derived by:	$\frac{\text{Total Return over the year}}{\text{Number of Years under review}}$				

Note:

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

OPERATIONS REVIEW

There was a drop in occupancy at Menara HLA to 34% in FY2019 compared to 51% occupancy in FY2017. However, an increase in occupancy to 64% at Plaza Zurich in FY2019 (FY2017: 58%) offset the decline slightly.



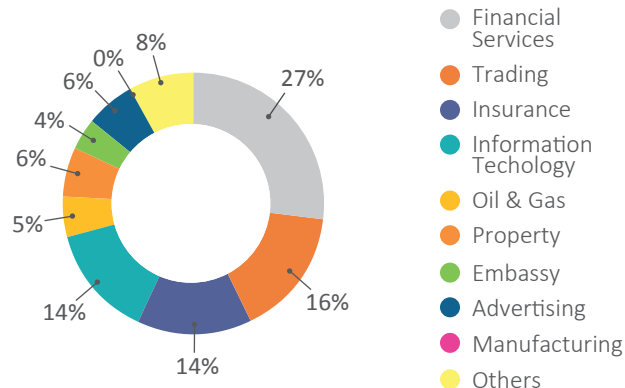
Management Discussion and Analysis

cont'd

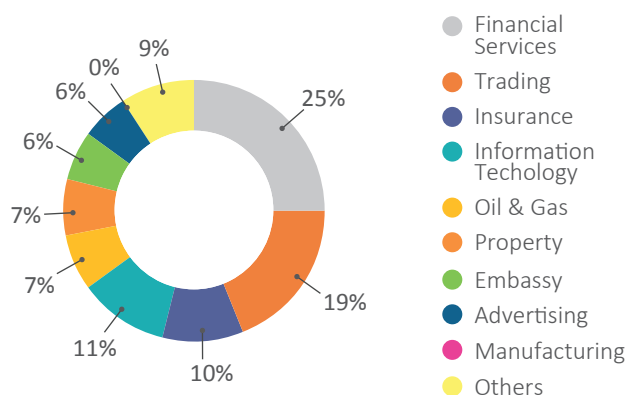
Property	Net Lettable Area sq. ft.	Acquisition Date	Acquisition Cost RM	Incidental cost/ Addition/ Enhancement RM	Fair Value Adjustment RM	At Market Value 30-Jun-19 RM	% of Portfolio %
Menara HLA	385,215	17-Apr-06	221,000,000	1,734,076	119,465,924	342,200,000	61
Plaza Zurich	350,193	17-Apr-06	130,000,000	3,433,871	86,666,129	220,100,000	39
Total	735,408		351,000,000	5,167,947	206,132,053	562,300,000	100

The Trust's portfolio has a diversified tenant base which includes companies in financial services, information technology, insurance, oil and gas, as well as the property sector, among others. The diversified tenant mix had enabled the Trust to manage better its business risks from these economic sectors. As at 30 June 2019, there were 34 tenants and collectively, the five largest tenants accounted for approximately 48% of the portfolio's gross rental income. The top five tenants come from financial services, trading, insurance, information technology and oil and gas sectors.

Tenant mix by net lettable area as at 30 JUNE 2019



Tenant mix by gross rental income for the month of JUNE 2019



Major Tenants as at 30 June 2019	Trade Sector	% of Portfolio's Net Lettable Area
Zurich Life Insurance	Insurance	6%
HP PPS Sdn Bhd	Information Technology	4%
Hong Leong Investment Bank	Securities	3%
RZ Corporation Sdn Bhd	Trading	4%
IPC (formerly known as Lundin Malaysia B.V.)	Oil & Gas	2%
		19%

Management Discussion and Analysis

cont'd

LEASE EXPIRY PROFILE

	2020			2021		2022	
	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	16	9	19%	5	7%	2	3%
Plaza Zurich	18	6	19%	7	21%	5	24%
Total	34	15	19%	12	13%	7	13%

Menara HLA

Menara HLA is a 32-storey block with a 4-level basement car park. It is strategically located in the heart of Kuala Lumpur's Golden Triangle and the city's main central business district surrounded by high-rise 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 Petronas Philharmonic Hall.

Menara HLA is at equal distance from the Kuala Lumpur city centre development and reinvigorated retail/hotel belt of Jalan Bukit Bintang and Jalan Sultan Ismail. This area provides ample amenities that include a wide variety of restaurants, boutique cafes, convenient shops, entertainment outlets, banking facilities and shopping centres. It is well connected and easily 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). It also offers an unrivalled, uninterrupted view of KLCC Park and the iconic KLCC Twin Towers.

Rental income from Menara HLA for the period under review contributed 52% to the Trust's overall revenue. In spite of Menara HLA's strong selling propositions, occupancy rate fell to 34% compared to 51% in FY2017, due to flight to the urban fringes, dampened market conditions and other reasons. In spite of this, the Manager was able to negotiate favourable settlements for pre-mature termination of tenancy contracts, which mitigated some of the shortfall from the loss of rental.

Moving forward, we are re-assessing the commercial office space to make it a game changer in the market and attractive to potential tenants.

We are introducing Malaysia's first tech ecosystem called The HLX, which will be based in Menara HLA. We aim for The HLX to become a one-stop facility that converges the corporate and start-up communities to catalyse innovation and boost the Malaysian start-up ecosystem.

Plaza Zurich

Plaza Zurich (formerly known as HP Towers) comprises two blocks of 9 and 21 storey corporate office towers. They are located within the bustling commercial area of Bukit Damansara.

It is well connected to major highways including 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 some minutes' drive from the nearby shopping malls of Pusat Bandar Damansara, Bangsar and Mid Valley. On top of this, the newly completed Semantan MRT station, which links directly to Bukit Bintang, is only a three-minute walk away.

Plaza Zurich represents 39% of Tower REIT's real estate portfolio. Occupancy rate for the year in review was at 64%. Rental income from this property increased by 7% against FY2017 and contributed 45% to the Trust's overall revenue.

Management Discussion and Analysis

cont'd

ASSET ENHANCEMENT STRATEGY

In order to sustain the performance of the properties within our portfolio, we are exploring ways to ensure that our commercial spaces are not only attractive to tenants' requirements but suit market conditions as well. As more tenants seek newer buildings for lesser rent, we need to re-assess our offerings or run the risk of being overlooked as a viable commercial space for companies.

Given the current market conditions where there is an overhang of office spaces, we are looking to reinvent the way companies use their commercial spaces. There is a growing trend for flexible spaces as well as flexible leases, partly to contend with capital expenditure management. To that end, we will be reimagining the way commercial space will be used in Menara HLA by introducing a new concept thinking in office space management. For a start, we will focus on building an ecosystem that supports tech start-ups within a one stop facility.

We consistently maintain and upgrade our properties, where necessary, to ensure our assets are in good tenantable condition to remain attractive to our tenants. In this regard, Plaza Zurich will undergo refurbishment to incorporate more amenities such as food and beverage (F&B) outlets and meeting spaces, as well as improved accessibility and connectivity. We expect the refurbishment exercise to cost about RM11 million. We have conducted a survey with our existing tenants to understand what changes they would like to see in the building. Connectivity, especially to public transportation such as the mass rapid transit (MRT), was high on their list. In this regard, we have submitted plans for better connectivity to the MRT to Kuala Lumpur City Hall (Dewan Bandaraya Kuala Lumpur).

THE HLX – REDEFINING OFFICE ENVIRONMENT IN THE HEART OF THE CITY

As technology and digitalisation are set to underpin the economy of the future, we are looking at ways to support that endeavour and be part of that crucial value chain. To that end, we will be exploring the establishment of co-working and co-living spaces as a pilot initiative in Menara HLA over the next couple of years. This means that we will be relooking our tenant mix to provide for a co-existence of traditional tenants and small companies with flexible leases, underscored by a conscious mix of complementary lifestyle amenities including F&B outlets, training centres and event spaces.

To do this in a way that ensures a sustainable demand for the longer term, we will look at incorporating a good mix of symbiotic services so that there is a strong interlink that persuades the mix of companies to stay at the selected premise for a longer term. For a start, we will prioritise companies that deal with technology and digitalisation, which is the fastest growing industry in the world. As Malaysia embraces Industrial Revolution 4.0 and the Digital Economy, we aim to be in position to play a significant role in facilitating this growth that can generate investments and employment opportunities.

Our plan is to reposition and re-equip Menara HLA to be facilitative as a one-stop space that converges tech start-ups, scale-ups and corporate communities under one roof, which will be branded as HLX. The HLX is managed by HLX Management Sdn. Bhd., a wholly-owned subsidiary of Guocoland (Malaysia) Berhad which is the holding company of the Manager. It will act as the curator to converge the demand (companies) with the supply (technology know-how). HLX will work closely with the Malaysia Digital Economy Corporation Sdn. Bhd. (MDEC) in this initiative.

Menara HLA will redevelop 64% of its net lettable area in phases to cater to this concept. Some redevelopment works, including upgrading the main lobby and lift lobbies, as well as facilities like the toilets, are expected to be ready by end 2019. Other planned redevelopment works, including facilities such a training centre, are targeted for completion by end 2020. We expect this refreshed positioning will see a greater demand for the spaces and we are optimistic that this will lead to higher rental rates and emergence of new tenants in the foreseeable future.

Management Discussion and Analysis

cont'd

MANAGING RISK

Since the listing of the Trust in 2006, the Manager has been prudent to incorporate risk management considerations in our capital and asset management initiatives. In times of potential economic uncertainty, the Manager is focused on managing these risks with vigilance, so as to protect the interest of our unitholders at large.

As a real estate Trust, macro-economic factors such as unemployment rates, inflation rates, commodity prices, property price indices as well as business and consumer confidence can impact the performance of Tower REIT directly and indirectly. We pay close attention to trends within the industry to identify and mitigate economic risks. One of the main risks that the industry will be facing is the ongoing property overhang issue.

The Trust also faces competitive risks as the commercial property sector continues to grow in the market. While competition is always healthy for the industry, we are cognisant of the need to be relevant by being innovative and insightful when it comes to delivering commercial office spaces that meet market demand.

Tower REIT is committed towards managing risks pro-actively and comprehensively, details of which is found in the Statement on Risk Management and Internal Control section of this Annual Report.

THE PATH AHEAD

Sentiments in the property sector in Malaysia remain fragile. While the property market overall is expected to stabilise in 2019, the overhang issue in the market needs to be addressed in a holistic way, looking at contributing factors such as mismatch, affordability and costs of living.

The next financial year will continue to see the impact from this overhang issue. We remain cautious of the prospects and will strive to maintain our distribution per unit in the coming financial year. We expect income growth to be modest and that it will be partially offset by the refurbishment initiatives that will be undertaken on the properties within our portfolio.

Through the asset enhancement strategies that we are deploying, we aim to improve retention while attracting a new tenant mix. We will also continue with efforts to optimise rental income through discerning management of tenancies and renewals, improving tenant retention through relationship management, and working towards new tenancy opportunities. These are key towards building relevance for the long-term.

As we look to become more agile and adaptable to the changing market landscape, we continue to have confidence in the long-term prospects of Tower REIT towards its aim to create value and build sustainable returns to our unitholders.

EUSOFFE CHUA

Chief Executive Officer

Chairman's Statement

On behalf of the Board of Directors and Management of GLM REIT Management Sdn. Bhd. (Manager), the Manager of Tower Real Estate Investment Trust (Tower REIT), it is my pleasure to present the annual report and the audited financial statements of Tower REIT for the financial period ended 30 June 2019.

On 13 September 2018, we changed our financial year-end from 31 December 2018 to 30 June 2019 following the consent from the Securities Commission Malaysia. The reason for the financial year change was to synchronise the financial year-end of Tower REIT with its Manager. This report, therefore, provides audited figures for the 18-month period from 1 January 2018 to 30 June 2019, representing the financial period 2019 (FY2019) and is to be compared to the 12-month financial period of 1 January to 31 December 2017 (FY2017). It is important to keep this in mind when comparing Tower REIT's results with the previous financial periods.

Despite the challenging market conditions that outlined the 18 months for the financial period under review, Tower REIT showed steady performance in its aim to deliver sustainable returns to unitholders.

ECONOMIC AND MARKET REVIEW

The period in review proved to be challenging on the economic front with uncertainties arising from a decelerated global economic growth, slowdown in China's economic growth, ongoing US-China trade tensions, tightening monetary policies, volatile commodity prices as well as fluctuating currencies.

Against this backdrop, Malaysia charted a moderate gross domestic product (GDP) growth of 4.7% in 2018, compared to 5.9% in 2017. The main highlight of 2018¹ was the change of public government which saw new policy initiatives and reforms aimed at driving the economy.

The property market² charted a nominal increase in transaction activities by 0.6% and value by 0.3% in 2018. While this is a positive indicator, the market is still contending with issues of overhang of high-end residential properties and an oversupply of office spaces, all of which are underscored by concerns on funding availability and affordability. These factors will continue to exert pressure on the property market in the short to medium term.

¹ <https://www.nst.com.my/business/2019/06/498036/malaysias-economic-direction-clearer-despite-temporary-chaos-analysts>

² <http://napic.jpoh.gov.my/portal>

Chairman's Statement

cont'd

BUSINESS AND FINANCIAL REVIEW

Overall, Tower REIT was stable for FY2019 despite the market challenges it faced. However, the dampened market conditions had an impact in securing new tenants and renewing existing tenancies to boost occupancy rates for both Plaza Zurich (formerly known as HP Towers) and Menara HLA in Kuala Lumpur.

Tower REIT registered gross revenue and realised income after taxation of RM44.1 million and RM23.6 million respectively for the 18-month financial period of FY2019. In comparison, for the 12-month financial period of FY2017, the gross revenue and realised income after taxation was RM32.6 million and RM18.0 million respectively.

A more detailed analysis of our financial performance is available in the Management Discussion and Analysis section of this annual report.

INCOME DISTRIBUTION

Tower REIT is pleased to declare a final income distribution of 3.93 sen per unit for FY2019, which amounts to RM11,023,650 which will be paid on 28 August 2019. This, together with the interim income distributions of 2.10 sen and 2.00 sen per unit paid on 30 August 2018 and 28 November 2018 respectively, represent a total income distribution of 8.03 sen for FY2019.

Total income available for distribution for the 18-month financial period of FY2019 was RM22.5 million compared to RM16.8 million for the 12-month financial period of FY2017. This translates to an annualised distribution yield of 6.08% based on Tower REIT's closing price of RM0.88 per unit on 30 June 2019.

LOOKING AHEAD

The operating landscape is expected to remain challenging given the excess supply of office spaces in the market. Amid this glut, we are pro-actively innovating on our tenancy and asset management strategy in order to improve on our product offerings to both our new and existing tenants.

We are already in the process of transforming Menara HLA in a manner that will set new benchmarks in how a commercial building is managed. The envisioned HLX within the building aims to combine traditional tenants and small companies on flexible leases with co-living spaces, lifestyle and food and beverage (F&B) outlets, an auditorium as well as customisable event spaces.

In addition, Plaza Zurich is also being upgraded with the refurbishment of its lobby area and the enhancement of its F&B space. We are also improving connectivity to the nearby MRT station, an initiative that is expected to offer greater convenience to our tenants and visitors.

The improvements that are being made to our two properties are already bearing fruits in terms of convincing existing tenants to stay and attracting the interest of potential tenants. This goes in tandem with our continued effort to market vacant spaces aggressively within Tower REIT's portfolio of properties.

Moving forward, we believe that given the uncertainties that continue to underline the property sector in the near to medium term, we may continue to experience pressure on income growth in the near and medium term.

Nevertheless, we expect the occupancy and rental rates to remain stable and we are confident that the strategic investments we have made into the HLX and Plaza Zurich will provide robust returns once completed.

We are also steadfast in our efforts to ensure that we exercise prudence in our cost and capital management.

All in all, we remain committed to maximise returns and create value for our unitholders, and will continue to look at yield-accretive investment opportunities that meet the objectives of Tower REIT.

APPRECIATION

My gratitude goes to my fellow Board Directors for their continued support and counsel. The Board joins me in thanking the management and employees for their commitment and dedication. We would like to welcome Ms. Lim Tau Kien, who joined the Board as an Independent Non-Executive Director on 25 July 2019, and at the same time, we would like to thank YBhg Dato' Paul Poh Yang Hong, who stepped down as a Board member on 25 July 2019, for his invaluable contributions over the years.

Our sincere appreciation is especially extended to our valued tenants, business associates and our unitholders for their continued support and belief in us. Our gratitude also goes to our other stakeholders and the regulators for their unending support and guidance.

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 period ended 30 June 2019.

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 in real estate and real-estate assets with the primarily 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 principal activity of the Trust during the period 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 period under review.

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 period under review, the Manager charged 0.33% and 3.22% 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).

Manager's Report

cont'd

SOFT COMMISSION

During the financial period ended 30 June 2019, 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 financial period under review and at the date of this report 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*)
- Ms Lim Chew Yan (*Non-Independent Non-Executive Director*)
- Ms Lim Tau Kien (*Independent Non-Executive Director*)
(*Appointed on 25 July 2019*)
- YBhg Dato' Poh Yang Hong (*Independent Non-Executive Director*)
(*Resigned on 25 July 2019*)

DIRECTORS' BENEFITS

During the financial period 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.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS

The directors and Chief Executive Officer of the Manager, holding office as at the end of the financial period under review, had no interests in the units of Tower REIT as at 30 June 2019.

SANCTION OR PENALTIES

There were no public sanctions or penalties imposed on Tower REIT by the relevant regulatory bodies during the financial period ended 30 June 2019.

Manager's Report

cont'd

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 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 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 period 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 period.
- f) In the opinion 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 period which will or may affect the ability of Tower REIT to meet its obligations as and when they fall due as at the date of this report; and
 - ii. no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of Tower REIT for the financial period 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 period ended 30 June 2019, 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

25 July 2019

Directors' Profile

YBHG DATUK EDMUND KONG WOON JUN

Chairman

Executive Director/Non-Independent

Age 56, Male, Malaysian

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.

Datuk Edmund Kong has more than 29 years of experience in property development and construction industry, starting after he returned to Malaysia in 1994 where he joined a renowned architecture firm and subsequently worked with several reputable property developers.

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 66, Male, Malaysian

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 and is a member of the Board Audit & Risk Management Committee of GLM REIT.

Dato' Koh is the Chairman of QBE Insurance (Malaysia) Berhad which is a non-listed public company. He also sits on the Boards of Mega First Corporation Berhad and Genting Malaysia 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 67, Male, British citizen holding Malaysian permanent residency

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 and he is the Chairman of the Board Audit & Risk Management Committee of GLM REIT.

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.

MS LIM TAU KIEN

Non-Executive Director/Independent

Age 63, Female, Malaysian

Ms Lim Tau Kien graduated from the University of Glasgow and is a member of the Institute of Chartered Accountants of Scotland and the Malaysian Institute of Accountants.

Ms Lim began her career with Ernst & Young, United Kingdom, before serving the Ministry of Finance and Prime Minister's Department as a Federal Accountant. She subsequently joined the Royal Dutch Shell Group where she held various senior finance roles over a period of 25 years in Malaysia, Australia and China, her last position being the Country Chief Financial Officer/Finance Director/Country Controller of the Shell Companies of China from 2004 to 2008.

Ms Lim has been a director of listed and non-listed companies since 1997. She was appointed to the Board of GLM REIT on 25 July 2019 and is a member of the Board Audit & Risk Management Committee of GLM REIT.

Ms Lim is also a Director of Malaysian Pacific Industries Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad, and UEM Group Berhad, a public company.

MS LIM CHEW YAN

Non-Executive Director/Non-Independent

Age 62, 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 @ EUOFFE CHUA

Chief Executive Officer

Age 41, 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 18 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 Bhd. 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, under the consumer banking division.

Mr Eusoffe Chua was appointed as the Chief Executive Officer of GLM REIT 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. **Conviction of Offences**
None of the Directors nor the Chief Executive Officer has been convicted of any offences (exclude traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial period ended 30 June 2019.
4. **Attendance of Directors**
Details of Board meeting attendance of each Director are disclosed in the Corporate Governance Overview, Risk Management And Internal Control Statement in the Annual Report 2019.

Sustainability Statement

ABOUT THIS STATEMENT

Tower Real Estate Investment Trust (herewith referred to as “Tower REIT”) is a real estate investment trust established in Malaysia to own and invest in real estate and real estate-related assets with the primary objectives of achieving an attractive level of return from rental income and medium to long-term capital growth. This year we are pleased to submit our second sustainability statement which builds on the initiatives disclosed in our inaugural statement presented in the last financial year.

Unless otherwise stated, this statement describes the sustainability initiatives for the financial period ended 30 June 2019 (“FY2019”) and the reporting scope includes two of our assets, i.e. Menara HLA and Plaza Zurich (formerly known as HP Towers).

Our statement has been prepared in accordance with Bursa Malaysia’s Main Market Listing Requirements and guided by the Bursa Malaysia Sustainability Reporting Guide 2nd Edition. This statement has also been aligned with the internationally recognised Global Reporting Initiative (“GRI”) Standards: Core Option.

FEEDBACK

As part of our continued effort to improve our reporting, we welcome stakeholders to communicate their feedback to us. For more information on this statement or to provide your feedback, please contact:

GLM REIT Management Sdn Bhd (65312-H)

(Manager of Tower REIT)

Level 13, Guoco Tower, Damansara City,
No. 6, Jalan Damanlela, Bukit Damansara,
50490, Kuala Lumpur

Tel : 603-2726 1000

Fax : 603-2726 1001

Website : www.tower-reit.com.my

Sustainability Statement

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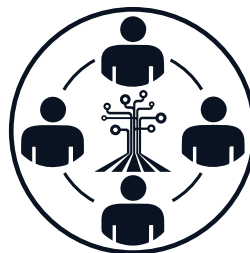
OUR COMMITMENT TO SUSTAINABILITY

At Tower REIT, we understand our greater responsibility to create a positive economic, environmental and social impact, and deliver better management of sustainability. We are proud to present the key highlights of FY2019 as illustrated below.

2019 Key Highlights



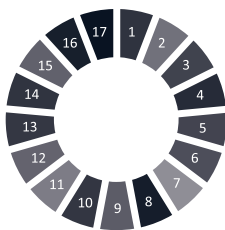
In alignment with GRI Standards: Core Option



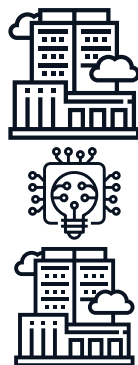
Promoting space for tech community: IT hub digitilisation



Paperless initiative: Application of ServeDeck software



Alignment to United Nations Sustainability Development Goal ("SDGs")



Refurbishment of Plaza Zurich and Menara HLA



United Nations Sustainable Development Goals (UN SDGs)

The sustainable development goals (SDGs) introduced by the United Nation in 2015 is an ambitious plan that addresses global challenges in order to achieve a better and more sustainable future for all. The goals recognize that ending global poverty must be in tandem with economic growth and social progress in terms of education, health, equality and job opportunities, whilst preserving and protecting the planet.

To embrace and implement the 17 SDGs in a systematic and measurable manner, the Government of Malaysia has taken multiple initiatives at the national level to align the aspirations of the goals with the country's development plans and strategic policies.




Sustainability Statement

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OUR COMMITMENT TO SUSTAINABILITY cont'd

United Nations Sustainable Development Goals (UN SDGs) cont'd

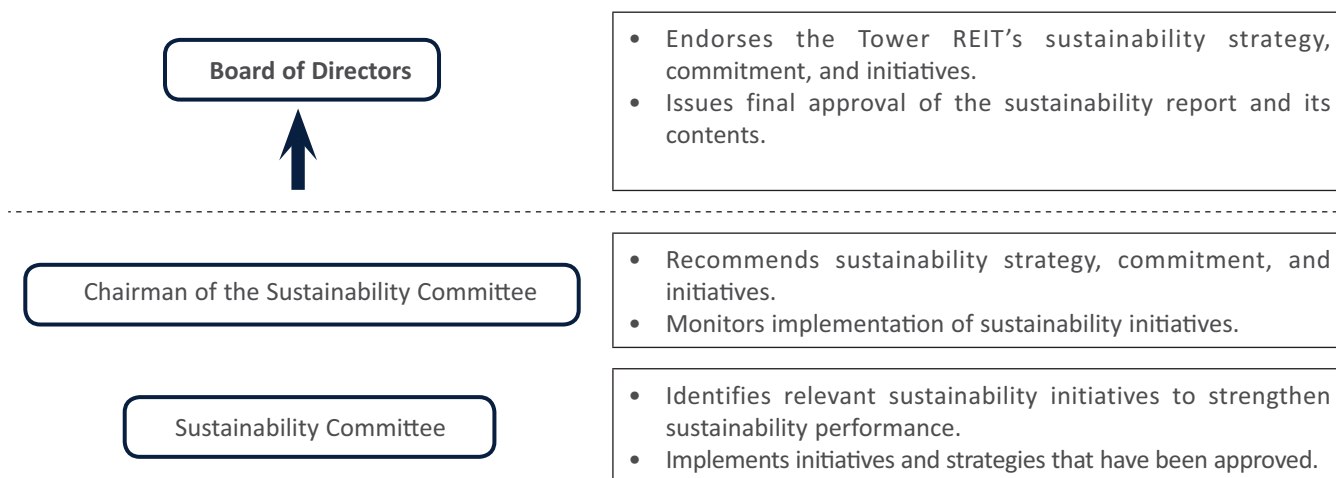
We support the vision of the UN SDGs as a critical element in delivering sustainable development. Our primary focus is on three goals that represent areas where we can contribute significantly.

	Aspire to contribute towards nation-building by boosting the local economy
	Ensure access to electricity and reduce energy consumption through energy saving practices
	Promote justice for all employees and adhering to relevant laws and regulations

Sustainability Governance

At Tower REIT, we recognise the importance of developing strong lines of accountability within the REIT Manager and involving the different divisions in defining our journey towards greater sustainability. We have established a two-tiered governance structure for sustainability, with the Board of Directors (BOD) leading the sustainability agenda of Tower REIT.

The responsibilities of the sustainability committee include integrating sustainability into the Tower REIT’s daily operations, as well as executing and monitoring policies and procedures across its properties.



Sustainability Statement

cont'd

OUR COMMITMENT TO SUSTAINABILITY cont'd

Stakeholder Engagement

Strong stakeholder relationships will ensure long-term viability of Tower REIT's profitability and performance. Constant engagement provides us with insights in identifying pertinent economic, environmental and social (EES) matters that need to be addressed in enhancing our performance.

Stakeholder Group	Areas of Interest	Engagement Methods	Frequency of Engagement
Investors and Unitholders	<ul style="list-style-type: none"> • Business direction of Tower REIT • Key corporate developments • Future competence 	<ul style="list-style-type: none"> • Regular unitholder communications/ announcements on Bursa Securities and corporate website 	As and when needed
		<ul style="list-style-type: none"> • Annual General Meetings 	Annually
		<ul style="list-style-type: none"> • Quarterly Statements 	Quarterly
Trustees	<ul style="list-style-type: none"> • Annual revenue • Sustainable growth 	<ul style="list-style-type: none"> • Annual General Meetings 	Annually
		<ul style="list-style-type: none"> • Investor relation events 	As and when needed
Regulatory Bodies	<ul style="list-style-type: none"> • Regulatory compliance • Contribution to the economy and corporate social responsibilities 	<ul style="list-style-type: none"> • Formal meetings 	As and when needed
		<ul style="list-style-type: none"> • Performance Reports 	As and when needed
		<ul style="list-style-type: none"> • Audits 	Annually
Tenants	<ul style="list-style-type: none"> • Building safety • Building services and amenities 	<ul style="list-style-type: none"> • Safety and health awareness seminars 	As and when needed
		<ul style="list-style-type: none"> • Notices 	Quarterly
Employees	<ul style="list-style-type: none"> • Remuneration and benefits • Development opportunities 	<ul style="list-style-type: none"> • Annual appraisals 	Annually
		<ul style="list-style-type: none"> • Training programmes 	Quarterly
Suppliers, Contractors	<ul style="list-style-type: none"> • Transparent procurement process • Timely payment 	<ul style="list-style-type: none"> • Supplier evaluation 	Annually
		<ul style="list-style-type: none"> • Performance reviews 	Quarterly
Industry Peers	<ul style="list-style-type: none"> • Knowledge sharing • Tower REIT's position within the industry 	<ul style="list-style-type: none"> • Networking exhibitions, conferences 	As and when needed
		<ul style="list-style-type: none"> • Annual reports 	Annually
		<ul style="list-style-type: none"> • Membership associations 	Quarterly
Media	<ul style="list-style-type: none"> • Financial releases • Transparent communications • Corporate updates 	<ul style="list-style-type: none"> • Media release/events and launches 	As and when needed
		<ul style="list-style-type: none"> • Media networking sessions 	As and when needed
Local Communities	<ul style="list-style-type: none"> • Social contribution • Employment opportunities 	<ul style="list-style-type: none"> • Community engagements 	As and when needed
		<ul style="list-style-type: none"> • Donations 	As and when needed

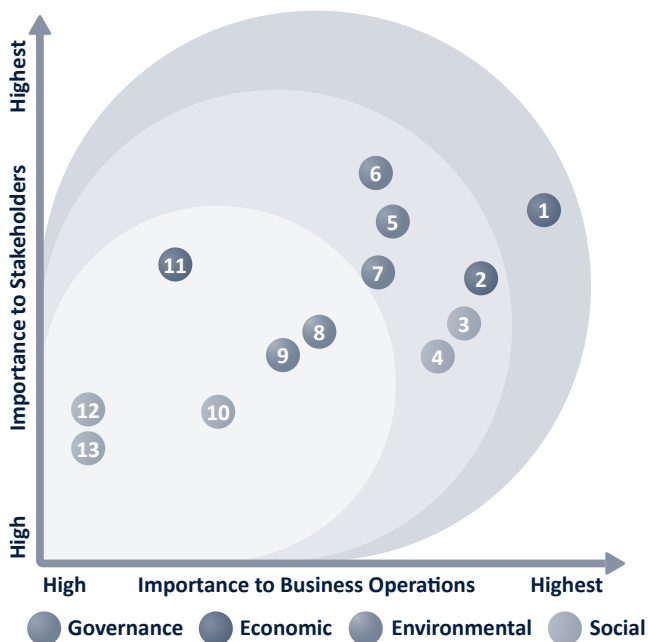
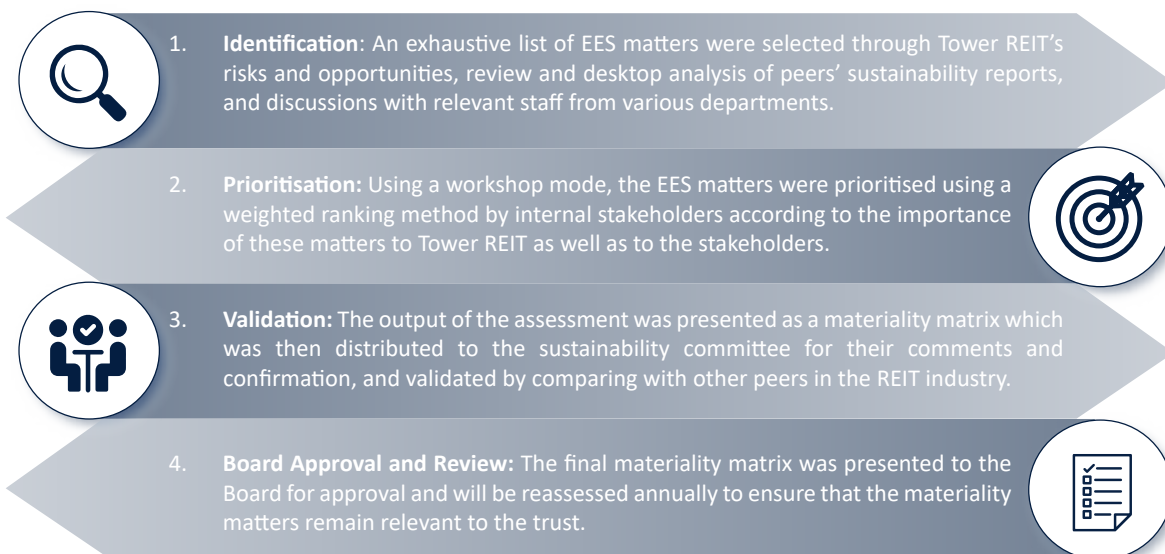
Sustainability Statement cont'd

MATERIAL SUSTAINABILITY MATTERS

Materiality Matrix

Materiality assessment is a process to prioritise the matters that are important to Tower REIT’s ability to deliver short, medium and long-term value to stakeholders. These matters influence the decision-making process of its stakeholders and affect the achievement of short and long-term goals.

Our materiality assessment was carried out through a four-step process in a workshop style mode to determine which issues are of most importance to Tower REIT and our stakeholders.



No.	Sustainability Material Matters
1	Financial Performance
2	Product Investments
3	Tenant Satisfaction
4	Human Capital Development
5	Risk Management
6	Compliance
7	Business Ethics & Transparency
8	Waste Management
9	Energy Consumption
10	Health and Safety
11	Supply Chain Management
12	Community Engagement
13	Diversity and Inclusiveness




















Sustainability Statement

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MATERIAL SUSTAINABILITY MATTERS cont'd

Mapping our Material Sustainability Matters

To understand the relevance of the 13 material sustainability matters, we have mapped them to the applicable GRI indicators, Tower REIT's stakeholders and the UN SDGs.

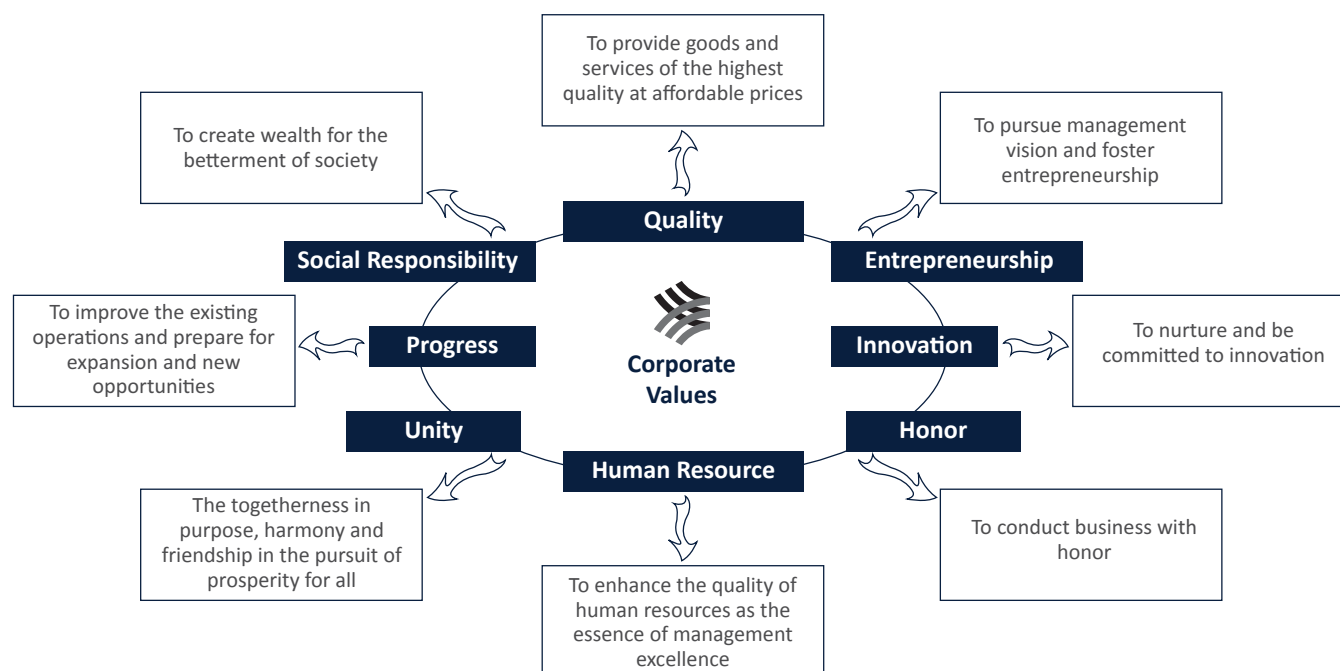
Material Sustainability Matters		Applicable GRI Indicator(s)	Relevant Stakeholders	Relevant SDGs
1.	Financial Performance	GRI 103: Management Approach GRI 201: Economic Performance	Investors and Unitholders, and Employees	
2.	Product Investments	GRI 103: Management Approach GRI 203: Indirect Economic Impacts	Investors and Unitholders	 
3.	Tenant Satisfaction	GRI 103: Management Approach GRI 102: General Disclosures	Tenants	
4.	Human Capital Development	GRI 103: Management Approach GRI 404: Training and Education	Employees	
5.	Supply Chain Management	GRI 103: Management Approach GRI 204: Procurement Practices	Suppliers, Contractors	
6.	Health and Safety	GRI 103: Management Approach GRI 403: Occupational Health and Safety	Employees and Tenants	 
7.	Energy Consumption	GRI 103: Management Approach GRI 302: Energy	Investors and Unitholders and Local Communities	
8.	Waste Management	GRI 103: Management Approach GRI 306: Effluents and Waste	Investors and Unitholders and Local Communities	
9.	Risk Management	GRI 103: Management Approach GRI 102: General Disclosures	Investors and Unitholders, Trustee and Employees	
10.	Compliance	GRI 103: Management Approach GRI 419: Socioeconomic Compliance	Investors and Unitholders, Trustee, Regulatory Bodies, Employees, Tenants and Local Communities	 
11.	Business Ethics and Transparency	GRI 103: Management Approach GRI 102: General Disclosures GRI 205: Anti-Corruption	Investors and Unitholders, Trustee, Regulatory Bodies, Employees, Suppliers, Contractors and Tenants	 
12.	Community Engagement	GRI 103: Management Approach GRI 413: Local Communities	Local Communities	 
13.	Diversity and Inclusiveness	GRI 103: Management Approach GRI 202: Market Presence GRI 401: Employment GRI 405: Diversity and Equal Opportunity	Employees	 

Sustainability Statement

cont'd

GOVERNANCE

At Tower REIT, we believe that in order to meet our sustainability goals and conduct business based on our value system, we need to integrate best practices into our daily operations. Striking balance between economic viability, environmental accountability and social responsibility is challenging, but we recognise the importance of embracing the tripartite approach to ensure long-term sustainability. Our sustainability approaches are strongly guided by the REIT Manager's corporate values.



Business Ethics and Transparency

Unitholders entrust Tower REIT to deliver regular and stable distributions, and achieve long-term growth. In upholding this trust, Tower REIT believes it has an obligation to act honestly, with due care and diligence, in the unitholders' best interests.

We create awareness amongst employees and our stakeholders on our corporate values, internal policies and code of conduct and ensure our policies are properly communicated and understood by all parties.

We aim to build an ethical culture shared by the REIT Manager's employees based on the principle of understanding right from wrong while carrying out business dealings. Our Code of Conduct and Ethics identifies and illustrates behavioral standards to be adhered by our employees. Conformity with this Code of Conduct and Ethics enhances our profitability, secures trust and loyalty of stakeholders, and improves operational efficiency. We remind all our employees of the code through multiple training channels such as the mandatory e-learning programme.

Sustainability Statement

cont'd

GOVERNANCE cont'd

Whistleblowing Policy

The REIT Manager has a Whistleblowing Policy in place to ensure transactions are handled in a fair and transparent manner. In line with the commitment to promote transparency and accountability, and to ensure high standards of corporate governance at the workplace, the Board and Management encourages its employees and external parties to report any potential and/or known misconducts involving the REIT Manager's employees and the trust's assets in accordance with the policy.

Anti-Corruption

The accountability and integrity of Tower REIT fosters trust in the investors and other stakeholders. We adopt a zero-tolerance stance towards bribery and corruption and our employees are expected to act ethically at all times. In line with our commitment to upholding good business practices, we strictly forbid any misconduct through bribery and corruption. Our employees should not offer, solicit, give or accept any form of bribes such as cash or items of value in exchange for business favors, information, favorable treatment, etc.

Risk Management and Compliance

Risk is the main cause of uncertainty in real estate investments trusts and therefore risk management is vital to Tower REIT's financial and non-financial performance. The strategic risks relate to sustainable long-term growth of the trust through sound investment strategies, asset management and clear communications with stakeholders. The operational risks relate to the day-to-day management of the property portfolio, management of human capital where there are established remuneration policies on compensation, benefits and succession planning. The financial risks relate to the impact to Tower REIT's financial position, arising from changes in market conditions such as liquidity, interest rates and credit exposures. The compliance risks relate to compliance with applicable laws and regulations.

We have put in place a risk management system to create an acceptable balance between the incurring cost of risks and the cost of managing these risks.

Sustainability Statement

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ECONOMIC SUSTAINABILITY

Financial Performance

Tower REIT's business operations include investments profile that must be managed properly in order to meet the expectations of our stakeholders and unitholders. Tower REIT is committed to working towards more sustainable business practices in the management of the trust's properties to deliver regular and stable income distribution and to achieve sustainable long-term growth in net asset value. For a more detailed review of our financial performance, please refer to the Financial Statements section of this Annual Report.

Product Investments

The quality of properties in the portfolio of real estate investment trusts largely determine the value and income generated which will consecutively impact the success of the trust as well as meeting the expectations of all stakeholders and unitholders. We realize that ensuring the necessary infrastructure at our properties are well-maintained is vital to maintain the quality of properties. Therefore, our initiatives to refurbish infrastructure at our properties are crucial to ensure our tenants and the public are comfortable while residing in our buildings and also maintain its long-term value.


Plaza Zurich which is one of the commercial buildings in our portfolio is currently undergoing refurbishment. This upgrading activity aims to give the property a fresh look by improving its interiors to attract more potential tenants. Upgrading of the building has commenced by improving the layout, amenities, and connectivity of the building. This includes the provision of a covered pedestrian link between Jalan Dungun and the Semantan MRT station that passes through Plaza Zurich. This will further enhance the building's presence to attract more tenants, adding value to the occupants, as well as the surrounding population.



Plaza Zurich

- Landscape and Interior update
- Covered Pedestrian Link from Jalan Dungun to Semantan MRT station

The Menara HLA property will be rebranded as the HLX, and is currently undergoing refurbishment. The HLX was launched together with the Malaysian Digital Economy Corporation (MDEC) in April 2019, to create a centralized space, which will enable Malaysian innovation and technological leadership to flourish. The HLX will comprise 250,000 square feet and consist of working spaces, curated offices, electronic gaming academy, a data center, innovation labs, meeting and event spaces, living spaces, a gym, and food and beverage outlets. In order to completely accommodate its many features, the building is set to be upgraded with modern lifts, lobbies and amenities to cater to the needs of the technology community that will either reside in, or visit the HLX.



Menara HLA - HLX

- Creation of Tech Hub - Innovation Exchange for Malaysian Tech ecosystem
- 250,000 ft²
- Co-working spaces, curated offices, electronic gaming academy, datacenter, innovation labs, and more

Sustainability Statement

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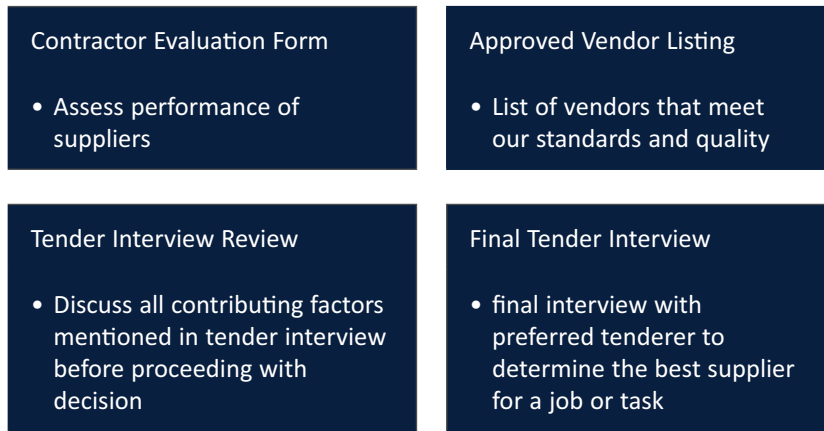
ECONOMIC SUSTAINABILITY cont'd

Supply Chain Management

Successful property management can be achieved through careful management of our supply chain and procurement practices. We ensure that all products and services go through a process of evaluation to confirm that performance meets our expectations. To enforce this, we have set in place the use of a Contractor's Evaluation Form which allows us to assess the performance of suppliers before appointing them.

For the management of our commercial buildings, we have established our Approved Vendor Listing which can be used for selecting vendors with pre-qualification that meets our standards and quality. Aside from the few contractors/suppliers who we hire for a particular specialty, we invite different suppliers for tender submission for each project. Upon the submission of quotes by the various tenders, the tender committee will then compare their prices and capability. Next, the committee will hold interviews with the potential tenderers and discuss the possibility of re-evaluating quotes in order to obtain the best price. The committee holds a Tender Interview Review to discuss all the assessment factors. From this, we hold a Final Tender Interview to determine our preferred option. These assessments allow us to evaluate their current workload and their ability to deliver tasks as required. Tenders selected in the past are subject to performance review of their past projects. This process enables us to maintain high quality of products and services provided by our suppliers.

Main Components of our Tender Process



Sustainability Statement

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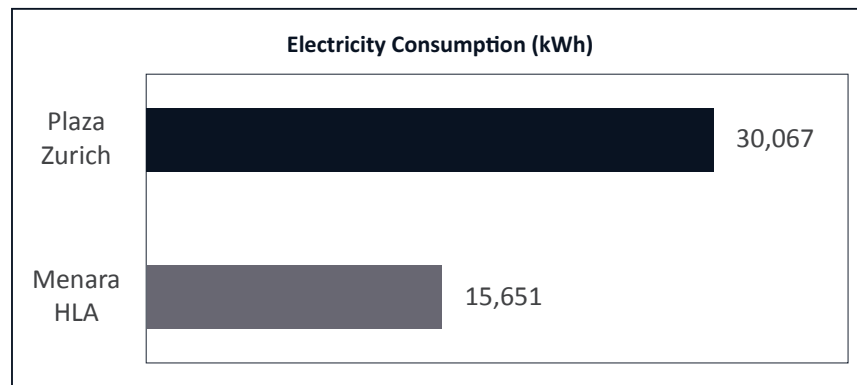
ENVIRONMENTAL SUSTAINABILITY

Buildings are one of Malaysia's biggest sources of carbon emission. In line with the international agreement adopted at the 2015 Paris Climate Conference (COP21) and Malaysia's commitment to keep global warming at below 2° Celsius, we aspire to embrace practices that are more sustainable which help in reducing the impacts of global warming.

Energy Consumption

With electricity being sourced from the grid, higher electricity consumption translates into higher carbon emissions. Tower REIT seeks to improve the energy efficiency of our properties to reduce our carbon footprint and utility costs. While the trust and the property managers do not have operational control over the tenants' electricity consumption, resources have been deployed at the property-level to enhance the ecosystem of the buildings, raise environmental awareness and foster energy conservation.

At our buildings, lighting, the air-conditioning system and water heaters are the major sources of consumption. We track the consumption to monitor the usage as well as explore opportunities for electricity saving initiatives.



We have progressively implemented energy conservation measures at both of our buildings as part of our continuous efforts towards environmental sustainability. Listed below are the initiatives taken at Menara HLA, which have contributed to cost and energy savings.



Replacement of conventional lights with LED lights for car park, lift lobbies and corridors.



The staircase lighting circuit for the exit and landing is adjusted such that the light at the landing area is switched on at night whilst during the day lights at both these areas are turned on.



Water pumps used are equipped with variable speed motors and inverters, which lead to better control and energy efficiency.

Sustainability Statement

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ENVIRONMENTAL SUSTAINABILITY cont'd

Waste Management

In order to minimize the volume of waste being sent to landfills, we ensure waste generated from our buildings is collected and disposed in a responsible manner, and according to legal requirements.

We work closely with our building managers and subcontractors to identify the best and responsible waste management practices. Our buildings generate waste such as waste paper, plastic, food, and aluminium (tins).

Tower REIT's initiative in going paperless to reduce paper usage is accomplished through the use of management software ServeDeck, which enables tenants to use an online system to channel their requests and feedback rather than filling up forms. In addition, to promote recycling practices, recycling bins are made available at Plaza Zurich and Menara HLA. All the waste is then collected and disposed by a licensed contractor at approved disposal sites.

For the reporting period, we are unable to report the volume of waste generated for each building. Moving forward, we aim to keep track of our waste generation.

SOCIAL SUSTAINABILITY

As a real estate investment trust, social sustainability encompasses our tenants, the REIT Manager's employees and those who frequent our buildings.

Tenant Satisfaction

The satisfaction of our tenants is a priority as it reflects our performance as we manage our properties. In determining the preferences of our tenants, we conducted a satisfaction survey for Plaza Zurich and received feedback from 130 tenants.

The survey questions were based on five main aspects of the building: the general surrounding, the entrance and main lobby, basement parking, lifts and corridors, and sanitary facilities. While the majority of tenants responded that they would likely recommend working at the building to a friend if some improvements were made, the average rating of the building was 5, with 10 being the highest possible. In every category, the rating of the facilities were in the average range, except for the security and cleanliness of the entrance and main lobby which received a rating of good.

The results of the survey are consistent with the challenges we face in managing the building. Plaza Zurich is an old building and attempting to retrofit the structure and improve its amenities is a challenge. However, Tower REIT has already established plans to refurbish the property as mentioned in the Product Investments section.

Health and Safety

The health and safety of the REIT Manager's employees, tenants and customers have always been our top priority. As part of our effort to record and monitor incidents at our buildings, our employees, tenants, visitors and contractors are required to complete an Incident Report. Based on the details provided, we endeavour to implement mitigation measures to ensure similar incidences do not repeat in the future. For the reporting period, we were incident-free.

At our buildings, we have established an Emergency Response Team to respond fire, emergency evacuation, accidents and incidents and, medical emergencies. We conduct annual fire drills in collaboration with the Fire and Rescue Department (BOMBA).

Sustainability Statement

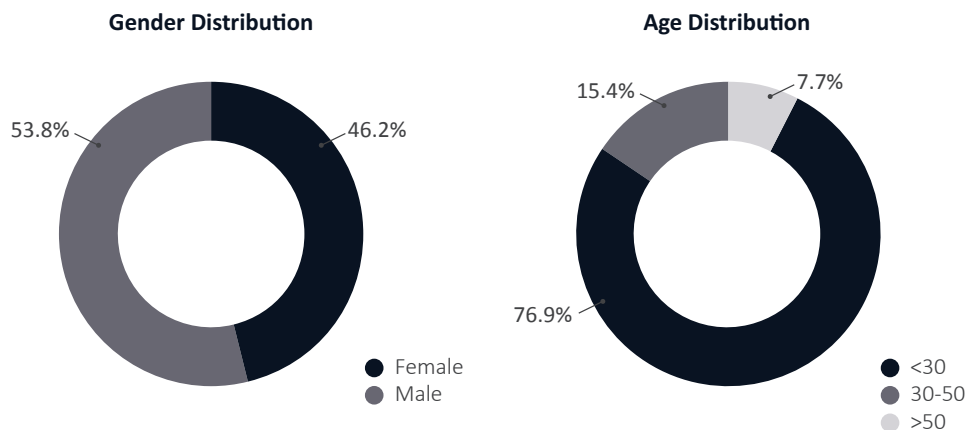
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SOCIAL SUSTAINABILITY cont'd

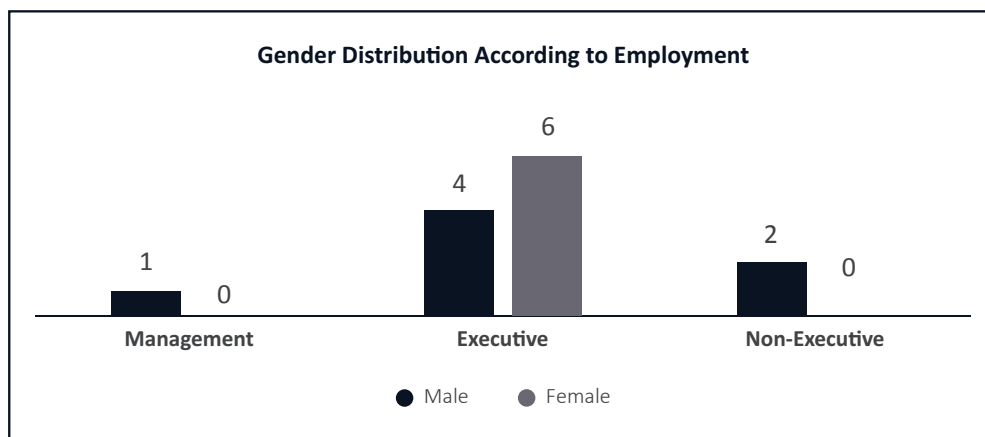
Diversity and Inclusiveness

Diversity and inclusiveness among the REIT Manager's employees are key considerations in the management of our human capital. We believe that various backgrounds, age and gender help to attain opinions and feedback from different perspectives which will ultimately contribute towards enhanced performance.

The charts below display our employee breakdown according to gender and age group. Overall, the men slightly outnumber the women and our employees largely fall within the 30 to 50-year age group.



With respect to employee distribution, women are represented more at the executive level.



We provide a number of benefits to retain our talent such as medical benefits that include dental expenses, excess of loss medical insurance, Group Term Life insurance, Group Personal Accident insurance, and Annual Medical Checkups. Furthermore, we provide car loan and housing loan interest subsidies, communication reimbursement, and leave passage, among others. We value our employees and acknowledge their significant contributions, and are committed to treating them fairly.

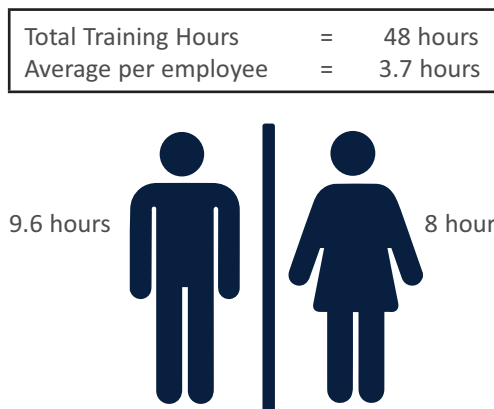
Sustainability Statement

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SOCIAL SUSTAINABILITY cont'd

Human Capital Development

At Tower REIT, we believe that the Manager's employees' knowledge and development are crucial to ensuring our success. We provide a platform for our employees to attend training to equip them with the latest development in real estate investment trusts. Opportunities to attend relevant trainings are provided equally to all employees. The total training hours clocked in FY2019 was 48 hours, with 3.7 hours average training hours per employee, 9.6 hours for men and 8 hours for women. In terms of employee category, all employees in the management and executive levels attended training at an average of 48 hours and 4.8 hours respectively.



Looking Ahead

We continuously strive to maximise value for our unit holders and one strategy to achieve this is to refurbish our buildings to attract tenants and to introduce new leasing models that are amenable especially to the new generation of millennials as well as business that do not want to be burdened by high capital expenditure. One achievement is the refurbishment of our 32-storey Menara HLA to allow for flexible leases with co-living spaces, food and beverage outlets, a gymnasium, an auditorium and customisable event spaces. In progressing forward, we are also mindful of our responsibility to the environment and community.

Corporate Governance Overview, Risk Management and Internal Control 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 Listed Real Estate Investment Trusts (“REIT”) Guidelines (“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 period ended 30 June 2019 (“FY 2019”) and guided by the principles set out in the Malaysian Code on Corporate Governance 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 qualifications and varied range of experience and 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 REIT Guidelines, 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 REIT Guidelines 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, Risk Management and Internal Control Statement

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BOARD LEADERSHIP AND EFFECTIVENESS

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 Board provides collective leadership to the Manager, sets strategic directions and oversees the competent management of Tower REIT.

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 carries out a leadership role in the conduct of the Board to ensure its smooth and effective functioning. He is primarily responsible for ensuring the adequacy and integrity of the governance process apart from mediating the Board’s action.

The Chief Executive Officer (“CEO”), whose position is held separately by a different person, 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.

The clear division of roles and responsibilities between the Chairman who helms the Board, and the CEO who helms Tower REIT’s business operations, provides for a balance of power and authority, increased accountability and objective decision-making. The CEO and his management team are accountable to the Board for the performance of the Manager.

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 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.

A Whistleblowing Policy has also been established by the Manager which provides a structured channel for all employees of the Manager and any other persons providing services to, or having a business relationship with the Manager and Tower REIT, to report any concern on any improper conduct or wrongful act committed within the Manager. The Whistleblowing Policy is available on Tower REIT website.

The Board has identified the Chairman of the Committee to whom reports of any concerns may be conveyed.

Corporate Governance Overview, Risk Management and Internal Control Statement

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BOARD LEADERSHIP AND EFFECTIVENESS cont'd

B. Board Composition

The Board comprises five (5) directors, four (4) of whom are non-executive directors. Of the non-executive directors, three (3) are independent which is in line with MMLR and REIT Guidelines. The profiles of the members of the Board are set out 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. Board Committee

A Board Audit & Risk Management Committee ("Committee"), comprises solely of INEDs, was established on 31 July 2018 and entrusted the oversight responsibilities to ensure that the financial reporting systems, internal controls and risk management systems of the Manager are robust.

D. 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. Where it is not possible for a director to attend in person, he/she may participate in meetings via teleconferencing, videoconferencing or other similar means of electronic or instantaneous communication. The directors have demonstrated their commitment in 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.

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 where any direction or decision is required expeditiously from the Board between the scheduled meetings.

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.

Corporate Governance Overview, Risk Management and Internal Control Statement

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS cont'd

D. Commitment cont'd

Senior Management of the Manager is also invited to attend Board meetings to present their reports and to facilitate the review and deliberation of issues and matters presented to the directors at such meetings.

The Board met 8 times during the financial period ended 30 June 2019 ("FY 2019"). Details of attendance of each director are as follows:

Directors	Attendance
YBhg Datuk Edmund Kong Woon Jun	7/8
YBhg Dato' Koh Hong Sun	8/8
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	8/8
Ms Lim Chew Yan	8/8
YBhg Dato' Paul Poh Yang Hong (<i>Resigned on 25 July 2019</i>)	6/8

Ms Lim Tau Kien was appointed to the Board post FY 2019 and as such did not attend any of the Board meetings held during FY 2019.

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.

The Manager is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Manager. The 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 including Ms Lim Tau Kien who was appointed to the Board on 25 July 2019, have completed the Mandatory Accreditation Programme as prescribed by Bursa Securities.

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. The Board is updated on any material change to relevant laws, regulations and accounting standards during Board meetings and are kept informed of available training programmes including any talks organised by the regulatory bodies 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 FY 2019, 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 an in-house programme for its directors and senior management.

Corporate Governance Overview, Risk Management and Internal Control Statement

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS cont'd

D. Commitment cont'd

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, individually or collectively, to enhance their business acumen and professionalism in discharging their duties as directors.

During FY 2019, 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 Directors' Duties & Power, investment analysis and trend in the Property Industry Capital Market, Cyber Security, Anti-Bribery & Corruption, Anti-Money Laundering/Counter Financing of Terrorism, Malaysian Code on Corporate Governance, Companies Act 2016 and other legal development.

E. 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 2019.

Post FY 2019, there were changes to the composition of the Board and Committee with the appointment of Ms Lim Tau Kien as an INED and a member of the Committee on 25 July 2019, followed by the resignation of Dato' Paul Poh Yang Hong as an INED and as a member of the Committee on the same date.

The process of assessing the directors is an on-going responsibility of the entire Board, taking into consideration the mix of skills, competencies, experience, integrity, time commitment and other qualities required to effectively discharge the role of a director.

EFFECTIVE AUDIT AND RISK MANAGEMENT

The Board recognises its overall responsibility for the adequacy and effectiveness of Tower REIT's system of internal controls and risk management framework as set up by the Manager to safeguard the assets of Tower REIT and interest of the unitholders.

The Board is supported by the Committee, chaired by an INED who is distinct from the Chairman of the Board.

Accountability and Audit

A. Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of Tower REIT including the presentation of a balanced, clear and meaningful assessment of the financial position and overall performance of Tower REIT. The directors are satisfied that in preparing the financial statements of Tower REIT for FY 2019, 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 for FY 2019 is set out in the Manager's Report of this Annual Report.

Corporate Governance Overview, Risk Management and Internal Control Statement

cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT cont'd

Accountability and Audit cont'd

B. 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 external auditors is approved by the Trustee.

The Board, through the Committee, maintains a formal and professional relationship with the external auditors, KPMG PLT. The Committee reviews the performance, suitability, independence and objectivity of the external auditors annually. The Committee also reviews the nature and fees of non-audit services provided by the external auditors in assessing the independence of the external auditors. For the financial period under review, the external auditors confirmed that they are and have been independent throughout the conduct of the audit engagement.

At least once a year, the Committee will have a private session with the external auditors. The fees payable to the external auditors for FY 2019 in respect of statutory audit services rendered to Tower REIT amounted to RM55,000 and there was no non-audit fee incurred.

C. Internal Control

The Board is committed to maintain a sound and effective system of internal controls and a set procedures and processes to ensure that Tower REIT will achieve its objectives to safeguard the interest of the unitholders including reliability of financial reporting, compliance with applicable laws and regulations and effectiveness and efficiency of operations.

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 ("GLM"), to assist the Board in discharging its duties and responsibilities.

The key elements of Tower REIT's system of internal controls are described below:

- A management structure exists with clearly defined delegation of responsibilities to the Management of the Manager, including authorisation levels for all aspects of the business and operations;
- Documented corporate policies and procedures covering various aspects of the business and operations of Tower REIT;
- Promotion of a strong internal control culture through the Manager's values and ethics and also the "tone at the top";
- Diligent review of the quarterly financial results and reports and identifying the reasons for any unusual variances;
- Risk-based internal audits carried out by the GLM's Internal Audit Department focusing on key risk areas; and
- Periodic reporting to the Committee on the results of control assurance and audit activities and also the management of risk throughout the Manager and Tower REIT.

The Manager takes cognisance of recommendations to enhance internal controls made by the external auditors, Messrs KPMG PLT, and internal audit in respect of accounting and operational controls in their audit reports issued during the financial period.

Corporate Governance Overview, Risk Management and Internal Control Statement

cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT cont'd

Accountability and Audit cont'd

D. Management and Decision-Making Processes

The internal control and risk management processes embedded within the operations of the Manager and Tower REIT are in place for the financial period under review and up to the date of approval of this Statement for inclusion in the Annual Report for FY 2019, and reviewed periodically by the Committee. These processes are intended to manage and mitigate rather than eliminate all risks of failure to achieve business objectives. Accordingly, they can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

The Board has appraised and is of the view that the system of internal controls and risk management in place for the financial period under review is adequate and effective. The Board has received assurances from the Chief Executive Officer, the Manager and Chief Financial Officer, GLM that Tower REIT's system of internal controls and risk management framework are operating adequately and effectively, in all material aspects, based on the internal control system and risk management framework of Tower REIT.

E. Risk Management

Risk management of Tower REIT involves an on-going process for identifying, evaluating, managing and reviewing any changes in the significant risks including emerging risks impacting the achievement of business objectives and strategies of Tower REIT on a periodical and regular basis.

Risks identified are systematically evaluated with proper mitigating action in place, developed to manage the risks to an acceptable level and monitored on a continuous basis. The Enterprise Risk Management ("ERM") risk profile for Tower REIT adopted by the Manager is reviewed by the Committee on a half-yearly basis or as and when required.

The Manager has adopted KPMG Board Assurance Framework as a structured process in making risk-based strategies and decisions to:

- Establish the context of risk in relation to the Tower REIT's risk appetite;
- Identify the risks faced by the Tower REIT in the operating environment;
- Assess the likelihood and impact of such risks identified and hence its risk levels;
- Evaluate the priority to be given to managing each risk based on its respective risk level;
- Assess the adequacy and effectiveness of the existing risk mitigating measures;
- Evaluate risk treatment options (i.e. changing the likelihood or consequence of the risk; and sharing, retaining or avoiding the risk) in relation to the Tower REIT's context of risk;
- Develop any necessary further measures to manage these risks; and
- Monitor and review risk mitigating measures, risk levels and emerging risks.

On an on-going basis, each department/division of the Manager has clear accountabilities to:

- Monitor its existing risks, identify emerging risks and hence update the enterprise-wide risk registers;
- Maintain the adequacy, effectiveness and relevance of action plans and control systems developed to manage risks; and
- Periodically prepare risk management report for reporting to the Committee.

Corporate Governance Overview, Risk Management and Internal Control Statement

cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT cont'd

Accountability and Audit cont'd

F. 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 REIT Guidelines, 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.

All related party transactions entered into by Tower REIT are subject to regular periodic reviews by the Committee.

Information on transactions entered with related party during FY 2019 is disclosed in this Annual Report under Notes to the Financial Statements.

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

A. Disclosure

The Board believes in providing prompt and accurate disclosure of information to unitholders. All timely disclosure and material information documents will be posted on Tower REIT website after release to Bursa Securities.

B. 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 website, Bursa Securities website, in the media and by post to unitholders. This allows unitholders to make the necessary arrangements to attend and participate either in person, by corporate representative, by proxy or by attorney.

Unitholders can access information at the Tower REIT website, which includes corporate information, announcements, financial information and summary of key matters discussed at the AGM.

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.

Corporate Governance Overview, Risk Management and Internal Control Statement

cont'd

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS cont'd

B. Dialogue with Unitholders and Investors cont'd

Queries may be conveyed to the following person:

Name : Mr Eusoffe Chua Song Yong
Tel No. : 603-2726 1000
Fax No. : 603-2726 1001
E-mail address : glmreit@guocoland.com

C. AGM

The Board regards the AGM as an important forum for effective communication and proactive engagement between the Board and unitholders of Tower REIT.

The AGM provides an opportunity for the unitholders who will be accorded ample opportunity and time, 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 during their tenure of service, attended the last AGM held on 17 April 2018.

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.

Board Audit & Risk Management Committee Report

CONSTITUTION

The Board Audit & Risk Management Committee (“Committee”) of GLM REIT Management Sdn Bhd (“GLM REIT” or the “Manager”), the Manager of Tower Real Estate Investment Trust (“Tower REIT”) was established on 31 July 2018 in compliance with the revamped Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) that came into effect on 9 April 2018 where the establishment of an audit committee in a management company of a real estate investment trust is now mandatory.

The Committee has the delegated oversight responsibilities on the financial reporting process, the management of risk and system of internal controls, the audit process of Tower REIT and the Manager as well as to review conflicting interest situations and related party transactions, from the Board of Directors of the Manager (“Board”) to ensure that the interests of the unitholders of Tower REIT are safeguarded.

COMPOSITION

The Committee comprises three (3) members, all of whom are Independent Non-Executive Directors as follows:

YBhg Dato’ Nicholas John Lough @ Sharif Lough bin Abdullah
Chairman, Independent Non-Executive Director

YBhg Dato’ Koh Hong Sun
Independent Non-Executive Director

Ms Lim Tau Kien
*Independent Non-Executive Director
(Appointed on 25 July 2019)*

YBhg Dato’ Paul Poh Yang Hong
*Independent Non-Executive Director
(Resigned on 25 July 2019)*

SECRETARY

The Secretary to the Committee is Ms Chew Ann Nee who is the Company Secretary of GLM REIT.

AUTHORITY

The Committee is authorised by the Board to review any activity of the Manager in managing Tower REIT within its Terms of Reference, details of which are available on Tower REIT website at www.tower-reit.com.my. The Committee is authorised to seek any information it requires from any director or member of management and all employees of the Manager are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

Board Audit & Risk Management Committee Report

cont'd

MEETINGS

The Committee meets at least four (4) times in each financial year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements of Tower REIT are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The Chief Executive Officer, head of finance, head of internal audit and senior management of the Manager may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meetings. Where the Committee is considering a matter in which a Committee member has an interest, such member shall abstain from reviewing and deliberating on the subject matter.

Two (2) members of the Committee, who shall be independent, shall constitute a quorum and the majority of members present must be Independent Directors.

After each Committee meeting, the Chairman of the Committee shall report and update the Board on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board.

ACTIVITIES

An annual assessment on the performance and effectiveness of the Committee and each of its members for the financial period ended 30 June 2019 ("FY 2019") was carried out by the Board. The Board is satisfied that the Committee and its members had carried out their duties in accordance with the Committee's Terms of Reference.

During the FY 2019, four (4) Committee meetings were held and the attendance of the Committee members was as follows:

Member	Attendance
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	4/4
YBhg Dato' Koh Hong Sun	4/4
YBhg Dato' Paul Poh Yang Hong (<i>Resigned on 25 July 2019</i>)	2/4

Ms Lim Tau Kien was appointed as a member of the Committee post the FY 2019 and as such did not attend any of the Committee meetings held during the FY 2019.

Board Audit & Risk Management Committee Report

cont'd

ACTIVITIES cont'd

The Committee carried out the following key activities during the FY 2019:

- Reviewed the quarterly reports and annual financial statements of Tower REIT, and accompanying announcements prior to submission to the Board for consideration and approval.
- Reviewed and recommended to the Board for approval the Internal Audit Charter.
- Reviewed the Enterprise Risk Management Framework.
- Met with the external auditors and discussed the Annual Audit Plan 2019 on the nature and scope of the audit, considered significant changes in accounting and auditing issues, where relevant, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of Tower REIT and discussed applicable accounting and auditing standards.
- Reviewed and recommended to the Board for approval the audit fees payable to the external auditors in respect of services provided to Tower REIT. It also reviewed the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the external auditor's independence or objectivity.
- Reviewed the quarterly report on recurrent related party transactions of Tower REIT.
- Reviewed a related party transaction in relation to the proposed HLX Integrated Innovation Centre at Menara HLA and the Concept Operator Service Agreement to be entered into between MTrustee Berhad (as Trustee of Tower REIT and the owner of Menara HLA) and HLX Management Sdn Bhd ("HLXm") in relation to the engagement of HLXm to conceptualise, plan, execute and promote an enhancement project to Menara HLA.
- Met with the internal auditors and approved the annual audit plan and also reviewed the internal audit findings and recommendations.

INTERNAL AUDIT ("IA")

The IA function is undertaken by an in-house IA Department of the Manager's parent company, GuocoLand (Malaysia) Berhad ("GLM"). The IA Department, led by the Head of IA, reports directly to the Committee. The IA Department supports the Committee in the effective discharge of its responsibilities in respect of governance, internal controls and the risk management framework of the Manager in managing Tower REIT. The Committee takes cognisance of the fact that an independent and adequately resourced internal audit function is essential in obtaining the assurance it requires regarding the effectiveness of the system of internal controls.

Board Audit & Risk Management Committee Report

cont'd

INTERNAL AUDIT (“IA”) cont'd

The IA activities carried out during FY 2019 include, inter alia, the following:

- Ascertained the extent of compliance with the established policies, procedures and statutory requirements;
- Reviewed the system of internal controls and key operating processes based on the approved annual IA plan by adopting a risk based approach and recommending improvements to the existing system of controls;
- Conducted investigation audits on the request of management;
- Carried out planned audit reviews on Tower REIT’s operations; and
- Observed and witnessed tender opening processes during the period.

Arising from the above activities, IA reports, incorporating the audit findings, audit recommendations and management’s responses were presented to the Committee. Follow-up audit was also conducted and the status of implementation on the agreed recommendations was reported to the Committee.

The cost incurred for the IA function is included in the management fees paid by the Manager which amounted to RM174,271 for FY 2019.

This Board Audit & Risk Management Committee Report is made in accordance with the resolution of the Board of Directors.

Financial Statements



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Statement of Financial Position

As at 30 June 2019

	Note	30.06.2019 RM'000	31.12.2017 RM'000
Assets			
Non-current assets			
Investment properties	3	562,300	562,000
Current assets			
Trade and other receivables	4	3,425	1,020
Deposits placed with licensed banks	5	5,662	3,920
Cash and bank balances	5	779	430
Total current assets		9,866	5,370
Total assets		572,166	567,370
Represented by:			
Unitholders' funds			
Unitholders' capital	6	285,345	285,345
Undistributed income – realised		69,009	64,738
Undistributed income – unrealised	7	185,722	195,520
		540,076	545,603
Liabilities			
Trade and other payables	8	2,639	4,092
Borrowings	9	-	100
Deferred tax liability	10	20,623	10,550
Total non-current liabilities		23,262	14,742
Trade and other payables	8	8,728	7,025
Borrowings	9	100	-
Total current liabilities		8,828	7,025
Total liabilities		32,090	21,767
Total unitholders' funds and liabilities		572,166	567,370
Net asset value ("NAV")		540,076	545,603
Number of units in circulation ('000)	6	280,500	280,500
		RM	RM
NAV per unit			
- Before income distribution		1.9254	1.9451
- After income distribution		1.8861	1.9171

The NAV as at the reporting date has taken into account distributions paid during the financial period. 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 62 to 92 form an integral part of these financial statements.

Statement of Comprehensive Income

For the period ended 30 June 2019

	Note	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Revenue	11	44,054	32,644
Property operating expenses	12	(17,421)	(12,211)
Net rental income		26,633	20,433
Change in fair value of investment properties		275	1,953
Other income		418	173
Interest income		222	246
Total income		27,548	22,805
Manager's fees	13	(2,731)	(1,962)
Trustee's fee	14	(243)	(163)
Auditors' fees		(55)	(52)
Administrative expenses		(321)	(402)
Valuation fee		(47)	(43)
Interest expense		(251)	(237)
Total expenses		(3,648)	(2,859)
Income before tax		23,900	19,946
Income tax expense	15	(10,073)	(150)
Net income and total comprehensive income for the period/year		13,827	19,796
Total comprehensive income/(loss) for the period/year is made up as follows:			
Realised		23,625	17,993
Unrealised		(9,798)	1,803
		13,827	19,796
Earnings/(loss) per unit (sen)			
Realised		8.42	6.41
Unrealised		(3.49)	0.65
	16	4.93	7.06

The notes on pages 62 to 92 form an integral part of these financial statements.

Statement of Changes in Net Asset Value

For the period ended 30 June 2019

	Note	Undistributed income		Total RM'000	
		Unitholders' capital RM'000	<i>Non- Distributable - unrealised</i> RM'000		<i>Distributable realised</i> RM'000
At 1 January 2016		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 2017/1 January 2018		285,345	195,520	64,738	545,603
Operations for the period ended 30 June 2019					
Net (loss)/income for the period		-	(9,798)	23,625	13,827
Total comprehensive (loss)/income for the period		-	(9,798)	23,625	13,827
Unitholders' transactions					
Distribution to unitholders					
- 2017 final	17	-	-	(7,854)	(7,854)
- 2018 first interim	17	-	-	(5,890)	(5,890)
- 2018 second interim	17	-	-	(5,610)	(5,610)
Decrease in net assets resulting from unitholders' transactions		-	-	(19,354)	(19,354)
At 30 June 2019		285,345	185,722	69,009	540,076
		Note 6	Note 7		

The notes on pages 62 to 92 form an integral part of these financial statements.

Statement of Cash Flows

For the period ended 30 June 2019

	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Cash flows from operating activities		
Income before tax	23,900	19,946
Adjustments for:		
Change in fair value of investment properties	(275)	(1,953)
Interest income	(222)	(246)
Interest expense	251	237
Operating profit before changes in working capital	23,654	17,984
Changes in working capital:		
Trade and other receivables	(2,405)	(99)
Trade and other payables	250	(1,226)
Net cash generated from operating activities	21,499	16,659
Cash flows from investing activities		
Payment for enhancement of investment properties	(25)	(1,047)
Interest received	222	246
Net cash from/(used in) investing activities	197	(801)
Cash flows from financing activities		
Distribution paid to unitholders	(19,354)	(19,439)
Interest paid	(251)	(237)
Proceeds from borrowings	7,000	5,100
Repayment of borrowings	(7,000)	(5,100)
Net cash used in financing activities	(19,605)	(19,676)
Net increase/(decrease) in cash and cash equivalents	2,091	(3,818)
Cash and cash equivalents at beginning of period/year	4,050	7,868
Cash and cash equivalents at end of period/year	6,141	4,050

Statement of Cash Flows

For the period ended 30 June 2019

cont'd

Cash and cash equivalents

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

	Note	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Cash and bank balances	5	779	430
Deposits placed with licensed banks	5	5,662	3,920
	5	6,441	4,350
Deposits pledged as security		(300)	(300)
		6,141	4,050

The notes on pages 62 to 92 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 Listed 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, Guoco Tower, 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 period.

The financial statements were approved by the Board of Directors of GLM REIT Management Sdn. Bhd. on 25 July 2019.

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 Listed 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 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)* #

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 cont'd

- 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 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement* #
- 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 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business* #
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

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 July 2019 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for those marked “#” which are not applicable to Tower REIT.
- from the annual period beginning on 1 July 2020 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2020, except for those marked “#” which are not applicable to Tower REIT.
- from the annual period beginning on 1 July 2021 for those accounting standard that is effective for annual periods beginning on or after 1 January 2021, except for those marked “#” which is not applicable to Tower REIT.

The initial application of the accounting standards, amendments or interpretations is not expected to have any material financial impacts to the current period and prior period financial statements of Tower REIT.

Notes to the Financial Statements

cont'd

1. Basis of preparation cont'd

(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.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, except as disclosed below:

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

- i) revenue recognition;
- ii) financial instruments; and
- iii) impairment of financial assets;

as compared to those adopted in the previous financial statements. There is no material impact arising from the adoption of these new accounting standards.

(a) Financial instruments

Unless specifically disclosed below, Tower REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, Tower REIT has elected not to restate the comparatives. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(a) Financial instruments cont'd

(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 become a party to the contractual provisions of the instrument.

Accounting policies applied from 1 January 2018

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

Accounting policies applied until 31 December 2017

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

Accounting policies applied from 1 January 2018

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless Tower REIT changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets categorised as amortised costs are subject to impairment assessment.

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(a) Financial instruments cont'd

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

Financial assets cont'd

Accounting policies applied until 31 December 2017

In the previous financial year, financial assets of Tower REIT was classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

Loans and receivables

Loans and receivables category comprised trade and other receivables and cash and cash equivalents.

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

Financial assets categorised as loans and receivables were subject to impairment assessment.

Financial liabilities

Financial liabilities of Tower REIT is subsequently measured at amortised cost using the effective interest method under both MFRS 9, *Financial Instruments* and MFRS 139, *Financial Instruments: Recognition and Measurement*.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the 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.

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(b) Investment property

(i) Investment property carried at fair value

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

(ii) Determination of fair value

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

Cost includes expenditure that is directly attributable to the acquisition of the investment property 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) at least once a financial year as required by the SC Guidelines on Listed REITs.

The last valuation by an independent valuer was done on 13 March 2019 and 14 March 2019 on Menara HLA and Plaza Zurich (formerly known as HP Tower) respectively.

(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.

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(d) Impairment

Financial assets

Unless specifically disclosed below, Tower REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, Tower REIT elected not to restate the comparatives.

Accounting policies applied from 1 January 2018

Tower REIT recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

Tower REIT measures loss allowances at an amount equal to lifetime expected credit loss, except for cash and bank balances. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Tower REIT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Tower REIT's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset. The maximum period considered when estimating expected credit losses is the maximum contractual period over which Tower REIT is exposed to credit risk.

Tower REIT estimates the expected credit losses on trade receivables on an individual basis.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, Tower REIT assesses whether financial assets carried at amortised cost is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when Tower REIT determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Tower REIT's procedures for recovery of amounts due.

Accounting policies applied until 31 December 2017

All financial assets were assessed at each reporting date whether there was 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, were not recognised.

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(d) Impairment cont'd

Accounting policies applied until 31 December 2017 cont'd

An impairment loss in respect of loans and receivables was recognised in profit or loss and was 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 was reduced through the use of an allowance account.

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

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(g) Revenue and other income cont'd

(iii) Other income

Other income consists of income from services, signage rental, compensation charges and other associated income. Other income is recognised over time when services are delivered.

(iv) Interest income

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

(h) Expenses

(i) Property operating expenses

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

(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.

Notes to the Financial Statements

cont'd

2. Significant accounting policies cont'd

(i) Income tax cont'd

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

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

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

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.

Notes to the Financial Statements

cont'd

3. Investment properties

	30.06.2019	31.12.2017
	RM'000	RM'000
At 1 January	562,000	559,000
Enhancements/capital expenditure	25	1,047
Changes in fair value of investment properties	275	1,953
At 30 June/31 December	562,300	562,000

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	342,200	222,734	63
Plaza Zurich (formerly known as HP Tower)*	Freehold	Kuala Lumpur	Office	220,100	133,434	41
				562,300	356,168	

* 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	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
30.06.2019				
Menara HLA	-	-	342,200	342,200
Plaza Zurich	-	-	220,100	220,100
	-	-	562,300	562,300
31.12.2017				
Menara HLA	-	-	342,000	342,000
Plaza Zurich	-	-	220,000	220,000
	-	-	562,000	562,000

Notes to the Financial Statements

cont'd

3. Investment properties cont'd

Fair value information cont'd

Level 3 fair value

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

	30.06.2019	31.12.2017
	RM'000	RM'000
At 1 January	562,000	559,000
Enhancements/capital expenditure	25	1,047
Changes in fair value recognised in profit or loss	275	1,953
At 30 June/31 December	562,300	562,000

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
<p>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% (2017: 6.00% and 6.50%).</p>	<p>Expected market rental rate (p.s.f):</p> <p>i) Office: RM4.00 – RM6.90 (2017: RM4.40 – RM6.60)</p> <p>ii) Retail: RM7.60 – RM12.50 (2017: RM5.50 – RM7.60)</p> <p>Outgoing (p.s.f) RM1.28 – RM1.37 (2017: RM1.30 – RM1.50)</p> <p>Term yield 6.00% (2017: 6.00%)</p> <p>Reversionary yield: 6.25% – 6.50% (2017: 6.50%)</p> <p>Void periods 10% (2017: 5% – 10%)</p>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Expected net rental income were higher (lower); • Void periods were shorter (longer); and • Expected yield were lower (higher).

Valuation processes applied by the Manager for Level 3 fair value

The fair value of investment properties is determined by 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.

Notes to the Financial Statements

cont'd

3. Investment properties cont'd

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.

4. Trade and other receivables

	30.06.2019	31.12.2017
	RM'000	RM'000
Trade receivables	243	89
Other receivables, deposits and prepayments	3,182	931
	3,425	1,020

(i) Included in trade receivables are rental outstanding from companies related to the Manager, amounting to RM5,115 (2017: RM44,285).

(ii) Included in other receivables are amount due to the Manager of RM10,748 (2017: Nil) which is unsecured, interest free and payable on demand.

5. Cash and cash equivalents

	30.06.2019	31.12.2017
	RM'000	RM'000
Deposits placed with licensed banks	5,362	3,620
Cash and bank balances	779	430
	6,141	4,050
Deposits pledged as security	300	300
	6,441	4,350

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

Notes to the Financial Statements

cont'd

5. Cash and cash equivalents cont'd

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

	30.06.2019 RM'000	31.12.2017 RM'000
Cash and bank balances	680	346
Deposits placed with a licensed bank	900	1,800
	1,580	2,146

6. Unitholders' capital

	30.06.2019 '000	31.12.2017 '000
Issued and fully paid-up (Number of units)	280,500	280,500

	30.06.2019 RM'000	31.12.2017 RM'000
Issued and fully paid-up	285,345	285,345

As at 30 June 2019, the Manager did not hold any units in Tower REIT. However, the related parties of the Manager held units in Tower REIT as follows:

	30.06.2019		31.12.2017	
	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	53,477	60,769	74,138
Hong Leong Assurance Berhad	57,771	50,838	57,771	70,481
Asia Fountain Investment Company Limited	14,000	12,320	14,000	17,080
Associated Land Sendirian Berhad	13,409	11,800	13,409	16,359
Hong Leong Investment Bank Berhad	5,887	5,181	5,887	7,182
Dato' Poh Yang Hong	3,085*	2,714	3,085*	3,764

* Indirect holdings.

The market value is determined by multiplying the number of units with the market closing price of RM0.88 (2017: RM1.22) per unit as at 30 June 2019.

Notes to the Financial Statements

cont'd

7. Unrealised undistributed income

	30.06.2019 RM'000	31.12.2017 RM'000
Cumulative net change arising from fair value movement of:		
- investment properties	185,722	195,520

8. Trade and other payables

	30.06.2019 RM'000	31.12.2017 RM'000
Non-current		
Tenants' deposits	2,639	4,092
	2,639	4,092
Current		
Trade		
Trade payables	685	423
Tenants' deposits	4,595	5,139
	5,280	5,562
Non-trade		
Other payables and accrued expenses	3,448	1,463
Total current	8,728	7,025
Total	11,367	11,117

Included in other payables and accrued expenses are amounts due to the Manager and the Trustee of RM nil (2017: RM146,758) and RM13,304 (2017: RM13,902) 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:

	30.06.2019 RM'000	31.12.2017 RM'000
Payable within 12 months	273	1,296
Payable after 12 months	486	5
	759	1,301

Notes to the Financial Statements

cont'd

9. Borrowings

	30.06.2019 RM'000	31.12.2017 RM'000
Non-current		
Term loan	-	100
Current		
Term loan	100	-

A lienholder caveat has been entered by the lender over Plaza Zurich (Note 3).

Term and debt repayment schedule

The term loan is repayable upon its maturity on 31 March 2020 (2017: 31 March 2020).

The interest on term loan were at rates ranging from 3.97% to 4.22% (2017: 3.97% to 4.37%) p.a. during the financial period.

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

	At 1 January RM'000	Net changes from financing cash flows RM'000	Interest expense RM'000	At 30 June/ 31 December RM'000
30.06.2019				
Term Loan	100	(6)	6	100
Revolving credit facility	-	(245)	245	-
	100	(251)	251	100
31.12.2017				
Term Loan	100	(4)	4	100
Revolving credit facility	-	(233)	233	-
	100	(237)	237	100

Notes to the Financial Statements

cont'd

10. Deferred tax liabilities

Prior to financial year ended 2015, 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 gain from the disposal was subjected to corporate 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 base upon corporate RPGT rate. If the outcome of the appeal to IRB is favorable to Tower REIT, management will reverse partially the deferred tax liability in the future to reflect corporate RPGT rate.

Deferred tax liability is attributable to the following:

	30.06.2019	31.12.2017
	RM'000	RM'000
Investment properties	20,623	10,550

11. Revenue

	01.01.2018	Year
	to	ended
	30.06.2019	31.12.2017
	RM'000	RM'000
Rental income	25,705	20,461
Service charge	10,464	8,130
Car park income	4,311	3,257
Others	3,574	796
	44,054	32,644

Notes to the Financial Statements

cont'd

12. Property operating expenses

	01.01.2018 to 30.06.2019	Year ended 31.12.2017
	RM'000	RM'000
Assessment	4,059	2,929
Service contracts and maintenance	5,346	4,190
Property management fees	482	336
Utilities	5,503	3,558
Others	2,031	1,198
	17,421	12,211

Property management fees of RM482,640 (2017: 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.

	01.01.2018 to 30.06.2019		Year ended 31.12.2017	
	RM'000	%	RM'000	%
Base Fee and % of Gross Asset Value	1,873	0.33	1,250	0.22
Performance Fee and % of Net Property Income	858	3.22	712	3.49
	2,731		1,962	

Notes to the Financial Statements

cont'd

14. Trustee's fee

Pursuant to the Deed constituting Tower REIT, the Trustee is entitled to receive a fee of 0.03% (2017: 0.03%) per annum of the net asset value of Tower REIT with a cap of RM200,000 (2017: RM200,000).

	RM'000
01.01.2018 to 30.06.2019	
12-month period	163
6-month period	80
	243
Year ended 31 December 2017	
12-month period	163

15. Income tax expense

	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Current tax expense		
- under provision in prior years	-	-
Deferred tax expense		
- current year	10,073	150
	10,073	150
Total income tax expense	10,073	150
Reconciliation of tax expense		
Income before tax	23,900	19,946
Income tax using Malaysian tax rate of 24% (2017: 24%)	5,736	4,787
Non-deductible expenses	147	90
Non-taxable income	(66)	(319)
Effect of income exempted from tax	(5,817)	(4,408)
	-	150
Effect of changes in tax rate of RPGT to 10% (2017: 5%)	10,073	-
Total income tax expense	10,073	150

Notes to the Financial Statements

cont'd

15. Income tax expense cont'd

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.

With effect from 1 January 2019, corporate RPGT rate on disposal of properties held more than 5 years has increased to 10% (31.12.2017: 5%).

16. Earnings/(loss) per unit

The calculation of earnings/(loss) per unit is based on net income/(loss) for the financial period of RM13,827,000 (2017: RM19,796,000) and on the number of units in circulation during the financial period of 280,500,000 (2017: 280,500,000).

17. Distribution to unitholders

	Gross/Net distribution per unit sen	Total amount RM'000	Date of payment
01.01.2018 to 30.06.2019			
2017 Final income distribution	2.80	7,854	28 February 2018
2018 Interim income distribution	2.10	5,890	30 August 2018
2018 Interim income distribution	2.00	5,610	28 November 2018
		<u>19,354</u>	
Year ended 31.12.2017			
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>	

On 25 July 2019, the Directors of the Manager declared a final income distribution of 3.93 sen (2017: 2.80 sen) per unit amounting to RM11,023,650 (2017: RM7,854,000) in respect of the financial period ended 30 June 2019. The distribution will be recognised in the subsequent year.

Notes to the Financial Statements

cont'd

17. Distribution to unitholders cont'd

The total income distribution for the financial period ended 30 June 2019 which comprises the first and second interim income distribution of 2.10 sen and 2.00 sen (2017: 3.20 sen) per unit and the proposed final income distribution of 3.93 sen (2017: 2.80 sen) per unit are from the following sources:

	01.01.2018 to 30.06.2019	Year ended 31.12.2017
	RM'000	RM'000
Net rental income	26,633	20,433
Interest income	222	246
Other income	418	173
	27,273	20,852
Less: Expenses	(3,648)	(2,859)
Less: Taxation	-	-
	23,625	17,993
Less: Current year's undistributed gain	(1,101)	(1,163)
	22,524	16,830
Net income distribution		
- First interim income distribution of 2.10 sen per unit paid on 30 August 2018 (2017: 3.20 sen per unit paid on 6 September 2017)	5,890	8,976
- Second interim income distribution of 2.00 sen per unit paid on 28 November 2018 (2017: nil)	5,610	-
- Final income distribution declared after the reporting period of 3.93 sen per unit payable on 28 August 2019 (2017: 2.80 sen per unit paid on 28 February 2018)	11,024	7,854
	22,524	16,830
Income distribution per unit		
- First Interim* (sen)	2.10 [#]	3.20 [@]
- Second Interim* (sen)	2.00 [#]	-
- Final* (sen)	3.93 [§]	2.80 [#]
	8.03	6.00

Notes to the Financial Statements

cont'd

17. Distribution to unitholders cont'd

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

	Withholding tax rate		
	2019 ^s	2018 [#]	2017 [@]
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 corporate tax rate.

18. Management expense ratio

	01.01.2018 to 30.06.2019	Year ended 31.12.2017
Management expense ratio ("MER") (%)	0.62	0.48

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.

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.

	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Rental charged	3,347	4,121
Interest income	128	167

The above transaction has been established based on negotiated terms.

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

Notes to the Financial Statements

cont'd

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:

	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Less than one year	10,116	19,013
Between one and five years	6,371	11,854
	16,487	30,867

21. Financial instruments

21.1 Categories of financial instruments

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

30.06.2019

- (a) Amortised cost ("AC"); and
- (b) Financial liability measured at amortised cost ("FL").

31.12.2017

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

	Carrying amount RM'000	AC/ (FL) RM'000
30.06.2019		
Financial assets		
Trade and other receivables	3,397	3,397
Deposits placed with licensed banks	5,662	5,662
Cash and bank balances	779	779
	9,838	9,838
Financial liabilities		
Borrowings - secured	(100)	(100)
Trade and other payables	(11,367)	(11,367)
	(11,467)	(11,467)

Notes to the Financial Statements

cont'd

21. Financial instruments cont'd

21.1 Categories of financial instruments cont'd

	Carrying amount RM'000	L&R/ (FL) RM'000
31.12.2017		
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)

Financial assets that were classified as "loans and receivables" under MFRS 139 are now classified at "amortised cost" upon application of MFRS 9.

21.2 Net gain and loss arising from financial instruments

	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000
Net gain/(loss) arising on:		
- Loans and receivables	222	246
- Financial liabilities at amortised cost	(251)	(237)

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.

Notes to the Financial Statements

cont'd

21. Financial instruments cont'd

21.3 Financial risk management cont'd

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

cont'd

21. Financial instruments cont'd

21.4 Credit risk cont'd

Recognition and measurement of impairment loss

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 30 June 2019.

	Carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Not past due	105	-	105
Past due 31 – 60 days	4	-	4
Past due 61 – 90 days	39	-	39
Past due 91 – 120 days	-	-	-
>121 days	159	-	159
Unallocated receipts	(64)	-	(64)
	243	-	243

As at the end of the reporting period, Tower REIT did not provide for allowance for impairment loss on trade receivables.

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The ageing of trade receivables as at 31 December 2017 was as follows:

	Carrying amount RM'000	Impairment loss RM'000	Net Balance RM'000
Not past due	145	-	145
Past due 31 – 60 days	16	-	16
Past due 61 – 90 days	3	-	3
Past due 91 – 120 days	47	-	47
>121 days	245	-	245
Unallocated receipts	(367)	-	(367)
	89	-	89

Notes to the Financial Statements

cont'd

21. Financial instruments cont'd

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.

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
30.06.2019					
<i>Non-derivative financial liabilities</i>					
Term loan	100	4.00	100	100	-
Tenants' deposits	7,234	-	7,234	4,595	2,639
Trade and other payables	4,133	-	4,133	4,133	-
	<u>11,467</u>		<u>11,467</u>	<u>8,828</u>	<u>2,639</u>
31.12.2017					
<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	-
	<u>11,217</u>		<u>11,217</u>	<u>7,025</u>	<u>4,192</u>

Notes to the Financial Statements

cont'd

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/year was:

	30.06.2019	31.12.2017
	RM'000	RM'000
Fixed rate instruments		
Financial assets		
Deposits placed with licensed banks	5,662	3,920
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 period would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

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

Notes to the Financial Statements

cont'd

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 Carrying value 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	RM'000	RM'000	RM'000	RM'000
30.06.2019										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	(7,234)	(7,234)	(7,234)	(7,234)
Borrowings	-	-	-	-	-	-	(100)	(100)	(100)	(100)
	-	-	-	-	-	-	(7,334)	(7,334)	(7,334)	(7,334)
31.12.2017										
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)

Level 3 fair value

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

Financial instruments not carried at fair value

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

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

Notes to the Financial Statements

cont'd

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	30.06.2019 RM'000	31.12.2017 RM'000
Gross borrowings	9	100	100
Total assets		572,166	567,370
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.

Notes to the Financial Statements

cont'd

23. Operating segments cont'd

Major customers

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

	Revenue		Properties
	01.01.2018 to 30.06.2019 RM'000	Year ended 31.12.2017 RM'000	
Hewlett-Packard (Malaysia) Sdn. Bhd.	-	3,841	Plaza Zurich (formerly known as HP Tower)

Revenue income from Hewlett-Packard (Malaysia) Sdn. Bhd. for financial period ended 30 June 2019 is RM1,793,000.

There is no customer with revenue equal or more than 10% of the REIT's total revenue for the financial period ended 30 June 2019.

24. Capital commitments

	30.06.2019 RM'000	31.12.2017 RM'000
Investment properties		
Contracted but not provided for	6,329	5,398

25. Comparative figures

During the financial period, Tower REIT has changed its financial year end from 31 December to 30 June to be synchronised with the financial year end of its manager. Therefore, the comparatives for the statements of profit or loss and other comprehensive income, changes in other equity, and cash flows as well as the comparatives in the notes to the financial statements relating to statement of profit or loss and other comprehensive income for the previous twelve months ended 31 December 2017 are not comparable to that for the current period of eighteen months ended 30 June 2019.

Statement by the Directors of the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 57 to 92 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 30 June 2019 and of its financial performance and cash flows for the period 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: 25 July 2019

Statutory Declaration

I, Loi Kok Mun, 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 57 to 92 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 Loi Kok Mun, MIA No.: 29321, at Kuala Lumpur on 25 July 2019.

LOI KOK MUN

Before me,

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 period ended 30 June 2019. 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 Listed 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 8.03 sen per unit for the financial period ended 30 June 2019 by Tower REIT is tied to and reflects the objectives of the fund.

For and on behalf of the Trustee
MTrustee Berhad

NURIZAN JALIL
Chief Executive Officer

Petaling Jaya, Selangor

Date: 25 July 2019

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 30 June 2019, and the statements of comprehensive income, changes in net asset value and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 57 to 92.

In our opinion, the financial statements give a true and fair view of the financial position of Tower REIT as at 30 June 2019 and of its financial performance and cash flows for the period 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 RM20,623,000 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.

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: 02867/08/2020 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 25 July 2019

Other Information

ANALYSIS OF UNITHOLDINGS AS AT 31 JULY 2019

DISTRIBUTION SCHEDULE OF UNITHOLDERS

Size of Holding	No. of Unitholders	% of Unitholders	No. of Units Held	% of Units Held
Less than 100	13	0.48	300	0.00
100 – 1,000	391	14.49	288,100	0.10
1,001 – 10,000	1,306	48.39	7,507,400	2.68
10,001 – 100,000	805	29.83	29,042,000	10.35
100,001 – less than 5% of issued units	182	6.74	125,122,400	44.61
5% and above of issued units	2	0.07	118,539,800	42.26
	2,699	100.00	280,500,000	100.00

LIST OF THIRTY LARGEST UNITHOLDERS

Name of Unitholders	No. of Units	%
1. GLM Equities Sdn. Bhd.	60,768,800	21.66
2. Hong Leong Assurance Berhad - <i>As Beneficial Owner</i>	57,771,000	20.60
3. CIMSEC Nominees (Asing) Sdn Bhd - <i>CIMB for Yong Yoon Kiong (PB)</i>	14,000,000	4.99
4. Citigroup Nominees (Asing) Sdn Bhd - <i>GSCO LLC for Asia Fountain Investment Company Limited</i>	14,000,000	4.99
5. Associated Land Sendirian Berhad	13,409,300	4.78
6. Hong Leong Investment Bank Berhad - <i>IVT-A</i>	5,887,000	2.10
7. Loh Cheng Yean	4,600,000	1.64
8. CIMB Group Nominees (Asing) Sdn. Bhd. - <i>Exempt AN for DBS Bank Ltd (SFS)</i>	3,952,500	1.41
9. Maybank Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Law Kiu Kiong</i>	3,110,700	1.11
10. RHB Capital Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Poh Soon Sim (CEB)</i>	3,084,500	1.10
11. Citigroup Nominees (Tempatan) Sdn Bhd - <i>MCIS Insurance Berhad (Life Par FD)</i>	2,545,200	0.91
12. Lian Mong Yee @ Lian Mung Yee	2,369,700	0.85

Other Information

cont'd

ANALYSIS OF UNITHOLDINGS AS AT 31 JULY 2019 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.	Gan Peoy Hong	1,549,600	0.55
16.	CGS-CIMB Nominees (Asing) Sdn Bhd - Exempt AN for CGS-CIMB Securities (Singapore) Pte Ltd (Retail Clients)	1,468,200	0.52
17.	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Law Kiu Kiong (6000710)	1,454,800	0.52
18.	CGS-CIMB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Chen Yik (Penang-CL)	1,415,700	0.51
19.	Hong Leong Foundation	1,313,800	0.47
20.	Citigroup Nominees (Tempatan) Sdn Bhd - MCIS Insurance Berhad (Ann FD)	1,164,000	0.42
21.	Ong Ee Nah	1,100,000	0.39
22.	Lim Kew Seng	1,065,000	0.38
23.	HLB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Liew Sun Yick	1,050,000	0.37
24.	Goh Siew Cheng	1,048,200	0.37
25.	JF Apex Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Seik Ye Doong (RS2)	1,000,000	0.36
26.	Yap Ah Ngah @ Yap Neo Nya	1,000,000	0.36
27.	HLIB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Ting Ching Kok (CCTS)	872,800	0.31
28.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB for Ram Holdings Berhad (PB)	821,900	0.29
29.	Chow Hon Keong	741,500	0.26
30.	Ling Thik Ping	700,000	0.25
		206,914,000	73.77

Other Information

cont'd

ANALYSIS OF UNITHOLDINGS AS AT 31 JULY 2019 cont'd

MAJOR UNITHOLDERS

	Name of Unitholders	No. of Units	%
1.	GLM Equities Sdn Bhd	60,768,800	21.66
2.	Hong Leong Assurance Berhad <i>- As Beneficial Owner</i>	57,771,000	20.60

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AS AT 31 JULY 2019

Subsequent to the financial period under review, there is no change in the Directors' and Chief Executive Officer's interests in the units of Tower Real Estate Investment Trust ("Tower REIT") appearing in the Manager's Report.

MATERIAL CONTRACTS

The Manager or major unitholders of 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 financial period or, if not then subsisting, entered into since the end of the previous financial year, except for the Deed dated 17 February 2006 (as restated by a Deed dated 24 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 Seventh 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 Thursday, 17 October 2019 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 period ended 30 June 2019.

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions as Ordinary/Majority 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 Total Number Of Units Issued of Tower REIT Of 280,500,000 Units (“Proposed Renewal Of Authority Mandate”)

“**THAT** pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Main Market of Bursa Securities”), 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 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 total number of units issued 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 Securities;

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

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

whichever is the earlier;

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

AND THAT authority be and is hereby given to the Directors of the Manager and MTrustee Berhad, acting as Trustee of Tower REIT (the “Trustee”), acting for and on behalf of Tower REIT, to give effect to the Proposed Renewal Of Authority 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, acting 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 Authority Mandate.”

(Resolution 1)

Notice of Annual General Meeting

cont'd

3. Ordinary Resolution 2

Proposed Increase In The Existing Total Number of Units Issued Of Tower REIT From 280,500,000 Units To A Maximum Of 336,600,000 Units Pursuant To The Proposed Renewal Of Authority Mandate (“Proposed Increase In Units Issued”)

“**THAT** subject to the passing of Ordinary Resolution 1 above and the requisite approvals being obtained, the total number of units issued of 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 the Manager and the Trustee, acting for and on behalf of Tower REIT, to give effect to the Proposed Increase In Units Issued, 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, acting 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 Units Issued.”

(Resolution 2)

4. Ordinary Resolution 3

Proposed Unitholders’ Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Leong Company (Malaysia) Berhad (“HLCM”) And Persons Connected With HLCM (“Proposed RRPT Mandate”)

“**THAT** approval be and is hereby given for Tower REIT to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3 of Part A of the Circular to Unitholders dated 29 August 2019 (“Circular”), with HLCM and persons connected with HLCM provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the related parties than those generally available to and/or from the public, where applicable, and are not detrimental to the minority unitholders of Tower REIT;

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 authority be and is hereby given to the Directors of the Manager and the Trustee, acting for and on behalf of Tower REIT, to give effect to the Proposed RRPT Mandate, 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, acting 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 RRPT Mandate.”

(Resolution 3)

Notice of Annual General Meeting

cont'd

5. Majority Resolution

Proposed Amendment To The Investment Objective Of Tower REIT ("Proposed Objective Amendment")

"**THAT** subject to the approvals being obtained from all relevant authorities and/or parties, where required, approval be and is hereby given to Directors of the Manager to adopt the Proposed Objective Amendment as follows:

"The objective of the Trust is:-

to invest primarily in a portfolio of **real estate including** quality office buildings, commercial properties, **residential properties and industrial properties** in order to:

- (1) provide Unitholders with regular and stable distributions; and
- (2) achieve medium to long-term growth in the Net Asset Value per Unit."

by way of a second restated deed to be entered into between the Manager and the Trustee, that amends and restates the principal deed dated 17 February 2006 constituting Tower REIT (as amended and restated by the restated deed dated 29 May 2014);

THAT authority be and is hereby given to the Directors of the Manager and the Trustee, acting for and on behalf of Tower REIT, to give effect to the Proposed Objective Amendment with full power to ascent to any condition, modification, variation and/or amendment as they may deem fit in the best interests of Tower REIT and/or as may be imposed by the relevant authorities;

AND THAT the Directors of the Manager and the Trustee, acting for and on behalf of Tower REIT, be and are hereby authorised to do all acts, deeds and/or things, including executing such documents as may be required, in order to implement, finalise and effect the Proposed Objective Amendment."

(Resolution 4)

6. 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
 29 August 2019

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 October 2019 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 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 of the meeting or adjourned meeting.
5. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all resolutions set out in this Notice will be put to vote by way of a poll.

Explanatory Notes

1. Ordinary Resolution 1 - Proposed Renewal Of Authority Mandate

The Proposed Renewal Of Authority 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 total number of units issued of Tower REIT for the time being. The Proposed Renewal Of Authority Mandate, unless revoked or varied at a unitholders' meeting, will expire at the conclusion of the next Annual General Meeting ("AGM") 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 17 April 2018 and which will lapse at the conclusion of the forthcoming Seventh AGM of Tower REIT.

The Proposed Renewal Of Authority 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 Units Issued

The purpose of the Proposed Increase In Units Issued is to accommodate the issuance of such new units pursuant to the Proposed Renewal Of Authority Mandate.

3. Ordinary Resolution 3 - Proposed RRPT Mandate

The Proposed RRPT Mandate, if passed, will give a mandate to Tower REIT to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of Tower REIT, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to and/or from the public and are not detrimental to the minority unitholders of Tower REIT.

Detailed information on the Proposed RRPT Mandate is set out in Part A of the Circular to Unitholders dated 29 August 2019 which is despatched together with the 2019 Annual Report of Tower REIT.

4. Majority Resolution - Proposed Objective Amendment

Pursuant to Section 295(4)(a) of the Capital Markets and Services Act 2007 and the principal deed dated 17 February 2006 entered into between the Manager and the Trustee constituting Tower REIT (as amended and restated by the restated deed dated 29 May 2014), the Proposed Objective Amendment is subject to approval being obtained from the unitholders comprising not less than two-thirds (2/3) of all unitholders present at the forthcoming Seventh AGM of Tower REIT.

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 Seventh Annual General Meeting of unitholders of Tower REIT to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 17 October 2019 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 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 special business, to approve the ordinary resolution on the proposed increase in the existing total number of units issued of Tower REIT		
3.	As special business, to approve the ordinary resolution on the proposed unitholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
4.	As special business, to approve the majority resolution on the proposed amendment to the investment objective of Tower REIT		

Dated this _____ day of _____ 2019

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 October 2019 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 Seventh 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, Guoco Tower

Damansara City

No. 6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel : 03-2726 1000

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