
**CONDENSED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2010**

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TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2010

The figures have not been audited.

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 30.09.2010 RM	Preceding Year Corresponding Quarter Ended 30.09.2009 RM	Current Year To Date 30.09.2010 RM	Preceding Year To Date 30.09.2009 RM
<u>INCOME</u>				
Gross revenue	12,975,283	12,743,508	36,161,497	38,047,376
Property operating expenses	(2,876,626)	(3,090,921)	(8,496,587)	(8,808,684)
Net property income	10,098,657	9,652,587	27,664,910	29,238,692
Interest income	10,454	8,054	27,899	26,233
Other income	8,671	4,786	58,121	42,599
	10,117,782	9,665,427	27,750,930	29,307,524
<u>EXPENSES</u>				
Manager's fees	663,454	620,576	1,966,469	1,984,864
Trustee's fees	34,434	34,273	102,012	101,851
Administrative expenses	610,083	54,803	742,778	383,261
Interest expenses	1,246,730	1,249,019	3,481,055	3,704,556
	2,554,701	1,958,671	6,292,314	6,174,532
NET TRUST INCOME	7,563,081	7,706,756	21,458,616	23,132,992
Change in fair value of derivatives financial instrument	213,648	-	749,220	-
INCOME BEFORE TAXATION	7,776,729	7,706,756	22,207,836	23,132,992
Taxation	-	-	-	-
NET INCOME FOR THE PERIOD	7,776,729	7,706,756	22,207,836	23,132,992
Net income for the period is made up as follows:				
- Realised	7,563,081	7,706,756	21,458,616	23,132,992
- Unrealised	213,648	-	749,220	-
	7,776,729	7,706,756	22,207,836	23,132,992
EARNINGS PER UNIT (SEN)				
- Basic	2.77	2.75	7.92	8.25
- Diluted	N/A	N/A	N/A	N/A
DISTRIBUTION PER UNIT (SEN)				
- Interim	-	-	4.50	5.00
- Final	N/A	N/A	N/A	N/A

The Condensed Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached.

The figures have not been audited.

	As At 30.09.2010 RM	As At 31.12.2009 RM
ASSETS		
<u>Non-current assets</u>		
Investment properties	602,135,335	596,000,000
<u>Current Assets</u>		
Trade receivables	103,621	144,348
Other receivables, deposits and prepayments	3,603,232	1,979,889
Deposits placed with licensed financial institution	300,000	300,000
Cash and bank balances	267,682	375,370
	4,274,535	2,799,607
TOTAL ASSETS	606,409,870	598,799,607
LIABILITIES		
<u>Non-current liabilities</u>		
Tenants' deposits	5,073,652	5,980,041
Borrowing	105,500,000	105,500,000
	110,573,652	111,480,041
<u>Current liabilities</u>		
Trade payables	326,690	400,440
Other payables and provisions	1,799,484	2,550,054
Derivative financial instrument	672,210	-
Tenants' deposits	9,871,208	7,341,352
Borrowing	20,700,000	8,700,000
Provision for income distribution	6,664,680	14,025,000
	40,034,272	33,016,846
TOTAL LIABILITIES	150,607,924	144,496,887
NET ASSET VALUE	455,801,946	454,302,720
<u>REPRESENTED BY :</u>		
Unitholders' capital	285,344,766	285,344,766
Undistributed income - unrealised	164,683,872	165,356,082
Undistributed income - realised	5,773,308	3,601,872
	455,801,946	454,302,720
NUMBER OF UNITS IN CIRCULATION (UNITS)	280,500,000	280,500,000
NET ASSET VALUE PER UNIT (RM)		
- before provision for income distribution	1.6487	1.6696
- after provision for income distribution	1.6250	1.6196

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached.

TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2010

The figures have not been audited.

	Unitholders' capital RM	-----Distributable----- Undistributed Income		Total RM
		Unrealised RM	Realised RM	
<u>Current Year To Date</u>				
At 1 January 2010, as previously stated	285,344,766	165,356,082	3,601,872	454,302,720
- effect of adopting FRS 139	-	(1,421,430)	-	(1,421,430)
At 1 January 2010, as restated	285,344,766	163,934,652	3,601,872	452,881,290
Operations for the period ended 30 September 2010				
Net trust income	-	-	21,458,616	21,458,616
Change in fair value of derivatives financial instrument	-	749,220	-	749,220
	-	749,220	21,458,616	22,207,836
Unitholders' transactions				
Distributed income			(12,622,500)	(12,622,500)
Provision for income distribution			(6,664,680)	(6,664,680)
	-	-	(19,287,180)	(19,287,180)
At 30 September 2010	285,344,766	164,683,872	5,773,308	455,801,946
<u>Preceding Year Corresponding Period</u>				
At 1 January 2009	285,344,766	159,586,337	1,596,283	446,527,386
Operations for the period ended 30 September 2009				
Net income for the period	-	-	23,132,992	23,132,992
	-	-	23,132,992	23,132,992
Unitholders' transactions				
Distributed income	-	-	(14,025,000)	(14,025,000)
Provision for income distribution	-	-	(7,012,500)	(7,012,500)
	-	-	(21,037,500)	(21,037,500)
At 30 September 2009	285,344,766	159,586,337	3,691,775	448,622,878

The Condensed Statement of Changes in Net Asset Value should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached.

**TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2010**

The figures have not been audited.

	Current Year To Date 30.09.2010 RM	Preceding Year To Date 30.09.2009 RM
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Income before taxation	22,207,836	23,132,992
Adjustments for:		
Interest expense	3,481,055	3,704,556
Interest income	(27,899)	(26,233)
Change in fair value of derivatives financial instrument	(749,220)	-
Operating profit before working capital changes	<u>24,911,772</u>	<u>26,811,315</u>
Changes in working capital:		
Trade and other receivables	(1,582,616)	(822,666)
Trade and other payables	<u>1,017,552</u>	<u>(881,196)</u>
Net cash generated by operating activities	<u>24,346,708</u>	<u>25,107,453</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Upgrade / enhancement of investment properties	(45,757)	(356,920)
Purchase of investment property	(6,089,578)	-
Interest income	<u>27,899</u>	<u>26,233</u>
Net cash used in investing activities	<u>(6,107,436)</u>	<u>(330,687)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Interest paid	(3,699,460)	(3,413,089)
Proceeds from borrowing	12,000,000	5,200,000
Distribution paid to unitholders	(26,647,500)	(26,226,750)
Increase in pledged deposits with licensed financial institution	-	(300,000)
Net cash used in financing activities	<u>(18,346,960)</u>	<u>(24,739,839)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(107,688)	36,927
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>375,370</u>	<u>497,189</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>267,682</u>	<u>534,116</u>
Cash and cash equivalents at end of period comprise:		
Cash and bank balances	267,682	234,116
Deposits placed with licensed financial institution	<u>300,000</u>	<u>600,000</u>
	567,682	834,116
Deposits pledged as security	<u>(300,000)</u>	<u>(300,000)</u>
	<u>267,682</u>	<u>534,116</u>

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached.

A. Explanatory Notes pursuant to Financial Reporting Standards ("FRS") 134**A1. Basis of Preparation**

The quarterly financial report is unaudited and prepared in accordance with FRS 134: Interim Financial Reporting and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This does not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of Tower Real Estate Investment Trust ("Tower REIT" or "Trust") for the year ended 31 December 2009.

Changes in Accounting Policies

Except as described below, the accounting policies and methods of computation used in the preparation of the quarterly financial report are consistent with those adopted in the preparation of the audited financial statements of Tower REIT for the year ended 31 December 2009.

(1) FRS 101 (revised), Presentation of Financial Statements

With the adoption of FRS 101 (revised), the components of the financial statements presented have changed to consist of statement of comprehensive income, statement of financial position, statement of changes in net asset value and statement of cash flows and notes to the financial statements. Since the changes only affect presentation aspects, there is no impact on the financial position and results of the Trust.

(2) FRS 139, Financial Instruments: Recognition and Measurement

The adoption of FRS 139 has resulted in changes to accounting policies relating to recognition and measurement of financial instruments and the new accounting policies are as follows:

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Trust becomes a party to the contractual provisions of the instrument.

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

(ii) Financial instrument categories and subsequent measurement

The Trust categorises financial instruments as follows:

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

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

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

(b) Loans and receivables

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

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

Financial liabilities

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

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

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

Impact on opening balance

In accordance with the transition provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 January 2010:

	Undistributed Income RM'000
At 1 January 2010, as previously stated	168,958
Adjustments arising from adoption of FRS 139:	
- Recognition of derivatives previously not recognised	<u>(1,421)</u>
At 1 January 2010, as restated	<u><u>167,537</u></u>

Derivatives

Prior to the adoption of FRS 139, derivative contracts were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now categorised as fair value through profit or loss and measured at their fair values with the gain or loss recognised in the profit or loss.

A2. Audit Report of Preceding Financial Year

The Auditors' Report on the preceding financial statements for the year ended 31 December 2009 was not subject to any qualification.

A3. Seasonality or Cyclicity of Operations

The business operations of the Trust were not affected by any seasonal or cyclical factors for the quarter under review.

A4. Unusual Items

There were no unusual items to be disclosed for the quarter under review.

A5. Changes in Estimates

There were no changes in estimates that had a material effect in the quarterly results.

A6. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of equity securities for the current quarter.

A7. Income Distribution

The Manager of Tower REIT had, on 23 August 2010, paid an interim income distribution of 4.5 sen per unit, amounting to RM12,622,500 and representing 91% of the distributable net income (realised) for the six-month period ended 30 June 2010, to the unitholders registered in the Record of Depositors on 9 August 2010.

A provision was made to distribute 90% of the realised distributable income for the quarter ended 30 September 2010.

A8. Segmental Reporting

No segmental information was prepared as the Trust's activities are predominantly in one segment of the industry and occur predominantly in Malaysia.

A9. Valuation of Investment Properties

The valuation of the existing properties, namely, Menara HLA, HP Towers and Menara ING, had been brought forward without any amendment from the previous audited financial statements.

A10. Material Events Subsequent to the End of the Quarterly Period

There were no material events subsequent to the end of the quarterly period.

A11. Changes in the Composition of the Trust

There was no change in the composition of the Trust during the current quarter and the fund size stands at 280,500,000 units.

A12. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets to be disclosed.

B. Additional Information pursuant to Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad
B1. Review of Performance
Current Year To Date Results (YTD Q3 2010 Vs YTD Q3 2009)

For the current year to date ended 30 September 2010, the Trust recorded gross revenue and net income (realised) of RM36.161 million and RM21.459 million respectively, representing a decrease of about 5% and 7% respectively as compared to the preceding year's corresponding period. The decreases in gross revenue and net income (realised) were mainly attributed to the lower average occupancy rate of Menara HLA and HP Towers.

Quarter Results (Q3 2010 Vs Q2 2010)

With the improved occupancy rate for Menara HLA to more than 90%, the gross revenue and net income (realised) of the current quarter ended 30 September 2010 had increased to RM12.975 million and RM7.563 million respectively, representing an increase of 7% and 4% as compared to the immediate preceding quarter ended 30 June 2010 of RM12.150 million and RM7.316 million respectively.

B2. Changes in State of Affairs

There were no material changes in the state of affairs of the Trust for the quarter under review.

B3. Changes in Portfolio Composition

As at 30 September 2010, Tower REIT's composition of investment portfolio is as follows:

<u>Real Estate</u>	At Valuation RM'000	Total Real Estate Portfolio %
Menara HLA	295,046	49
HP Towers	207,000	34
Menara ING	100,089	17
	602,135	100

There were no material changes in the portfolio composition and asset allocations of the Trust for the quarter under review.

B4. Changes in Net Asset Value ("NAV")

The total NAV and NAV per unit after provision for income distribution of the Trust as at 30 September 2010 were RM455.802 million and RM1.6250 respectively. There were no material changes in the total NAV and NAV per unit compared to the immediate preceding quarter.

B5. Changes in Unit Price

On 30 September 2010, Tower REIT unit price closed at RM1.21 per unit, a slight increase of 2% compared to the opening unit price of RM1.19 per unit on 1 July 2010.

B6. Utilisation of Proceeds raised from any Issuance of New Units

There was no issuance of new units during the quarter under review.

B7. Circumstances affecting Interest of the Unitholders

There were no unusual circumstances which had materially affected the interest of the unitholders for the current quarter.

B8. Review of Office Property Market

Underpinned by the economic recovery, the office market continued to experience more enquiries and recorded marginal improvement in net absorption during the quarter. However, occupancy and rental rates remain flat during the quarter amidst a time of significant new supply. The competition from newly completed buildings and the expected significant incoming supply continued to pressure down rental rate.

B9. Prospects

The office market is expected to remain competitive due to new completion coming on stream. However, the government's initiative to stimulate the economy by further liberalising the business environment and implement more measures toward transforming the economy, may boost demand for quality offices and help to cushion the impact of impending new supply. Particularly, the recent announced government's Economic Transformation Programme, which is part of the new Economic Model will create positive spillover effect and augur well for the prospect of office market if successfully implemented.

The Manager will continue to proactively manage the assets under the Trust's portfolio in order to safeguard rental income stream and continue to explore acquisition opportunities actively to grow the Trust.

Barring any unforeseen circumstances, we expect the Trust to continue to sustain its performance for the remaining period of the financial year ending 31 December 2010.

B10. Material Litigation

There was no material litigation as at the date of this report.

B11. Major Maintenance Cost and Capital Expenditure

There were no major maintenance cost or capital expenditure incurred during the quarter under review.

B12. Soft Commission

During the quarter ended 30 September 2010, the Manager did not receive any soft commission (i.e. goods and services) from its brokers or dealers, by virtue of transaction conducted by the Trust.

B13. Revenue Recognition**i) Rental / Car Park Income**

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

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

ii) Interest Income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

B14. Manager's Fee

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. The total base fee and performance fee for the period ended 30 September 2010 of RM1,024,011 and RM942,458 are 0.16% and 3.21% of the gross asset value and net property income respectively.

B15. Trustee's Fee

Pursuant to the Deed constituting Tower REIT, the Trustee is entitled to receive a fee of 0.03% per annum of the NAV of Tower REIT with a cap of RM200,000. The total Trustee's fee for the period ended 30 September 2010 is RM102,012.

B16. Tax Expense

	Current Year to Date 30.09.2010 RM'000	Preceding Year to Date 30.09.2009 RM'000
Current tax expense	-	-
Reconciliation of effective tax expense		
Income before taxation	22,208	23,133
Income tax using Malaysian tax rate of 25% (2009: 25%)	5,552	5,783
Non-deductible expenses	167	243
Effect of fair value adjustment on derivatives which is not taxable	(187)	-
Effect of income exempted from tax	(5,532)	(6,026)
Tax expense	<u>-</u>	<u>-</u>

B17. Income Distribution

During the quarter under review, the Trust had, on 23 August 2010, paid an interim income distribution of 4.5 sen per unit, amounting to RM12,622,500, representing approximately 91% of the distributable net income (realised) for the six-month period ended 30 June 2010 to the unitholders registered in the Record of Depositors on 9 August 2010.

A provision was made to distribute approximately 90% of the distributable realised income for the quarter ended 30 September 2010.

B18. Units held by Related Parties

As at 30 September 2010, the Manager did not hold any units in Tower REIT. The related parties of the Manager held units in Tower REIT as follows:

	As at 30.09.2010	
	Number of Units '000	Market value RM'000
Direct/Indirect* unitholdings in Tower REIT of the related parties of the Manager:		
HLP Equities Sdn Bhd	60,769	73,530
Hong Leong Assurance Berhad	49,985	60,482
Asia Fountain Investment Company Limited	14,000	16,940
Hong Leong Bank Berhad	13,990	16,928
Hong Leong Investment Bank Berhad	5,981	7,237
Tang Hong Cheong	160 *	194
Lim Chew Yan	20	24
Chan Wan Leong	90	109
Poh Yang Hong	5,157 *	6,240

The market value is determined by multiplying the number of units with the market price of RM1.21 per unit as at 30 September 2010.

B19. Derivative Financial Instrument

The Trust had entered into Interest Rate Swaps (“IRS”) with a licensed financial institution to swap its floating rate into fixed rate as a pre-emptive move to mitigate the Trust’s interest rate exposure. As at 30 September 2010, the Trust had entered into IRS with total notional contracts of RM85 million, fixed for contractual periods expiring in years 2011 and 2012, at rates ranging from 3.58% to 3.66% against 3-month KLIBOR.

	Contract/ Notional Value as at 30.09.2010 RM'000	Fair Value Assets/(Liabilities) as at 30.09.2010 RM'000
Interest rate swaps		
- 1 year to 3 years	85,000	(672)
	85,000	(672)

Hedged accounting is not applied and the changes in fair value of IRS are recognised in the profit or loss. For the nine-month period ended 30 September 2010, the Trust had recognised a gain of RM749,220 arising from the changes in fair value of the IRS as derived below:

	Fair Value as at 30.09.2010 RM'000	Fair Value as at 01.01.2010 RM'000	Gain/(Loss) RM'000
Interest rate swaps	(672)	(1,421)	749
	(672)	(1,421)	749

The fair value of the interest rate swaps is derived from the yield curves obtained from broker quotes in the market. The valuations are tested for reasonableness by discounting estimated future cash flows of the swap based on the terms and maturity of each contract using discount factors obtained from the prevailing interest rate swap yield curves in the market on the valuation date.

There were no changes in the credit risk, market risk and liquidity risk associated with the above derivatives since the last financial year ended 31 December 2009.

B20. Statement by the Directors of the Manager

In the opinion of the Directors of the Manager, the quarterly financial report gives a true and fair view of the financial position of Tower REIT as at 30 September 2010 and of its financial performance and cash flows for the period ended 30 September 2010.

By Order of the Board
GLM REIT Management Sdn Bhd
(as the Manager of Tower Real Estate Investment Trust)

LIM YEW YOKE
LEE SOW YEANG
Secretaries

Kuala Lumpur
10 November 2010