
**CONDENSED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2011**

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TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2011

The figures have not been audited.

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 30.09.2011 RM	Preceding Year Corresponding Quarter Ended 30.09.2010 RM	Current Year To Date 30.09.2011 RM	Preceding Year To Date 30.09.2010 RM
Income				
Gross revenue	13,307,426	12,975,283	38,428,172	36,161,497
Property operating expenses	(2,655,605)	(3,461,402)	(7,881,798)	(9,141,363)
Net property income	10,651,821	9,513,881	30,546,374	27,020,134
Interest income	11,387	10,454	30,100	27,899
Other income	1,325	8,671	30,808	58,121
	10,664,533	9,533,006	30,607,282	27,106,154
Expenses				
Manager's fees	649,483	663,454	2,053,118	1,966,469
Trustee's fees	35,308	34,434	104,888	102,012
Administrative expenses	29,056	25,307	102,553	98,002
Interest expenses	1,366,051	1,246,730	3,848,601	3,481,055
	2,079,898	1,969,925	6,109,160	5,647,538
Net Trust Income	8,584,635	7,563,081	24,498,122	21,458,616
Change in fair value of derivatives	(2,053,577)	213,648	(2,011,956)	749,220
Income before tax	6,531,058	7,776,729	22,486,166	22,207,836
Taxation	-	-	-	-
Income after tax	6,531,058	7,776,729	22,486,166	22,207,836
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	6,531,058	7,776,729	22,486,166	22,207,836
Total comprehensive income for the period is made up as follows:				
- Realised	8,584,635	7,563,081	24,498,122	21,458,616
- Unrealised	(2,053,577)	213,648	(2,011,956)	749,220
	6,531,058	7,776,729	22,486,166	22,207,836
EARNINGS PER UNIT (SEN)				
- Basic	2.33	2.77	8.02	7.92
- Diluted	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 financial year ended 31 December 2010 and the accompanying explanatory notes attached.

TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2011

The figures have not been audited.

	As At 30.09.2011 RM	As At 31.12.2010 RM
ASSETS		
<u>Non-current assets</u>		
Investment properties	604,439,508	604,439,508
<u>Current Assets</u>		
Trade receivables	78,238	86,850
Other receivables, deposits and prepayments	2,353,766	460,393
Deposits placed with licensed bank	300,000	300,000
Cash and bank balances	220,729	351,703
	2,952,733	1,198,946
TOTAL ASSETS	607,392,241	605,638,454
LIABILITIES		
<u>Non-current liabilities</u>		
Tenants' deposits	9,746,876	10,094,022
Borrowing	105,500,000	-
Derivative financial instrument	2,295,103	378,838
	117,541,979	10,472,860
<u>Current liabilities</u>		
Trade payables	333,815	282,945
Other payables and provisions	1,603,614	1,747,582
Derivative financial instrument	205,445	109,754
Tenants' deposits	4,244,465	3,475,306
Borrowing	19,900,000	118,600,000
	26,287,339	124,215,587
TOTAL LIABILITIES	143,829,318	134,688,447
NET ASSET VALUE	463,562,923	470,950,007
<u>REPRESENTED BY :</u>		
Unitholders' capital	285,344,766	285,344,766
Undistributed income - unrealised	162,855,534	164,867,490
Undistributed income - realised	15,362,623	20,737,751
	463,562,923	470,950,007
NUMBER OF UNITS IN CIRCULATION (UNITS)	280,500,000	280,500,000
NET ASSET VALUE ("NAV") PER UNIT (RM)	1.6526	1.6790

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached.

The figures have not been audited.

	-----Distributable-----				
	Unitholders' Capital	Undistributed Income			Total
		RM	Unrealised RM		
Current Year To Date					
At 1 January 2011	285,344,766	164,867,490	20,737,751	470,950,007	
Operations for the period ended 30 September 2011					
Total comprehensive income for the period	-	(2,011,956)	24,498,122	22,486,166	
	-	(2,011,956)	24,498,122	22,486,166	
Unitholders' transactions					
Distribution to unitholders					
- 2010 final (paid on 28 February 2011)	-	-	(15,427,500)	(15,427,500)	
- 2011 interim (paid on 25 August 2011)	-	-	(14,445,750)	(14,445,750)	
	-	-	(29,873,250)	(29,873,250)	
At 30 September 2011	285,344,766	162,855,534	15,362,623	463,562,923	
Preceding Year To Date					
At 1 January 2010	285,344,766	163,934,652	17,626,872	466,906,290	
Operations for the period ended 30 September 2010					
Total comprehensive income for the period	-	749,220	21,458,616	22,207,836	
	-	749,220	21,458,616	22,207,836	
Unitholders' transactions					
Distribution to unitholders					
- 2009 final (paid on 25 February 2010)	-	-	(14,025,000)	(14,025,000)	
- 2010 interim (paid on 23 August 2010)	-	-	(12,622,500)	(12,622,500)	
	-	-	(26,647,500)	(26,647,500)	
At 30 September 2010	285,344,766	164,683,872	12,437,988	462,466,626	

The Condensed Statement of Changes in Net Asset Value should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached.

TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2011

The figures have not been audited.

	Current Year To Date 30.09.2011 RM	Preceding Year To Date 30.09.2010 RM
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Income before tax	22,486,166	22,207,836
Adjustments for:		
Interest expense	3,848,601	3,481,055
Interest income	(30,100)	(27,899)
Change in fair value of derivatives	2,011,956	(749,220)
Operating profit before working capital changes	<u>28,316,623</u>	<u>24,911,772</u>
Changes in working capital:		
Trade and other receivables	(1,884,761)	(1,582,616)
Trade and other payables	347,323	1,017,552
Net cash generated from operating activities	<u>26,779,185</u>	<u>24,346,708</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Upgrade / enhancement of investment properties	-	(45,757)
Acquisition of investment property	-	(6,089,578)
Interest income	30,100	27,899
Net cash generated from / (used in) investing activities	<u>30,100</u>	<u>(6,107,436)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Interest paid	(3,867,009)	(3,699,460)
Proceeds from borrowing	6,800,000	12,000,000
Distribution paid to unitholders	(29,873,250)	(26,647,500)
Net cash used in financing activities	<u>(26,940,259)</u>	<u>(18,346,960)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(130,974)	(107,688)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>351,703</u>	<u>375,370</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>220,729</u>	<u>267,682</u>
Cash and cash equivalents at end of period comprise:		
Cash and bank balances	220,729	267,682
Deposits placed with licensed financial bank	300,000	300,000
	<u>520,729</u>	<u>567,682</u>
Deposits pledged as security	(300,000)	(300,000)
	<u>220,729</u>	<u>267,682</u>

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached.

A. Explanatory Notes pursuant to Financial Reporting Standard ("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. It does not include all the information required for full annual financial statements and should be read in conjunction with the audited financial statements of Tower Real Estate Investment Trust ("Tower REIT" or "Trust") for the financial year ended 31 December 2010.

Changes in Accounting Policies

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 financial year ended 31 December 2010.

A2. Audit Report of Preceding Financial Year

The Auditors' Report of the preceding audited financial statements for the financial year ended 31 December 2010 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 of Amounts Reported in Prior Interim Periods of the Current Financial Year or in Prior Financial Years

There were no changes in estimates of amounts reported in prior financial years that have had a material effect in the current financial period.

A6. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter and the financial year to-date.

A7. Income Distribution

The Trust had, on 28 February 2011, paid a final income distribution of 5.50 sen per unit, amounting to RM15,427,500 for the financial year ended 31 December 2010.

During the quarter under review, the Trust had, on 25 August 2011, paid an interim income distribution of 5.15 sen per unit, amounting to RM14,445,750 for the financial year ending 31 December 2011.

A8. Segmental Reporting

No operating segment information has been prepared as the Trust has only one reportable segment.

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

For the current period to date ended 30 September 2011, the Trust recorded gross revenue and net income (realised) of RM38.4 million and RM24.5 million respectively, representing an increase of approximately 6% and 14% respectively as compared to the preceding year's corresponding period.

The improvement of the results was mainly attributed to the increase in the average occupancy rate of Menara HLA after the replenishment of new tenancies and expansion of existing tenancies.

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 2011, Tower REIT's composition of investment portfolio was as follows:

	At Valuation RM'000	Total Real Estate Portfolio %
<u>Real Estate</u>		
Menara HLA	295,046	49
HP Towers	207,000	34
Menara ING	102,394	17
	604,440	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

	As at 30.09.2011 RM	As at 30.06.2011 RM
Net asset value ("NAV")	463,562,923	471,477,615
NAV per unit	1.6526	1.6808

The NAV per unit as at 30 September 2011 was lower as compared to the immediate preceding quarter due to the interim income distribution paid on 25 August 2011 as disclosed in note A7 above.

B5. Changes in Unit Price

On 30 September 2011, Tower REIT's unit price closed at RM1.21 per unit, a decrease of 3% as compared to the opening unit price of RM1.25 per unit on 1 July 2011.

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

The overall office occupancy remains stable while the office rental rates are expected to experience downward pressure due to the substantial incoming supply. This has intensified the competition among landlords.

B9. Prospects

The Manager expects ongoing challenges to the office market as supply of office space continues to outweigh the projected demand. Competition from the newly completed buildings and anticipated incoming supply is expected to exert downward pressure on office occupancy and rental rates, unless there is a substantial increase in net demand.

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

Barring any unforeseen circumstances, the Manager expects the Trust to sustain its performance for the remaining period of financial year 2011.

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 and capital expenditure incurred during the quarter under review.

B12. Soft Commission

During the quarter ended 30 September 2011, 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 fee 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 2011 of RM1,039,008 and RM1,014,110 are 0.16% and 3.13% 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 2011 is RM104,888.

B16. Tax Expense

	Current Year to Date 30.09.2011 RM'000	Preceding Year to Date 30.09.2010 RM'000
Current tax expense	-	-
Reconciliation of effective tax expense		
Income before tax	22,486	22,208
Income tax using Malaysian tax rate of 25% (2010: 25%)	5,622	5,552
Non-deductible expenses	176	167
Effect of fair value adjustment on derivatives	503	(187)
Effect of income exempted from tax	(6,301)	(5,532)
Tax expense	-	-

B17. Income Distribution

No income distribution was declared for the quarter under review.

B18. Units held by Related Parties

As at 30 September 2011, the Manager did not hold any unit in Tower REIT. The related parties of the Manager held units in Tower REIT as follows:

	As at 30.09.2011	
	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	58,271	70,508
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
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 2011.

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 2011, the Trust had entered into IRS with total notional contracts of RM185 million, fixed for contractual periods expiring in years 2011, 2012 and 2016, at the rates ranging from 3.58% to 4.09% against 3-month KLIBOR. Out of the total RM185 million IRS contracts, the RM65 million will only be effective from May 2012 for replacement of contracts expiring in May 2012.

	Contract/ Notional Value as at 30.09.2011 RM'000	Fair Value Assets/(Liabilities) as at 30.09.2011 RM'000
Interest rate swaps		
- Less than 1 year	85,000	(205)
- More than 3 years	100,000	(2,295)
	<u>185,000</u>	<u>(2,500)</u>

Hedged accounting is not applied and the changes in fair value of IRS are recognised in the profit or loss. For the current period ended 30 September 2011, the Trust had recognised a loss of RM2,011,956 arising from the changes in fair value of the IRS as derived below:

	Fair Value as at 30.09.2011 RM'000	Fair Value as at 31.12.2010 RM'000	Loss RM'000
Interest rate swaps	<u>(2,500)</u>	<u>(488)</u>	<u>(2,012)</u>

The fair value of the IRS 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 2010.

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 2011 and of its financial performance and cash flows for the period ended 30 September 2011.

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
15 November 2011