
**CONDENSED FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2011**

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TOWER REAL ESTATE INVESTMENT TRUST
 CONDENSED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2011

The figures have not been audited.

| | Individual Quarter | | Cumulative Quarter | |
|---|---|--|---|--|
| | Current Year Quarter Ended 31.12.2011 RM | Preceding Year Corresponding Quarter Ended 31.12.2010 RM | Current Year To Date 31.12.2011 RM | Preceding Year To Date 31.12.2010 RM |
| Income | | | | |
| Gross revenue | 13,528,014 | 13,104,329 | 51,956,186 | 49,265,826 |
| Property operating expenses | (2,753,729) | (2,954,065) | (10,635,527) | (12,095,428) |
| Net property income | 10,774,285 | 10,150,264 | 41,320,659 | 37,170,398 |
| Interest income | 11,120 | 6,841 | 41,220 | 34,740 |
| Other income | 5,556 | 17,426 | 36,364 | 75,547 |
| | 10,790,961 | 10,174,531 | 41,398,243 | 37,280,685 |
| Expenses | | | | |
| Manager's fees | 581,590 | 565,264 | 2,634,708 | 2,531,733 |
| Trustee's fees | 35,487 | 34,478 | 140,375 | 136,490 |
| Administrative expenses | 20,281 | 25,062 | 122,834 | 123,064 |
| Interest expenses | 1,334,689 | 1,249,964 | 5,183,290 | 4,731,019 |
| | 1,972,047 | 1,874,768 | 8,081,207 | 7,522,306 |
| Net Trust Income | 8,818,914 | 8,299,763 | 33,317,036 | 29,758,379 |
| Change in fair value of derivatives | (430,146) | 183,618 | (2,442,102) | 932,838 |
| Income before tax | 8,388,768 | 8,483,381 | 30,874,934 | 30,691,217 |
| Taxation | - | - | - | - |
| Income after tax | 8,388,768 | 8,483,381 | 30,874,934 | 30,691,217 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the period | 8,388,768 | 8,483,381 | 30,874,934 | 30,691,217 |
| Total comprehensive income for the period is made up as follows: | | | | |
| - Realised | 8,818,914 | 8,299,763 | 33,317,036 | 29,758,379 |
| - Unrealised | (430,146) | 183,618 | (2,442,102) | 932,838 |
| | 8,388,768 | 8,483,381 | 30,874,934 | 30,691,217 |
| EARNINGS PER UNIT (SEN) | | | | |
| - Basic | 2.99 | 3.02 | 11.01 | 10.94 |
| - 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 31 DECEMBER 2011

The figures have not been audited.

| | As At 31.12.2011 RM | As At 31.12.2010 RM |
|---|---------------------------|---------------------------|
| ASSETS | | |
| <u>Non-current assets</u> | | |
| Investment properties | 607,153,388 | 604,439,508 |
| <u>Current Assets</u> | | |
| Trade receivables | 53,513 | 86,850 |
| Other receivables, deposits and prepayments | 559,953 | 460,393 |
| Deposits placed with licensed bank | 300,000 | 300,000 |
| Cash and bank balances | 385,084 | 351,703 |
| | 1,298,550 | 1,198,946 |
| TOTAL ASSETS | 608,451,938 | 605,638,454 |
| LIABILITIES | | |
| <u>Non-current liabilities</u> | | |
| Tenants' deposits | 11,447,194 | 10,094,022 |
| Borrowing | 105,500,000 | - |
| Derivative financial instrument | 2,725,249 | 378,838 |
| | 119,672,443 | 10,472,860 |
| <u>Current liabilities</u> | | |
| Trade payables | 324,008 | 282,945 |
| Other payables and provisions | 2,438,497 | 1,747,582 |
| Derivative financial instrument | 205,445 | 109,754 |
| Tenants' deposits | 2,859,854 | 3,475,306 |
| Borrowing | 11,000,000 | 118,600,000 |
| | 16,827,804 | 124,215,587 |
| TOTAL LIABILITIES | 136,500,247 | 134,688,447 |
| NET ASSET VALUE | 471,951,691 | 470,950,007 |
| <u>REPRESENTED BY :</u> | | |
| Unitholders' capital | 285,344,766 | 285,344,766 |
| Undistributed income - unrealised | 162,425,387 | 164,867,490 |
| Undistributed income - realised | 24,181,538 | 20,737,751 |
| | 471,951,691 | 470,950,007 |
| NUMBER OF UNITS IN CIRCULATION (UNITS) | 280,500,000 | 280,500,000 |
| NET ASSET VALUE ("NAV") PER UNIT (RM) | 1.6825 | 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.

TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2011

The figures have not been audited.

| | Unitholders' Capital RM | -----Distributable----- | | Total RM |
|---|-------------------------------|-----------------------------------|----------------|--------------|
| | | Undistributed Unrealised RM | Realised 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 31 December 2011 | | | | |
| Total comprehensive income for the period | - | (2,442,102) | 33,317,036 | 30,874,934 |
| | - | (2,442,102) | 33,317,036 | 30,874,934 |
| 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 31 December 2011 | 285,344,766 | 162,425,388 | 24,181,537 | 471,951,691 |
| 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 31 December 2010 | | | | |
| Total comprehensive income for the period | - | 932,838 | 29,758,379 | 30,691,217 |
| | - | 932,838 | 29,758,379 | 30,691,217 |
| 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 31 December 2010 | 285,344,766 | 164,867,490 | 20,737,751 | 470,950,007 |

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 FOURTH QUARTER ENDED 31 DECEMBER 2011**

The figures have not been audited.

| | Current Year To Date 31.12.2011 RM | Preceding Year To Date 31.12.2010 RM |
|---|---|---|
| <u>CASH FLOW FROM OPERATING ACTIVITIES</u> | | |
| Income before tax | 30,874,934 | 30,691,217 |
| Adjustments for: | | |
| Interest expense | 5,183,290 | 4,731,019 |
| Interest income | (41,220) | (34,740) |
| Change in fair value of derivatives | 2,442,102 | (932,838) |
| Operating profit before working capital changes | <u>38,459,106</u> | <u>34,454,658</u> |
| Changes in working capital: | | |
| Trade and other receivables | (66,223) | 1,576,994 |
| Trade and other payables | 1,483,803 | (490,905) |
| Net cash generated from operating activities | <u>39,876,686</u> | <u>35,540,747</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Upgrade / enhancement of investment properties | (2,713,880) | (2,349,930) |
| Acquisition of investment property | - | (6,089,578) |
| Interest income | 41,220 | 34,740 |
| Net cash generated from / (used in) investing activities | <u>(2,672,660)</u> | <u>(8,404,768)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Interest paid | (5,197,395) | (4,912,146) |
| (Repayment) / Proceeds from borrowing | (2,100,000) | 4,400,000 |
| Distribution paid to unitholders | (29,873,250) | (26,647,500) |
| Net cash used in financing activities | <u>(37,170,645)</u> | <u>(27,159,646)</u> |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | 33,381 | (23,667) |
| 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>385,084</u> | <u>351,703</u> |
| Cash and cash equivalents at end of period comprise: | | |
| Cash and bank balances | 385,084 | 351,703 |
| Deposits placed with licensed financial bank | 300,000 | 300,000 |
| | <u>685,084</u> | <u>651,703</u> |
| Deposits pledged as security | (300,000) | (300,000) |
| | <u>385,084</u> | <u>351,703</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 except for the adoption of the relevant new FRSs, amendments to FRSs and IC Interpretations that are effective for annual period beginning on or after 1 January 2011. The adoption of new FRSs, amendments to FRSs and IC Interpretations does not have any material impact on the financial position.

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 and on 25 August 2011, paid an interim income distribution of 5.15 sen per unit, amounting to RM14,445,750 for the financial year ended 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 Directors of the Manager performed the valuation of the three existing properties, namely, Menara HLA, HP Towers and Menara ING at the fair value which reflects market conditions as at 31 December 2011.

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 31 December 2011, the Trust recorded a gross revenue and a net income (realised) of RM52.0 million and RM33.3 million respectively, representing an increase of approximately 5% and 12% 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 31 December 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 | 302,215 | 50 |
| HP Towers | 203,544 | 33 |
| Menara ING | 101,394 | 17 |
| | 607,153 | 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 31.12.2011 RM | As at 31.12.2010 RM |
|-------------------------|---------------------------|---------------------------|
| Net asset value ("NAV") | 471,951,691 | 470,950,007 |
| NAV per unit | 1.6825 | 1.6790 |

As at 31 December 2011, there were no material changes in the total NAV and NAV per unit as compared to the previous year ended 31 December 2010.

B5. Changes in Unit Price

On 31 December 2011, Tower REIT's unit price closed at RM1.29 per unit, an increase of 7% as compared to the opening unit price of RM1.21 per unit as at 30 September 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 next financial year.

B10. Material Litigation

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

B11. Major Maintenance Cost and Capital Expenditure

For the year ended 31 December 2011, a total of approximately RM2.714 million has been incurred for the enhancement of the lifts in HP Towers and Menara HLA.

B12. Soft Commission

During the quarter ended 31 December 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 profit or loss 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 profit or loss as it accrues, using the effective interest method.

B14. Manager's Fee

Pursuant to the Deed constituting Tower REIT, the Manager's fee consists 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 year ended 31 December 2011 of RM1,389,639 and RM1,245,069 are 0.23% and 2.97% 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 year ended 31 December 2011 is RM140,375.

B16. Tax Expense

| | Current Year to Date 31.12.2011 RM'000 | Preceding Year to Date 31.12.2010 RM'000 |
|--|---|---|
| Current tax expense | - | - |
| Reconciliation of effective tax expense | | |
| Income before tax | 30,875 | 30,691 |
| Income tax using Malaysian tax rate of 25% (2010: 25%) | 7,719 | 7,673 |
| Non-deductible expenses | 221 | 213 |
| Effect of fair value adjustment on derivatives | 611 | (233) |
| Effect of income exempted from tax | (8,551) | (7,653) |
| Tax expense | - | - |

B17. Income Distribution

The Manager of Tower REIT is declaring a final income distribution of 5.70 sen per unit (5.67 sen per unit subject to withholding tax and 0.03 sen tax exempt), amounting to RM15,988,500, payable on 28 February 2012 for the financial year ended 31 December 2011 to the unitholders registered in the Record of Depositors on 17 February 2012.

The final income distribution for the period ended 31 December 2011 is from the following sources:

| | 01.07.2011 to 31.12.2011 RM'000 | 01.07.2010 to 31.12.2010 RM'000 |
|----------------------------|--|--|
| Net property income | 21,610 | 19,664 |
| Interest income | 22 | 17 |
| Other income | 7 | 26 |
| | <u>21,639</u> | <u>19,707</u> |
| Less: Expenses | <u>(4,236)</u> | <u>(3,845)</u> |
| | 17,403 | 15,862 |
| Less: Undistributed income | <u>(1,414)</u> | <u>(435)</u> |
| | <u>15,989</u> | <u>15,427</u> |
| Distribution per unit | | |
| - Final (sen) | <u>5.70</u> | <u>5.50</u> |

Pursuant to the amended Section 109D of the Income Tax Act, 1967, the following withholding tax rates (effective 1 January 2009) will be deducted for distributions made to the following categories of unitholders:

- Resident corporate (no withholding tax, to tax at prevailing rate)
- Non-resident corporate (withholding tax 25%)
- Resident non-corporate (withholding tax 10%)
- Non-resident institutional (withholding tax 10%)
- Non-resident individual (withholding tax 10%)

B18. Units held by Related Parties

As at 31 December 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 31.12.2011 | |
|--|-------------------------|------------------------|
| | 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 | 78,392 |
| Hong Leong Assurance Berhad | 58,271 | 75,170 |
| Asia Fountain Investment Company Limited | 14,000 | 18,060 |
| Hong Leong Bank Berhad | 13,990 | 18,047 |
| Hong Leong Investment Bank Berhad | 5,981 | 7,715 |
| Tang Hong Cheong | 160 * | 206 |
| Lim Chew Yan | 20 | 26 |
| Poh Yang Hong | 5,157 * | 6,653 |

* Indirect unitholdings

The market value is determined by multiplying the number of units with the market price of RM1.29 per unit as at 31 December 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 31 December 2011, the Trust had entered into IRS with total notional contracts of RM165 million, fixed for contractual periods expiring in years 2012 and 2016, at the rates ranging from 3.58% to 4.09% against 3-month KLIBOR. Out of the total RM165 million IRS contracts, RM65 million will only be effective from May 2012 for replacement of contracts expiring in May 2012.

| | Contract/ Notional Value as at 31.12.2011 RM'000 | Fair Value Assets/(Liabilities) as at 31.12.2011 RM'000 |
|---------------------|--|---|
| Interest rate swaps | | |
| - Less than 1 year | 65,000 | (206) |
| - More than 3 years | 100,000 | (2,725) |
| | <u>165,000</u> | <u>(2,931)</u> |

Hedged accounting is not applied and the changes in fair value of IRS are recognised in the profit or loss. For the current year ended 31 December 2011, the Trust had recognised a loss of RM2,442,102 arising from the changes in fair value of the IRS as derived below:

| | Fair Value as at 31.12.2011 RM'000 | Fair Value as at 01.01.2011 RM'000 | Loss RM'000 |
|---------------------|---|---|----------------|
| Interest rate swaps | <u>(2,930)</u> | <u>(488)</u> | <u>(2,442)</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 31 December 2011 and of its financial performance and cash flows for the year ended 31 December 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
19 January 2012