
**CONDENSED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2014**

<u>Contents</u>	<u>Page</u>
Condensed Statement of Profit or Loss and Other Comprehensive Income	1
Condensed Statement of Financial Position	2
Condensed Statement of Changes In Net Asset Value	3
Condensed Statement of Cash Flows	4
Notes to the Financial Statements	5 - 12

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SECOND QUARTER ENDED 30 JUNE 2014

The figures have not been audited.

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 30.06.2014 RM	Preceding Year Corresponding Quarter Ended 30.06.2013 RM	Current Year To Date 30.06.2014 RM	Preceding Year To Date 30.06.2013 RM
Income				
Gross revenue	11,795,160	13,219,055	23,914,971	27,127,575
Property operating expenses	(4,558,780)	(4,486,323)	(8,016,484)	(7,095,111)
Net property income	7,236,380	8,732,732	15,898,487	20,032,464
Interest income	19,683	19,335	46,365	39,196
Other income	17,062	25,902	48,408	36,809
	7,273,125	8,777,969	15,993,260	20,108,469
Expenses				
Manager's fees	625,877	725,656	1,295,730	1,489,039
Trustee's fees	38,397	37,692	75,950	75,199
Administrative expenses	211,760	127,964	284,031	150,575
Interest expenses	1,348,238	1,345,154	2,687,686	2,662,871
	2,224,272	2,236,466	4,343,397	4,377,684
Net Trust Income	5,048,853	6,541,503	11,649,863	15,730,785
Change in fair value of derivatives	397,017	494,018	559,416	667,062
Income before tax	5,445,870	7,035,521	12,209,279	16,397,847
Taxation	-	-	-	-
Income after tax	5,445,870	7,035,521	12,209,279	16,397,847
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	5,445,870	7,035,521	12,209,279	16,397,847
Total comprehensive income for the period is made up as follows:				
- Realised	5,048,853	6,541,503	11,649,863	15,730,785
- Unrealised	397,017	494,018	559,416	667,062
	5,445,870	7,035,521	12,209,279	16,397,847
EARNINGS PER UNIT (SEN)				
- Basic	1.94	2.51	4.35	5.85
- Diluted	N/A	N/A	N/A	N/A

The Condensed Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached.

TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

The figures have not been audited.

	As At 30.06.2014 RM	As At 31.12.2013 RM
ASSETS		
<u>Non-current assets</u>		
Investment properties	642,500,000	642,500,000
<u>Current Assets</u>		
Trade receivables	497,706	380,862
Other receivables, deposits and prepayments	145,989	873,304
Deposits placed with licensed bank	550,000	700,000
Cash and bank balances	56,301	206,803
	1,249,996	2,160,969
TOTAL ASSETS	643,749,996	644,660,969
LIABILITIES		
<u>Non-current liabilities</u>		
Tenants' deposits	11,115,254	6,140,473
Borrowings	105,500,000	105,500,000
Derivative financial instrument	582,174	1,141,590
	117,197,428	112,782,063
<u>Current liabilities</u>		
Trade payables	364,487	402,879
Other payables and provisions	3,636,316	2,988,385
Tenants' deposits	1,651,773	6,160,879
Borrowings	11,000,000	8,900,000
	16,652,576	18,452,143
TOTAL LIABILITIES	133,850,004	131,234,206
NET ASSET VALUE	509,899,992	513,426,763
<u>REPRESENTED BY :</u>		
Unitholders' capital	285,344,766	285,344,766
Undistributed income - unrealised	200,358,521	199,799,105
Undistributed income - realised	24,196,705	28,282,892
	509,899,992	513,426,763
NUMBER OF UNITS IN CIRCULATION (UNITS)	280,500,000	280,500,000
NET ASSET VALUE PER UNIT (RM)	1.8178	1.8304

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached.

TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE SECOND QUARTER ENDED 30 JUNE 2014

The figures have not been audited.

	Unitholders' Capital RM	Undistributed Income		Total RM
		Non-distributable Unrealised RM	Distributable Realised RM	
<u>Current Year To Date</u>				
At 1 January 2014	285,344,766	199,799,105	28,282,892	513,426,763
Operations for the period ended 30 June 2014				
Total comprehensive income for the period	-	559,416	11,649,863	12,209,279
Unitholders' transactions				
Distribution to unitholders				
- 2013 final (paid on 28 February 2014)	-	-	(15,736,050)	(15,736,050)
	-	-	(15,736,050)	(15,736,050)
At 30 June 2014	285,344,766	200,358,521	24,196,705	509,899,992
<u>Preceding Year To Date</u>				
At 1 January 2013	285,344,766	198,528,043	28,106,245	511,979,054
Operations for the period ended 30 June 2013				
Total comprehensive income for the period	-	667,062	15,730,785	16,397,847
	-	667,062	15,730,785	16,397,847
Unitholders' transactions				
Distribution to unitholders				
- 2012 final (paid on 28 February 2013)	-	-	(16,942,200)	(16,942,200)
	-	-	(16,942,200)	(16,942,200)
At 30 June 2013	285,344,766	199,195,105	26,894,830	511,434,701

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 2013 and the accompanying explanatory notes attached.

**TOWER REAL ESTATE INVESTMENT TRUST
CONDENSED STATEMENT OF CASH FLOWS
FOR THE SECOND QUARTER ENDED 30 JUNE 2014**

The figures have not been audited.

	Current Year To Date 30.06.2014 RM	Preceding Year To Date 30.06.2013 RM
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Income before tax	12,209,279	16,397,847
Adjustments for:		
Interest expense	2,687,686	2,662,871
Interest income	(46,365)	(39,196)
Change in fair value of investment properties	-	-
Change in fair value of derivatives	(559,416)	(667,062)
Operating profit before working capital changes	<u>14,291,184</u>	<u>18,354,460</u>
Changes in working capital:		
Trade and other receivables	610,471	(357,861)
Trade and other payables	1,171,684	2,375,564
Net cash generated from operating activities	<u>16,073,339</u>	<u>20,372,163</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest income	<u>46,365</u>	<u>39,196</u>
Net cash generated from investing activities	<u>46,365</u>	<u>39,196</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Interest paid	(2,784,156)	(2,686,214)
Drawdown of borrowings	2,100,000	(1,960,000)
Distribution paid to unitholders	(15,736,050)	(16,942,200)
Net cash used in financing activities	<u>(16,420,206)</u>	<u>(21,588,414)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(300,502)	(1,177,055)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>606,803</u>	<u>1,648,322</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>306,301</u>	<u>471,267</u>
Cash and cash equivalents at end of period comprise:		
Cash and bank balances	56,301	71,267
Deposits placed with licensed financial bank	550,000	700,000
	<u>606,301</u>	<u>771,267</u>
Deposits pledged as security	(300,000)	(300,000)
	<u>306,301</u>	<u>471,267</u>

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached.

A. Explanatory Notes pursuant to the Malaysian Financial Reporting Standard ("MFRS") 134**A1. Basis of Preparation**

The quarterly financial report is unaudited and prepared in accordance with MFRS 134: Interim Financial Reporting, IAS 34: 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 2013.

Changes in Accounting Policies

The accounting policies and methods of computation used in the preparation of the quarterly financial statements are consistent with those adopted in the preparation of the audited financial statements of Tower REIT for the financial year ended 31 December 2013.

A2. Audit Report of Preceding Financial Year

The Auditors' Report of the preceding financial year ended 31 December 2013 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 interim periods of the current financial year or prior financial years that have had a material impact 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 Paid During the Financial Period

The Trust had, on 28 February 2014, paid a final income distribution of 5.61 sen per unit, amounting to RM15,736,050 for the financial year ended 31 December 2013.

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 quarter under review ended 30 June 2014, the Trust recorded a gross revenue of RM11.80 million and a net realised income of RM5.05 million, representing a decrease of 11% and 23% respectively as compared to the corresponding quarter in the preceding year.

The decrease in revenue was mainly attributed to lower occupancy rates in Menara HLA and HP Towers. The decrease in revenue together with higher operating expenses have reduced net realised income for the quarter under review.

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 June 2014, Tower REIT's composition of investment portfolio was as follows:

	At Valuation RM'000	Total Real Estate Portfolio %
<u>Real Estate</u>		
Menara HLA	325,000	51%
HP Towers	216,000	33%
Menara ING	101,500	16%
	<u>642,500</u>	<u>100%</u>

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

B4. Changes in Net Asset Value

	As at 30.06.2014 RM	As at 31.03.2014 RM
Net asset value ("NAV")	509,899,992	504,454,122
NAV per unit	1.8178	1.7984

The NAV per unit as at 30 June 2014 was higher as compared to the immediate preceding quarter as a result of the realised income for the quarter under review.

B5. Changes in Unit Price

On 30 June 2014, Tower REIT's unit price closed at RM1.42 per unit, an increase of 1% as compared to the closing unit price of RM1.40 per unit as at 31 March 2014.

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

Both office occupancy and rental rates continue to come under pressure due to the incoming supply of newer buildings with better specifications and the limited demand growth.

B9. Prospects

The office supply versus demand imbalance is expected to continue to exert pressure on the occupancy and rental rates. Prospects for the Trust will be challenging due to the oversupply situation. Notwithstanding the challenging operating environment, the Manager will continue to take active steps to manage the portfolio assets to maximise return to unitholders.

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 costs and capital expenditure incurred during the quarter under review.

B12. Soft Commission

During the quarter ended 30 June 2014, 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 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 June 2014 of RM719,312 and RM576,418 are 0.11% and 3.63% 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 June 2014 is RM75,950.

B16. Tax Expense

	Current Year to Date 30.06.2014 RM'000	Preceding Year to Date 30.06.2013 RM'000
Current tax expense	-	-
Reconciliation of effective tax expense		
Income before tax	12,209	16,398
Income tax using Malaysian tax rate of 25% (2013: 25%)	3,052	4,100
Non-deductible expenses	330	145
Effect of fair value adjustment on derivatives	(140)	(167)
Effect of income exempted from tax	(3,242)	(4,078)
Tax expense	-	-

B17. Income Distribution

The Manager of Tower REIT has declared an interim income distribution of 3.83 sen per unit, amounting to RM10,743,150, representing approximately 92% of the realised distributable net income for the six-month period ended 30 June 2014, payable on 27 August 2014 to the unitholders registered in the Record of Depository on 11 August 2014.

	30.06.2014 RM'000	30.06.2013 RM'000
Net property income	15,898	20,032
Interest income	46	39
Other income	49	37
	<u>15,993</u>	<u>20,108</u>
Less: Expenses	(4,343)	(4,378)
	<u>11,650</u>	<u>15,730</u>
Less: Undistributed income	(907)	(1,453)
	<u>10,743</u>	<u>14,277</u>
Total distribution comprises:		
- Interim income distribution	<u>10,743</u>	<u>14,277</u>
Distribution per unit		
- Interim (sen)	<u>3.83</u>	<u>5.09</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 30 June 2014, 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 30.06.2014	
	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	86,292
Hong Leong Assurance Berhad	57,771	82,035
Asia Fountain Investment Company Limited	14,000	19,880
Hong Leong Bank Berhad	13,787	19,578
Hong Leong Investment Bank Berhad	5,887	8,360
Poh Yang Hong	3,085 *	4,381

* Indirect unitholdings

The market value is determined by multiplying the number of units with the market price of RM1.42 per unit as at 30 June 2014.

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 June 2014, the Trust had entered into IRS with total notional contracts of RM100 million, fixed for contractual periods expiring in year 2016, at the rates ranging from 3.95% to 4.09% against 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR).

Hedged accounting is not applied and the changes in fair value of IRS are recognised in the profit or loss. For the current quarter ended 30 June 2014, the Trust had recognised a gain of RM397,017, arising from the changes in fair value of the IRS as derived below:

	Fair Value as at 30.06.2014 RM'000	Fair Value as at 31.03.2014 RM'000	Gain RM'000
Interest rate swaps	(582)	(979)	397

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 2013.

	Contract/ Notional Value as at 30.06.2014 RM'000	Fair Value Assets/(Liabilities) as at 30.06.2014 RM'000
Interest rate swaps		
- Between 1 to 2 years	100,000	(582)
	100,000	(582)

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 June 2014 and of its financial performance and cash flows for the period ended 30 June 2014.

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

LIM YEW YOKE
CHIN MIN YANN
Secretaries

Kuala Lumpur
21 July 2014