



ANNUAL REPORT 2020




3	Corporate Directory
4	Fund Information
5	Overview of Portfolio
6	Assets Profile
10	Management Discussion and Analysis
19	Chairman's Statement
22	Manager's Report
25	Directors' Profile
27	Chief Executive Officer's Profile
28	Sustainability Statement



WHAT'S **INSIDE?**

43	Corporate Governance Overview, Risk Management and Internal Control Statement
53	Board Audit & Risk Management Committee Report
57	Financial Statements
104	Other Information
107	Notice of Annual General Meeting Form of Proxy





TOWER REAL ESTATE INVESTMENT TRUST

ABOUT TOWER REIT

Tower REIT was constituted under the Deed dated 17 February 2006 (as amended and restated by the restated deed dated 29 May 2014 and the second restated deed dated 23 October 2019) 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 real estate including quality office buildings, commercial properties, residential properties and industrial 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

MR RAYMOND CHOONG YEE HOW

Chairman

*(Non-Independent Non-Executive)***YBHG DATO' KOH HONG SUN***(Independent Non-Executive)***YBHG DATO' NICHOLAS JOHN LOUGH @ SHARIF LOUGH BIN ABDULLAH***(Independent Non-Executive)***MS LIM TAU KIEN***(Independent Non-Executive)***MS LIM CHEW YAN***(Non-Independent Non-Executive)***MANAGER****GLM REIT Management Sdn Bhd***Registration No. 200401020808 (659312-H)***MANAGER'S PRINCIPAL ADDRESS**

Level 13, Menara Guoco, 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)
(SSM PC NO. 201908001413)

TRUSTEE**MTrustee Berhad**

Level 15, Menara AmFirst
No. 1, Jalan 19/3
46300 Petaling Jaya
Selangor Darul Ehsan
Tel No. : 03-7954 6862
Fax No. : 03-7954 3712

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

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 OBJECTIVES	<p>To invest in a portfolio of real estate including quality office buildings, commercial properties, residential properties and industrial 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 75% of Total Assets Value ("TAV") are invested in real estate and/or single purpose companies at all times; and</p> <p>ii) the aggregate investments in property development activities (property development costs) and real estate under construction must not exceed 15% of TAV,</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 SC 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.
REVALUATION POLICY	The properties are revalued annually pursuant to the Malaysian Financial Reporting Standards ("MFRS") 140 and Clause 10.02 of the SC's Guidelines on Listed REITs.

OVERVIEW OF PORTFOLIO

Tower REIT's portfolio consists of two prime commercial buildings with a combined appraised value of approximately RM562.6 million as at 30 June 2020. The combined total net lettable area of the portfolio is 734,209 sq. ft. These assets provide strong and sustainable income stream to the Trust.

PLAZA ZURICH

12 Jalan Gelenggang, Bukit Damansara
50490 Kuala Lumpur



MENARA HLX (FORMERLY MENARA HLA)

3 Jalan Kia Peng, 50450 Kuala Lumpur

As at 30 June 2020, Tower REIT's investment portfolio comprised two prime commercial buildings situated in Kuala Lumpur.

Real Estate	Net Lettable Area sq. ft.	Market Value RM	% of Total Real Estate Portfolio
Menara HLX (formerly Menara HLA)	385,215	342,300,000	61
Plaza Zurich	348,994	220,300,000	39
Total	734,209	562,600,000	100

ASSETS PROFILE

Menara HLX (formerly known as 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 HLX 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).

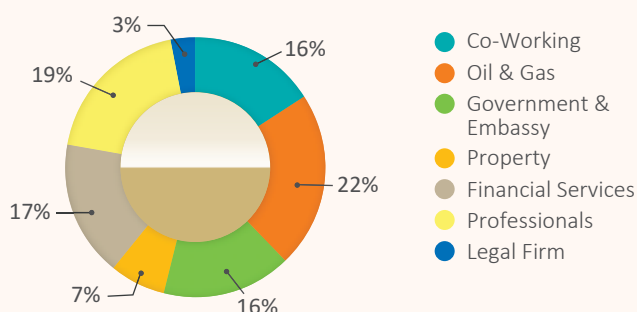
Menara HLX has been recently upgraded, with the main lobby and drop-off, lifts, lift lobbies, and toilets being refreshed and modernized. The finishes and specifications of Menara HLX embodies elegance and

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.

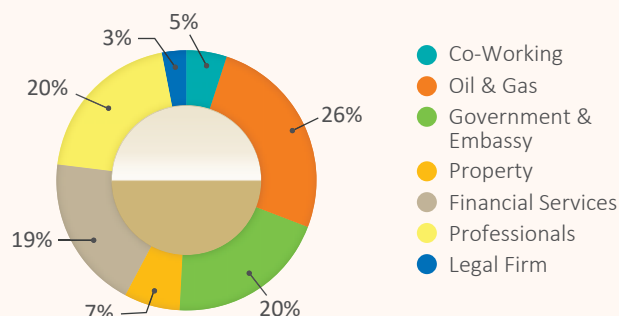
Menara HLX offers an unrivalled, uninterrupted view of KLCC Park and the iconic KLCC Twin Towers. To the north, one will enjoy a scenic view of skyscrapers in the city centre, and to the south, views of bustling crowds enjoying the Bukit Bintang shopping enclave.

TENANTS MIX BY NET LETTABLE AREA

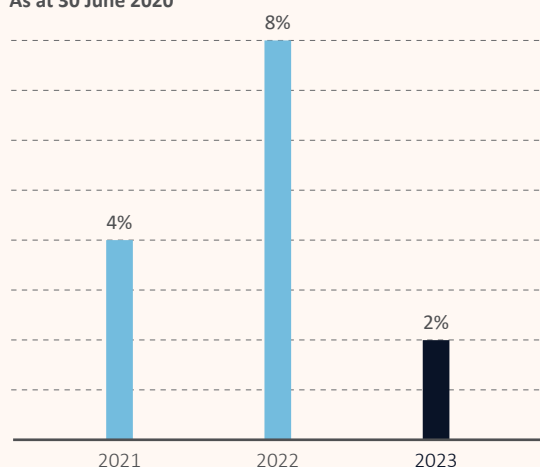
As at 30 June 2020

**TENANTS MIX BY GROSS RENTAL INCOME**

For the Month of June 2020

**EXPIRY PROFILE**

As at 30 June 2020

**MAJOR TENANTS**

As at 30 June 2020

Name	Trade Sector	% of Total Net Lettable Area
IPC	Oil & Gas	4%
Knowledgecom Corporation Sdn Bhd	Co-Working	3%
Hong Leong Investment Bank Bhd	Financial Services	3%
South African Embassy	Embassy	2%
City Health Care Clinic Sdn Bhd	Professionals	2%
		14%

ADDRESS

Menara HLX (formerly 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

21 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*

21%

PARKING SPACE

723 car park bays

DATE OF ACQUISITION

17 April 2006

ACQUISITION PRICE

RM221,000,000

MARKET VALUE

RM342,300,000

DATE OF LATEST VALUATION

12 March 2020

NAME OF VALUER

Cheston International (KL)
Sdn Bhd

NET BOOK VALUE*

RM342,300,000

PROPERTY MANAGER

LaurelCap Sdn Bhd

* As at 30 June 2020

ASSETS PROFILE

cont'd

Plaza Zurich 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 has recently undergone a facelift to the entire ground floor in and around the building. The main lobby and drop-off has been upgraded, ingress and egress to the building improved, and an F&B podium

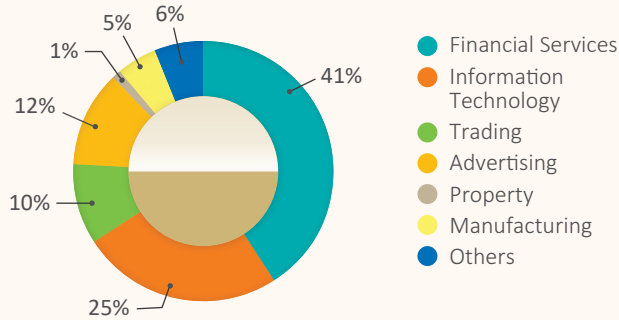
introduced to provide even more amenities to tenants and visitors. An outdoor amphitheatre has also been built to create a pleasant outdoor seating to enjoy the surroundings under the cover of trees.

The building provides occupiers with functional, quality office space, with easy access and ample parking. 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.

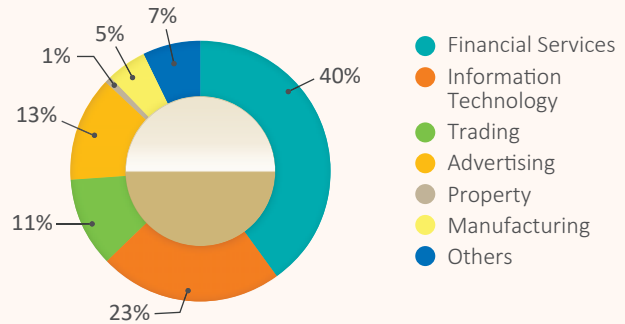
The external facade is of high quality alucabond curtain-walling, whilst the entrance lobby on the ground floor and all the office lift lobbies are of polished granite slabs.

TENANTS MIX BY NET LETTABLE AREA

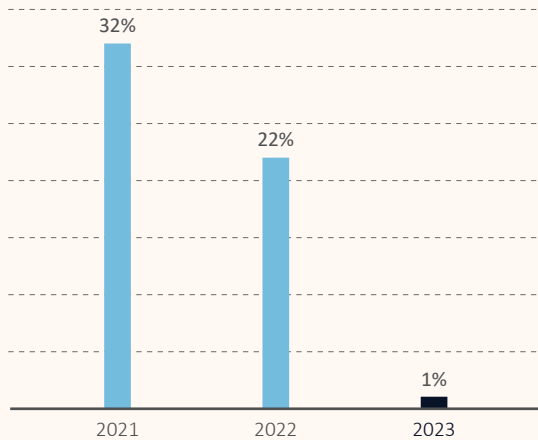
As at 30 June 2020

**TENANTS MIX BY GROSS RENTAL INCOME**

For the Month of June 2020

**EXPIRY PROFILE**

As at 30 June 2020

**MAJOR TENANTS**

As at 30 June 2020

Name	Trade Sector	% of Total Net Lettable Area
Zurich Life General Insurance	Financial Services	14%
HP PPS Sdn Bhd	Information Technology	11%
Hong Leong Investment Bank & Asset Management	Financial Services	10%
Stream Enterprise (M) Sdn Bhd	Manufacturing	7%
TBWA	Advertising	3%
		45%

ADDRESS

Plaza Zurich, 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

27 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

348,994 sq. ft.

OCCUPANCY RATES*

67%

PARKING SPACE

546 car park bays

DATE OF ACQUISITION

17 April 2006

ACQUISITION PRICE

RM130,000,000

MARKET VALUE

RM220,300,000

DATE OF LATEST VALUATION

16 March 2020

NAME OF VALUER

Cheston International (KL)
Sdn Bhd

NET BOOK VALUE*

RM220,300,000

PROPERTY MANAGER

LaurelCap Sdn Bhd

* As at 30 June 2020



MANAGEMENT DISCUSSION AND ANALYSIS

DEAR UNITHOLDERS

The year under review was fraught with unprecedented internal and external headwinds that impacted the property industry in Malaysia and in turn, the performance of Tower Real Estate Investment Trust (Tower REIT).

In spite of this, Tower REIT was still able to generate and distribute income to our unitholders. This is testament to the Manager's commitment and resolve to strengthen the value propositions of our property assets, embrace innovation, manage risk and improve operational efficiencies to bring down cost.

This Management Discussion and Analysis section offers unitholders, amongst others, insights into the strategic initiatives carried out during the year under review, the operating landscape, factors affecting performance as well as the fund's outlook moving forward.

BUSINESS OVERVIEW

Tower REIT is a real estate trust fund that was constituted under the Deed dated 17 February 2006 (as amended and restated by the deed dated 29 May 2014 and the second restated deed dated 23 October 2019) (the "Deed") entered into between the Manager and MTrustee Berhad, acting as the Trustee of Tower REIT.

Tower REIT has been listed on the Main Market of Bursa Malaysia Securities Berhad (Bursa Securities) since 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.

As at 30 June 2020, Tower REIT's portfolio consists of two prime commercial buildings, namely Menara HLX (formerly known as Menara HLA) and Plaza Zurich in Kuala Lumpur.



MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

On 2 March 2020, Tower REIT announced its proposal for the Trustee to acquire Menara Guoco, a 19-storey office building that forms a part of Damansara City in Damansara Heights, Kuala Lumpur, from DC Offices Sdn Bhd, for a cash consideration of RM242.1 million (the "Proposed Acquisition"). The unitholders of Tower REIT had at the Unitholders' Meeting held on 30 June 2020, approved the Proposed Acquisition.

The acquisition of Menara Guoco is expected to be completed by August 2020, becoming the third prime property asset under Tower REIT's portfolio. Menara Guoco is expected to start contributing to the Trust's performance for its financial year ending 30 June 2021 onwards.

Breakdown of Tower REIT's portfolio by market value:

	Market Value	
	RM'000	%
Menara HLX	342,300	43
Plaza Zurich	220,300	27
Menara Guoco	242,100	30
	804,700	100

INVESTMENT OBJECTIVE

On 25 July 2019, Tower REIT announced its proposal to amend and restate its principal deed dated 17 February 2006 (as amended and restated by the restated deed dated 29 May 2014) in relation to the investment objective of the Trust. The amendment aims to diversify the portfolio of Tower REIT to include residential and industrial properties for its future acquisitions.

These changes are in line with the intention of the Manager to grow distributable income and enhance returns to the unitholders of Tower REIT by exploring investment opportunities in the residential and industrial property subsectors that can potentially deliver good return on investments.

The objective of the Trust, per its second restated deed dated 23 October 2019 and registered with the Securities Commission Malaysia on 12 November 2019, is to invest primarily in a portfolio of real estate including quality office buildings, commercial properties, residential properties and

industrial properties in order to provide unitholders with regular and stable distributions; and to achieve medium to long-term growth in the net asset value per unit.

INVESTMENT STRATEGIES

The strategic approach undertaken by the Manager since the listing of Tower REIT in 2006 is one of prudence coupled with the commitment to ensure its stable of assets contribute the best possible returns to unitholders.

Progressive asset enhancement, pro-active risk management and the constant strive to improve operational efficiencies have been the hallmark of the Manager's policy when it comes to managing the Trust.

In light of the property industry downturn over the recent years, ever-expanding overhang in the residential and commercial sub-segment and the far-reaching impact of the Covid-19 pandemic, the investment strategy employed will be crucial to the continued performance of the Trust.

Moving forward, the Manager will continue to carry out more data-driven and fact-based analysis to gauge the operating landscape in order to take advantage of growth opportunities while mitigating any impending risk to the Trust's portfolio.

Measures to enhance capital value of the Trust's property portfolio are also on-going to maintain competitiveness, improve revenue and drive 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

The Covid-19 pandemic has already impacted the Malaysian economy in the first quarter of 2020. According to Bank Negara Malaysia, the national economy registered a growth of only 0.7% in the first quarter of 2020, a significant fall when compared to 3.6% growth in the immediate preceding quarter.

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

The Malaysian economy is expected to contract into the red in the second quarter as the full effect of the Movement Control Order, global and domestic trade disruptions and plunging consumer confidence come into play.

The performance of the Malaysian economy from a macro perspective will naturally impact the nation's property industry.

The average occupancy rate for purpose-built offices saw a marginal reduction to 78.3% in 2019 as compared to 79.7% in 2018. Take-up rate was considerably lower at 72,716 square metres in 2019 compared to 341,604 square metres last year. This was due to low take-up in several purpose-built offices within Kuala Lumpur.

The purpose-built office-sector will remain under pressure in 2020 because of the strong internal and external economic headwinds that largely stem from the Covid-19 crisis as well as the continued overhang in both the residential and commercial sub-segments. It is estimated that 5.5 million square feet of office space will be completed each year until 2021, far exceeding the average annual demand of 2.3 million square feet per annum over the past three years. This has and will continue to effect vacancy and rental rates for office spaces in the Klang Valley.

REVIEW OF FINANCIAL RESULTS

Note to unitholders: In reviewing the financial performance of Tower REIT for the year under review, please kindly note that the audited figures for the 12-month financial period from 1 July 2019 to 30 June 2020 (FY2020) will be compared against the previous financial period of 18 months, from 1 January 2018 to 30 June 2019 (FY2019).

In view of the challenging economic conditions, Tower REIT performance in FY2020 were within expectations. Gross revenue for the financial year ended 30 June 2020 stood at RM21.6 million. This was lower compared to RM44.1 million recorded in the preceding 18-month financial period. There was also a one-off revenue item in FY2019 that amounted to RM2.1 million.

Realised income taxation was lower at RM7.5 million compared to RM23.6 million in the preceding financial period. Our continuous prudent cost management approach has been fruitful as the property operating expenses has lowered by 33% during the year under review from RM17.4 million in the 18-month period of FY2019. When annualised, operating expenses in FY2019 stood at RM11.6 million, similar to FY2020.

A final income distribution of 1.18 sen per unit amounting to RM3,309,900 (FY2019: 3.93 sen per unit amounting to 11,023,650) was declared in respect of the financial year ended 30 June 2020. This final income distribution, together with the interim income distribution of 1.25 sen per unit paid on 28 February 2020, represents a total income distribution of RM6,816,150, which represents 91% of our distributable income. As such, the Trust has successfully distributed at least 90% of the distributable income in accordance with its dividend policy.

Realised earning per unit for FY2020 was 2.67 sen compared to 8.42 sen for the 18-month period of the preceding financial period.

DISTRIBUTION YIELD	2015	2016	2017	2019	2020
Annualised Distribution Yield	5.80%	5.73%	5.00%	5.50%	3.06%
Annualised Distribution Yield of the Trust is derived by:	$\frac{\text{Gross Distribution per Unit of the year}}{\text{Average Unit price of the year}}$				

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

FUND PERFORMANCE

	2015	2016	2017	2019 (18-month)	2020
	RM'000	RM'000	RM'000	RM'000	RM'000
STATEMENT OF FINANCIAL POSITION					
Total Asset Value	568,316	568,090	567,370	572,166	588,771
Total Borrowings	100	100	100	100	24,000
NAV before income distribution	543,523	545,246	545,603	540,076	533,306
NAV after income distribution	533,060	534,783	537,749	529,052	529,996
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	1.9377	1.9438	1.9451	1.9254	1.9013
- After income distribution	1.9004	1.9065	1.9171	1.8861	1.8895
- Highest NAV per unit (ex-distribution)	1.9377	1.9438	1.9451	1.9408	1.9013
- Lowest NAV per unit (ex-distribution)	1.8922	1.9230	1.9256	1.8949	1.8934
STATEMENT OF COMPREHENSIVE INCOME					
Total Revenue	37,297	36,591	32,644	44,054	21,604
Income After Taxation					
- Realised and distributable	18,194	20,948	17,993	23,625	7,490
- Unrealised from fair value adjustment	7,600	214	1,803	(9,798)	270
	25,794	21,162	19,796	13,827	7,760
Earnings Per Unit (sen) ⁽¹⁾					
- Realised	6.49	7.47	6.41	8.42	2.67
- Unrealised	2.71	0.08	0.64	(3.49)	0.10
	9.20	7.55	7.06	4.93	2.77
Income Distribution					
- 1st Interim	8,976	8,976	8,976	5,890	3,506
- 2nd Interim	-	-	-	5,610	-
- Final	10,463	10,463	7,854	11,024	3,310
	19,439	19,439	16,830	22,524	6,816
Distribution Per Unit (sen)					
- 1st Interim	3.20	3.20	3.20	2.10	1.25
- 2nd Interim	-	-	-	2.00	-
- Final	3.73	3.73	2.80	3.93	1.18
	6.93	6.93	6.00	8.03	2.43
Date of Distribution					
- 1st Interim	28-Aug-15	14-Sep-16	6-Sep-17	30-Aug-18	28-Feb-20
- 2nd Interim	-	-	-	28-Nov-18	-
- Final	29-Feb-16	28-Feb-17	28-Feb-18	28-Aug-19	28-Aug-20
RATIOS					
Management expense ratio ("MER") ⁽²⁾ (%)	0.65	0.47	0.48	0.62	0.42
Interest expenses	1,848	140	237	251	487
Interest Cover Ratio ⁽³⁾ (times)	10.8	150.6	76.9	95.1	16.4
Gearing Ratio ⁽⁴⁾ (%)	0	0	0	0	4

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

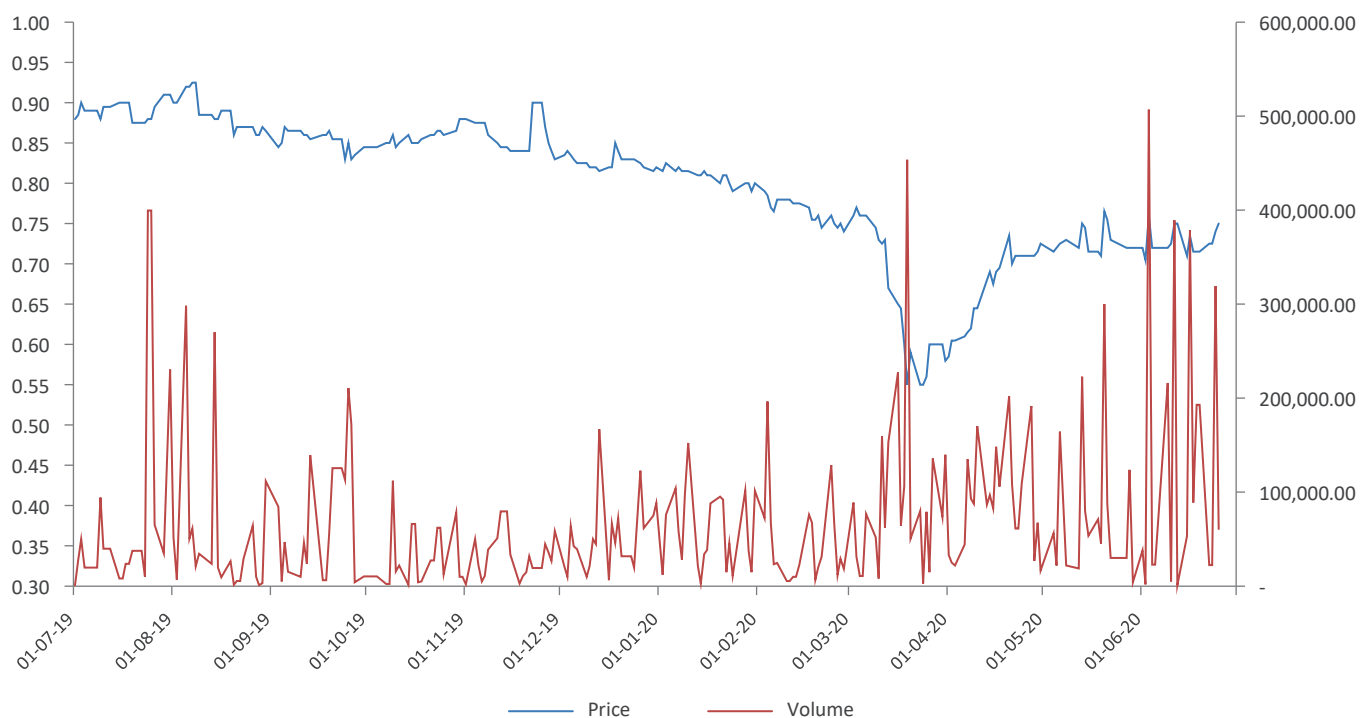
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The REIT's total asset value (TAV) increased marginally to RM588.8 million as of 30 June 2020 compared to RM572.2 million in the previous financial period. Net asset value (NAV) after income distribution was lower at RM530.0 million in FY2020 compared to RM529.1 million a year ago, with NAV per unit after income distribution remained flat at RM1.89.

The Management expense ratio (MER) for the administration of the REIT, which includes fees of the Manager, Trustee, audit and tax agent and other administrative expenses in FY2020 is 0.42% compared to 0.62% in FY2019.

Office REIT	Management Expense Ratio (%)
Tower REIT	0.42
AmFirst	1.01
UOA	0.78
MRCB - Quill	1.06

MARKET UNIT PRICE AND TRADING PERFORMANCE



MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

UNIT PRICE PERFORMANCE	IPO RM'000	2015 RM	2016 RM	2017 RM	2019 RM	2020 RM
Unit price per unit at close of respective years	1.07	1.23	1.17	1.22	0.88	0.75
Highest traded price during the years		1.30	1.25	1.23	1.23	0.93
Lowest traded price during the years		1.10	1.17	1.17	0.87	0.55
Average unit price for the years ⁽¹⁾		1.20	1.21	1.20	0.97	0.79

ANNUAL TOTAL RETURN	2015	2016	2017	2019	2020
Total Return for the years	-9%	7%	4%	-18%	-19%
Total Return of the Trust for the year is derived by:	$\frac{\text{Gross Distribution per unit} + \text{Net Change in Average Unit Price}}{\text{Average Unit Price}}$				

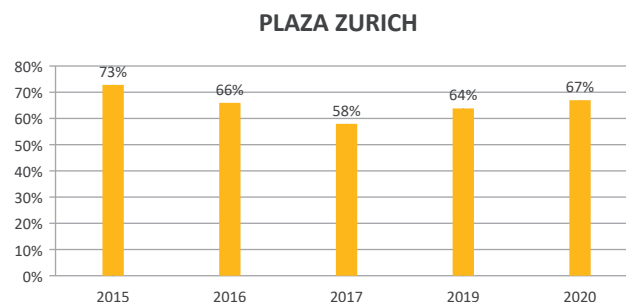
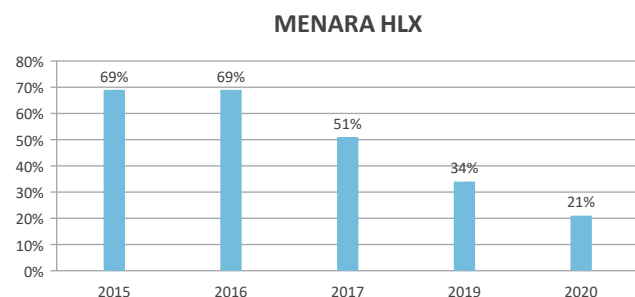
AVERAGE TOTAL RETURN	2015	2016	2017	2019	2020
1 year	-9%	7%	4%	-18%	-19%
3 years	0%	-3%	0%	-2%	-11%
Since inception	8%	9%	8%	7%	6%
Average Total Return of the Trust is derived by:	$\frac{\text{Total Return over the year}}{\text{Number of Years under review}}$				

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 HLX to 21% in FY2020 compared to 34% in FY2019 as a large tenant migrated out of the city center to the Kuala Lumpur fringe. However, the occupancy rate in Plaza Zurich increased to 67% compared to 64% in FY2019 with new tenancies secured.



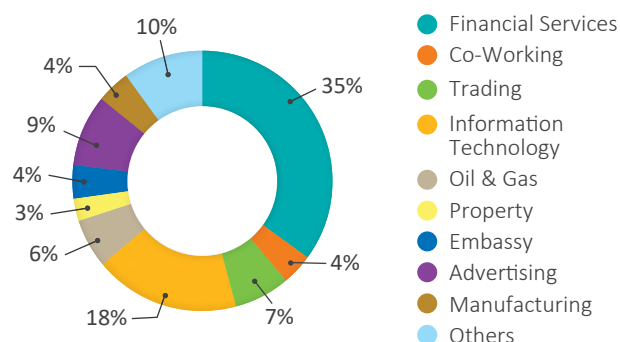
MANAGEMENT DISCUSSION AND ANALYSIS

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-20 RM	% of Portfolio %
Menara HLX	385,215	17-Apr-06	221,000,000	1,734,076	119,565,924	342,300,000	61
Plaza Zurich	348,994	17-Apr-06	130,000,000	3,433,871	86,866,129	220,300,000	39
Total	734,209		351,000,000	5,167,947	206,432,053	562,600,000	100

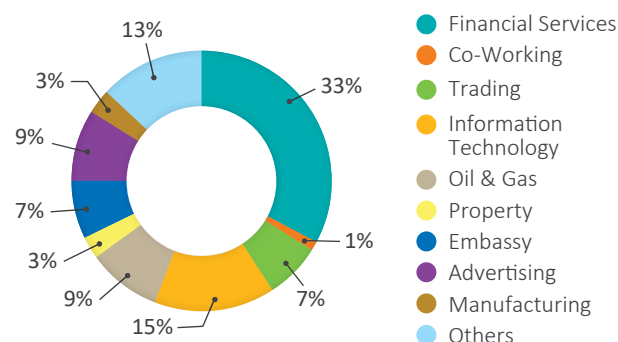
TENANT MIX BY NET LETTABLE AREA

As at 30 June 2020



TENANT MIX BY GROSS RENTAL INCOME

For the Month of June 2020



Major Tenants as at 30 June 2020

	Trade Sector	% of Portfolio's Net Lettable Area
Zurich Life Insurance	Financial Services	7%
HP PPS Sdn Bhd	Information Technology	5%
Hong Leong Investment Bank	Financial Services	5%
Stream Enterprise (M) Sdn Bhd	Trading	3%
IPC	Oil & Gas	2%
		22%

LEASE EXPIRY PROFILE

	2021		2022		2023	
	No. of Tenants	% of Net Lettable Area	No. of Tenants	% of Net Lettable Area	No. of Tenants	% of Net Lettable Area
Menara HLX	3	4%	4	8%	1	2%
Plaza Zurich	7	32%	10	22%	2	1%
Total	10	17%	14	14%	3	2%

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

Menara HLX (formerly known as Menara HLA)

As part of the efforts to rebrand the building, an official name-change to Menara HLX took place during the year under review following a transformation of the property into a one-stop facility that converges the corporate and start-up communities to catalyse innovation and boost the Malaysian start-up ecosystem.

Menara HLX has recently completed Phase 1 of its asset enhancement exercise, which saw the refurbishment of its main lobby, elevators, porte-cochère and lavatories, amongst others. The building now exudes a refreshed and vibrant aura that is in tandem with its appeal as an innovative game changer for fast-growth companies and clever start-ups.

Despite these improvements, the occupancy of the building reduced due to a large, traditional occupier choosing to relocate to the KL Fringe to avoid the traffic congestion in the Kuala Lumpur city centre. However, we believe that this drop in occupancy is temporary as the HLX concept gains traction. During the year, we saw the setting up of Beyond4, which is an integrated platform for Industry 4.0 that combines highly automated learning systems, customised seminars and workshops, modern digital learning media as well the latest didactic methods to drive progressive digital transformation for any organisation. Beyond4 has taken up the entire level 6 of Menara HLX.

We are also in negotiations with tech and e-commerce companies to take up occupancy in the shared work-spaces within the building.

Plaza Zurich

Plaza Zurich is located within the established commercial area of the high income neighbourhood of Damansara Heights. Only short drive away from the Kuala Lumpur city centre, Plaza Zurich is easily accessible through major highways and byways while within a short walking distance from the Semantan MRT station.

The year under review also saw tangible progress being made in refurbishing Plaza Zurich, elevating the characteristics and ambiance of the office space into one that blends together contemporary design with practical features.

Today, Plaza Zurich sports a trendy F&B zone that is drawing diners from within the building as well as from the surrounding community. Additionally, its lobby area, driveway, carparks and amphitheater have also been upgraded in a way that appeals to the modern workplace lifestyle.

Menara Guoco

The latest addition to Tower REIT's stable of quality assets, Menara Guoco is strategically located in the commercial heart of Damansara Heights, now becoming well-known as Damansara City. The 19-storey office building is located in a prime area surrounded by affluent neighbourhoods such as Bangsar, Sri Hartamas, Mont' Kiara, Bukit Tunku and Taman Duta.

In addition to being a Grade A office building with green building features and Multimedia Super Corridor (MSC) Malaysia Cybercentre status, Menara Guoco is enjoying an occupancy rate of approximately 97.1%. Its tenants include both multinational corporations and established local companies.

MANAGING RISK

Risk management remains an integral part of the Manager's capital and asset management philosophy from the very onset.

As part of Malaysia's property industry eco-system, Tower REIT's performance is susceptible to macro-economic factors such as unemployment rates, inflation rates, commodity prices, property price indices as well as business and consumer confidence.

In addition to paying close attention to trends within the industry to identify and mitigate these economic risks, the Manager is also cognisant of the potential threats or unfavourable developments that might impact participants in the industry significantly. One of these issues include the persistent property overhang which continues to weigh down the overall residential and commercial market.

The Trust also faces competitive risks as more and more of such commercial properties enter the market. While competition is always healthy for the industry, it is

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

important that supply is managed in tandem with the operating landscape and demand conditions in order to ensure sustainable progress for the industry at large.

Tower REIT's commitment towards managing risks proactively and comprehensively is detailed in the Statement on Risk Management and Internal Control section of this Annual Report.

THE PATH AHEAD

The yet unabated COVID-19 global health crisis, on-going trade spat between China and the United States, unstable domestic political situation and heightened concerns on job security are factors that will drag the performance of the purpose-built office-sector moving forward.

Furthermore, the additional supply of office space coming into the market will create more competitive pressure amongst participants operating in this space. If all the office buildings in the Klang Valley under construction and scheduled to be completed in 2020 were to be completed as scheduled, there will be around 0.5 million square metres of net lettable office space released into the market.

Naturally, occupancy and rental rates will be impacted, more so for office building that are not in prime locations.

While Tower REIT's performance will not be spared the effects of macro-economic headwinds, the prime location of our assets couple with the completion of its asset enhancement drive may contribute to a cautious yet stable outlook for the Trust.

Under the new norm, the social distancing and work-from-home culture may encourage business owners to relocate outside the Kuala Lumpur city centre to locations close to residential communities. Demand for smaller yet more lifestyle oriented offices can augur well for our portfolio of assets.

All in all, we intend to optimise rental income through proactive management of tenancies and renewals. We aim to improve tenant retention by building tenant ecosystems across our portfolio of assets that will benefit tenants' businesses and the well-being of their staff. In addition to this, we will be aggressive in looking for new tenancy opportunities.

By being agile, we seek to adapt in this fast-changing operating landscape so that we can continue to deliver value and 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, as your new Chairman, to present the annual report and audited financial statements of Tower REIT for the financial year ended 30 June 2020.

In reviewing this Annual Report, please note that Tower REIT has on 13 September 2018 changed its financial year end from 31 December 2018 to 30 June 2019 following approval from the Securities Commission of Malaysia.

As such, this report provides audited figures for the 12-month financial period from 1 July 2019 to 30 June 2020 (FY2020) and will be compared against the previous financial period of 18 months, from 1 January 2018 to 30 June 2019 (FY2019).



ECONOMIC AND MARKET REVIEW

The Malaysian economy grew at a moderate pace in the second half of 2019. According to the Department of Statistics Malaysia (DOSM), the nation's economy grew by 4.4% in third quarter of 2019 and 3.6% in the fourth quarter. As a whole, 2019 charted a growth of 4.3% from 4.7% a year ago.¹

The economy trended significantly downwards as we moved into 2020 as a result of the Covid-19 pandemic. Economic activities globally and domestically were disrupted, with the implementation of lockdown measures in many countries and the Movement Control Order (MCO) on 18 March 2020 in Malaysia.

The Department of Statistics Malaysia reported that the Malaysian economy grew by only 0.7% in the first quarter of 2020. The Asian Development Bank had predicted the Malaysian economy to contract by as much as 4% in 2020.²

CHAIRMAN'S STATEMENT

cont'd

The unprecedented conditions caused by the pandemic have impacted industries across the board including the property sector. In 2019, the Malaysian property market was on a path towards recovery, charting a 4.8% increase in transaction volume against 0.6% a year ago as well as a 0.8% increase in transaction value compared with 0.3% in 2018. Unfortunately, due to the pandemic, transaction volume and value of transactions contracted by 13.6% and 22.9% respectively in the first quarter of 2020, according to the National Property Information Centre (NAPIC).³

The Government has announced various stimulus packages to cushion the impact of the pandemic by providing reliefs for individuals and businesses, especially the Small and Medium Enterprises (SMEs) while Bank Negara Malaysia has slashed the Overnight Policy Rate (OPR) and reduced the statutory reserve requirement of banks to provide monetary easing to support the economy. We can expect more measures from the government to protect business viability, ensure job security and increase spending power to recirculate in the economy.

BUSINESS AND FINANCIAL REVIEW

In the face of the extraordinary headwinds caused by the pandemic, Tower REIT delivered a revenue of RM21.6 million for FY2020. Realised income after taxation for the year was RM7.5 million while realised earnings per unit as at 30 June 2020 is 2.67 sen.

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

INCOME DISTRIBUTION

The Manager of Tower REIT is pleased to declare a final income distribution of 1.18 sen per unit amounting to RM3,309,900 (FY2019: 3.93 sen per unit amounting to 11,023,650) in respect of the financial year ended 30 June 2020.

This final income distribution, together with the interim income distribution of 1.25 sen per unit paid on 28 February 2020, represents a total income distribution of RM6,816,150.

LOOKING AHEAD

The property industry outlook for our financial year ending 30 June 2021 is expected to remain challenging, as the impact of the pandemic is still on-going.

Consumer and business confidence remain low and this will continue to pressure occupancy rates of commercial properties, especially older buildings in less desirable locations.

However, this weak environment could also uncover opportunities for acquisition of prime assets with strong yields. Despite the overall weak demand and oversupply situation in the commercial sector, key assets in prime commercial locations are still in demand.

The fiscal stimulus packages by the Government and the monetary easing measures taken by the Central Bank have facilitated a solid start to the economic recovery process and are expected to benefit the property industry as well as the economy at large. An interesting observation is that Bursa Malaysia's KL Property Index saw an increase from 571.75 points on 16 March 2020 (pre-MCO) to 621.94 points on 30 June 2020, which points to the resilience of the market.

Notwithstanding the challenging operating landscape, with the improvements done to our assets, Tower REIT expects occupancy levels to improve and rental rates to be stable as we move forward into our new financial year.

To date, we have successfully carried out the enhancement and refurbishment of Menara HLX (formerly known as Menara HLA) and Plaza Zurich, making tangible improvements in façade, facilities, F&B space and connectivity. Tenants will now be able to enjoy better access

¹ Department Of Statistics Malaysia – Malaysia Economic Performance Fourth Quarter 2019

² Asian Development Bank – Asian Development Outlook 2020 (ADO 2020)

³ NAPIC Property Market Q1 2020 Snapshot

CHAIRMAN'S STATEMENT

cont'd

and a pleasant and comfortable environment as they move in and out of our buildings. Taking these improvements into account, we are quietly optimistic that occupancy in the 2 properties will improve.

Moving forward, we will continue to focus on completing our asset enhancement exercise while paying close attention to managing cost and improving operational efficiencies.

Furthermore, the acquisition of Menara Guoco, which is expected to complete by August 2020, is expected to provide unitholders with regular and stable income distributions. This acquisition will also enhance the diversification of our tenant base across a broader range of sectors, including multinational and established local companies, which will contribute to the stability of the trust's income.

Menara Guoco is a 19-storey office building which forms part of an integrated commercial development known as Damansara City, comprising another office building, a hotel, a retail mall, serviced apartments and car parks.

We remain committed to create value with a view to maximize returns. Simultaneously, Tower REIT will also be seeking investment opportunities that meet the objectives of Tower REIT and yield strong returns on our investments.

APPRECIATION

On behalf of the Board of Directors and Management of the Manager, I would like to convey my sincere appreciation to our valued tenants, business associates and our unitholders for your continued support and confidence in Tower REIT.

We are also deeply appreciative of the guidance and assistance we have received from our regulators and public sector agencies and to all our stakeholders, be safe and thank you.

I would like to take this opportunity to thank my fellow Board members for their contributions to Tower REIT. Last but not least, I would also like to take this opportunity to thank my predecessor, Datuk Edmund Kong Woon Jun, for his invaluable guidance and contributions in his four years as Chairman of the Board.

Raymond Choong Yee How
Chairman

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 year ended 30 June 2020.

THE TRUST

Tower REIT was constituted under the principal deed dated 17 February 2006 (as amended and restated by the restated deed dated 29 May 2014 and the second restated deed dated 23 October 2019) (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 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 year and up to the date of this Manager's Report.

During the year, the investment objective of the Trust was amended to include investment in residential and industrial properties.

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 year 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 service tax payable) of up to 0.75% per annum of the gross asset value ("GAV") and a performance fee (excluding any service tax payable) of up to 4.00% per annum of the net property income, but before deduction of property management fee. During the financial year under review, the Manager charged 0.22% and 3.35% per annum 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-rated 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-rated 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 year ended 30 June 2020, 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 year 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 Tau Kien (*Independent Non-Executive Director*)
- Ms Lim Chew Yan (*Non-Independent Non-Executive Director*)

DIRECTORS' BENEFITS

During the financial year 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, except as disclosed in the notes to the financial statements.

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 year, had no interests in the units of Tower REIT as at 30 June 2020.

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.

MANAGER'S REPORT

cont'd

- 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 provide 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 Directors of 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 Directors of 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 year 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 year.
- f) In the opinion of the Directors of the Manager:
 - i. no contingent or other liability has become enforceable or is likely to become enforceable within the year of 12 months after the end of the financial year which will or may affect the ability of Tower REIT to meet its obligations as and when they fall due; and
 - ii. no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of Tower REIT for the financial year in which this report is made.

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 year ended 30 June 2020, 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

LIM CHEW YAN

23 July 2020

DIRECTORS' PROFILE

MR RAYMOND CHOONG YEE HOW

Chairman
Non-Executive Director/
Non-Independent

Age 64, Male, Malaysian

Mr Raymond Choong Yee How obtained a Bachelor of Science in Biochemistry (Honours) degree in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. Mr Raymond Choong has over 30 years of experience in banking, of which 23 years were with Citibank in Malaysia. He had held various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Raymond Choong was the President & Chief Executive Officer of Hong Leong Financial Group Berhad from December 2005 to August 2015. He is currently the Group President & Chief Executive Officer of GuocoLand Limited which is listed on Singapore Exchange Securities Trading Limited and is the holding company of GuocoLand (Malaysia) Berhad ("GLM").

Mr Raymond Choong was appointed as Chairman of the Board of GLM REIT Management Sdn Bhd ("GLM REIT") on 24 July 2020.

Mr Raymond Choong is the Chairman of GLM and a Director of Eco World International Berhad which are both listed on the Main Market of Bursa Malaysia Securities Berhad.

YBHG DATO' KOH HONG SUN

Non-Executive Director/
Independent

Age 67, 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 both 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 68, 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 64, 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.

MS LIM CHEW YAN

Non-Executive Director/
Non-Independent

Age 63, 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 @ EUSOFFE CHUA

Chief Executive Officer

Age 42, 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 19 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 year ended 30 June 2020.
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 this Annual Report.

SUSTAINABILITY STATEMENT

ABOUT THIS STATEMENT [102-1, 102-46, 102-50, 102-53, 102-56]

Tower Real Estate Investment Trust (herewith referred to as “Tower REIT”) is a real estate investment trust established in Malaysia to own and invest primarily in prime commercial properties in Malaysia’s major growth areas. This year we are pleased to submit our sustainability statement for financial year ended 30 June 2020 (FY2020) and the reporting scope includes two of our assets, i.e. Menara HLX (formerly known as Menara HLA) and Plaza Zurich. 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

(Manager of Tower REIT)

Level 13, Menara Guoco, 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

102-1 : Name of the organization

102-46 : Defining report content and topic boundaries

102-50 : Reporting period

102-53 : Contact point for questions regarding the report

102-56 : External assurance

SUSTAINABILITY STATEMENT

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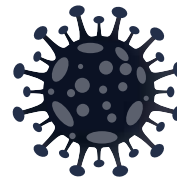
OUR COMMITMENT TO SUSTAINABILITY [102-18, 102-40, 102-43, 103-2]

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 FY2020 as illustrated below.

2020 Key Highlights

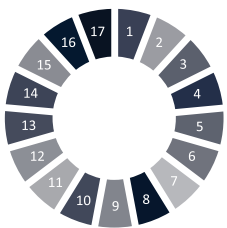


In alignment with
GRI Standards:
Core Option



Covid-19:
Safety & Preventive
Measures

Implementing cashless
parking system at
Menara HLX



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



Ongoing
Refurbishment for
Plaza Zurich and
Menara HLX

54%
Male staff



46%
Female staff

6 total training hours
per staff

United Nations Sustainable Development Goals (UN SDGs)

The United Nations' 2015 Sustainable Development Goals (SDGs) are an ambitious agenda that tackles global issues with a view to creating stronger and more prosperous future for all. The UN SDGs acknowledge that reducing global poverty will go hand in hand with economic development and social change in terms of education, health, prosperity and employment opportunities, while sustaining and protecting the earth.

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

cont'd

OUR COMMITMENT TO SUSTAINABILITY [102-18, 102-40, 102-43, 103-2] 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 understand the value of establishing clear organizational accountability lines within the Manager and involving the various divisions in defining our path towards greater sustainability. We have set up a two-tiered sustainability governance system with the Board of Directors of the Manager (Board) heading 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.

Board of Directors



- Endorses the Tower REIT's sustainability strategy, commitments, and initiatives.
- Issues final approval of the sustainability report and its contents.

Chairman of the Sustainability Committee

- Recommends sustainability strategy, commitment, and initiatives.
- Monitors implementation of sustainability initiatives.

Sustainability Committee

- Identifies relevant sustainability initiatives to strengthen sustainability performance.
- Implements initiatives and strategies approved by the Board.

SUSTAINABILITY STATEMENT

cont'd

OUR COMMITMENT TO SUSTAINABILITY [102-18, 102-40, 102-43, 103-2] cont'd

Stakeholder Engagement

Good relationships between stakeholders will ensure the long-term sustainability and success of Tower REIT. Constant engagement gives us insights into identifying relevant economic, environmental and social (EES) issues which need to be addressed in order to improve 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 	<ul style="list-style-type: none"> Regular communications with unitholders/announcements on Bursa Securities and corporate website Investor relation events 	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"> Reports/Disclosure 	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"> General Notices 	As and when needed
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 	As and when needed
Suppliers, Contractors	<ul style="list-style-type: none"> Transparent procurement process Timely payments 	<ul style="list-style-type: none"> Supplier evaluation 	As and when needed
		<ul style="list-style-type: none"> Performance reviews 	As and when needed
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 Announcements on Bursa Securities and corporate website 	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

102-18 : Governance structure

102-40 : List of stakeholder groups

102-43 : Approach to stakeholder engagement

103-2 : The management approach and its component

SUSTAINABILITY STATEMENT

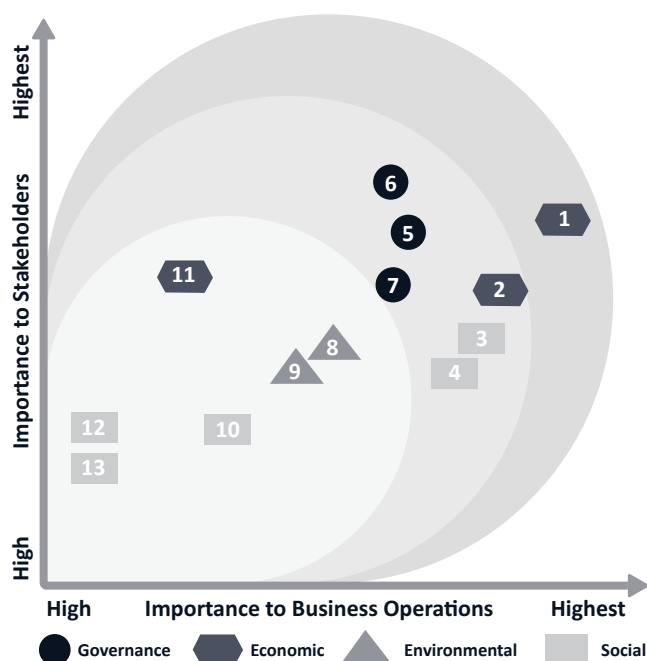
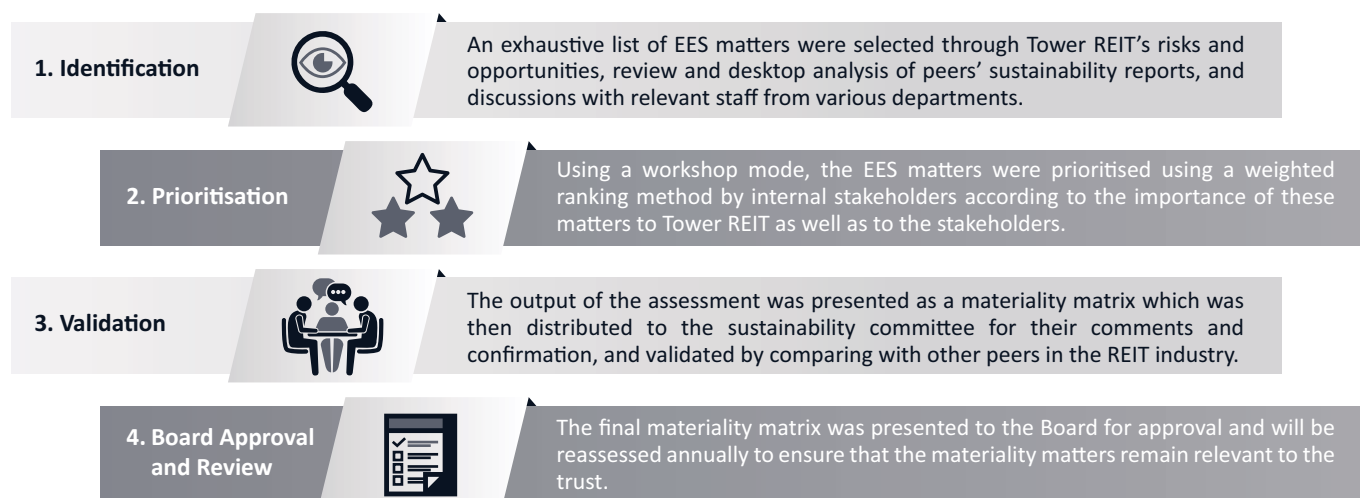
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MATERIAL SUSTAINABILITY MATTERS [102-46, 102-47]

Materiality Matrix

Materiality evaluation is a method to identify issues that are essential to the ability of Tower REIT to provide value to stakeholders in the short, medium and long term. Such matters impact the decision-making process of its stakeholders and 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

cont'd

MATERIAL SUSTAINABILITY MATTERS [102-46, 102-47] 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, Unitholders and Employees	
2. Property Assets	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, Unitholders and Local Communities	
8. Waste Management	GRI 103: Management Approach GRI 306: Effluents and Waste	Investors, Unitholders and Local Communities	
9. Risk Management	GRI 103: Management Approach GRI 102: General Disclosures	Investors, Unitholders, Trustee and Employees	
10. Compliance	GRI 103: Management Approach GRI 419: Socioeconomic Compliance	Investors, 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	 

102-46 : Defining report content and topic boundaries

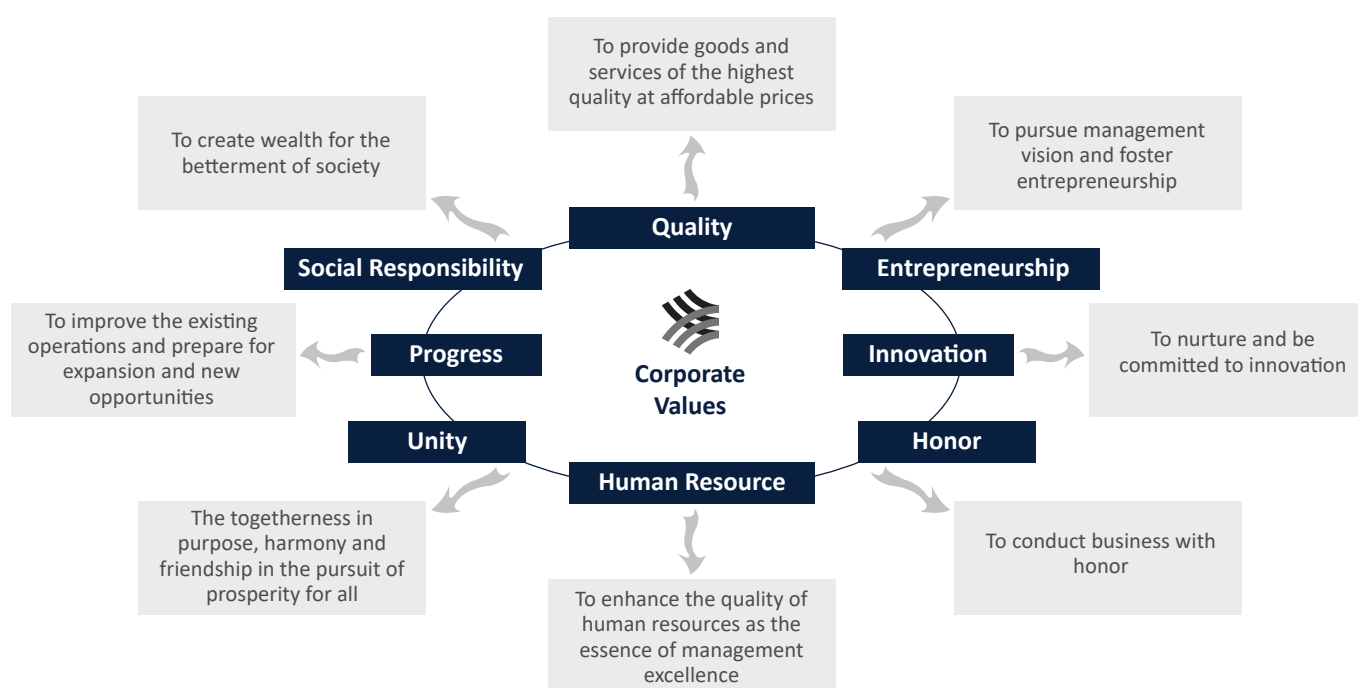
102-47 : List of material topics

SUSTAINABILITY STATEMENT

cont'd

GOVERNANCE [102-16, 103-1, 103-2, 102-29, 419-1]

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. It is difficult to strike a balance between economic stability, environmental friendly and social responsibility, but we understand the value of adopting the tripartite approach and long-term sustainability. Our commitment to sustainability is closely influenced by the fundamental principles of the Manager.



Business Ethics and Transparency

Unitholders place their trust in Tower REIT, through its Manager, 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 raise awareness of our corporate principles, internal policies and Code of Conduct and Ethics among employees and stakeholders and ensure that our policies are properly communicated and understood by all parties.

We aim to build an ethical culture shared by every employee of the Manager 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 of Conduct and Ethics through multiple channels.

SUSTAINABILITY STATEMENT

cont'd

GOVERNANCE [102-16, 103-1, 103-2, 102-29, 419-1] cont'd

Whistleblowing Policy

Tower REIT has a Whistleblowing Policy in place to ensure transactions are handled in a fair and transparent manner. In line with its commitment to foster openness and accountability and maintain high standards of corporate governance at the workplace, the Board invites employees and external parties to disclose any improper conduct or wrongful act involving Tower REIT and the Manager in accordance with the Whistleblowing 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 key source of volatility for real estate investment trust and therefore risk management is crucial to the financial and non-financial success of Tower REIT. Strategic risks relate to sustainable long-term growth of Tower REIT through sound investment strategies, asset management and clear stakeholder communication. The operational risks relate to the day-to-day management of the property portfolio and management of human capital. The financial risks relate to the impact to Tower REIT's financial position such as changes in market conditions and interest rates. 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

cont'd

ECONOMIC SUSTAINABILITY [201-1, 203-1, 204-1]

Financial Performance

Tower REIT is committed to working for more sustainable business practices in the management of the assets of the Trust in order to ensure a consistent and predictable distribution of income and 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 real estate investment in the portfolio of real estate investment trusts ultimately determines the valuation and income generated that will eventually affect the Trust's performance as well as meet the standards of all unitholders and stakeholders. Therefore, our ongoing initiatives to refurbish the infrastructure at our properties are crucial to ensure our tenants and the public are comfortable and safe in our buildings and also grow its long-term value.

Plaza Zurich, a commercial building in our portfolio, is currently undergoing refurbishment. This upgrading works aim 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. The upgrade works include new retail and F&B spaces. The covered pedestrian link from Jalan Dungun to the Semantan MRT station which passes through Plaza Zurich has yet to be completed. When completed, it will further enhance the building to attract more tenants, add value to the tenants, as well as the surrounding population.



Plaza Zurich

- Ongoing Refurbishment
- New retail and F&B spaces
- Covered Pedestrian Link from Jalan Dungun to Semantan MRT station

Menara HLX (formerly known as Menara HLA) is currently undergoing refurbishment as well. In April 2019, the HLX was launched in cooperation with the Malaysian Digital Economy Corporation (MDEC) to build a centralized space that will enable Malaysian innovation and technological leadership to flourish. The HLX will consist of working spaces, curated offices, training spaces and cafe. To better accommodate its functions, the building is being upgraded with new lifts, lobbies and facilities to meet the needs of the technology community who will either work in HLX or visit it. The conventional parking system is being upgraded to a cashless parking system to create a hassle-free parking experience for tenants and customers.



Menara HLX

- Ongoing refurbishment
- Innovation Exchange for Malaysian Tech ecosystem
- Working spaces, curated offices, training spaces and more
- Implementation of cashless parking system

SUSTAINABILITY STATEMENT

cont'd

ECONOMIC SUSTAINABILITY [201-1, 203-1, 204-1] cont'd

Supply Chain Management

Effective real estate management can be accomplished by closely monitoring our supply chain and procurement activities. We make sure all goods and services move through an assessment phase to ensure that performance meets our expectations. We also set up a Contractor's Evaluation Form to facilitate this, allowing us to evaluate the performance of the contractor before their appointment.

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, we will then compare their prices and capability. Next, we will hold interviews with the potential tenderers and discuss the possibility of re-evaluating quotes in order to obtain the best price. We hold 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 the contractors' 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

Contractor Evaluation Form

- Assess performance of suppliers

Approved Vendor Listing

- List of vendors that meet our standards and quality

Tender Interview Review

- Discuss all contributing factors mentioned in tender interview before proceeding with decision

Final Tender Interview

- Final interview with preferred tenderer to determine the best supplier for a job or task

SUSTAINABILITY STATEMENT

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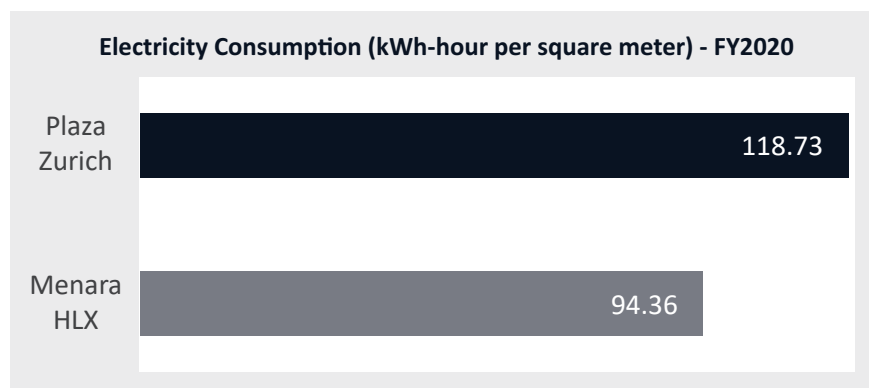
ENVIRONMENTAL SUSTAINABILITY [302-1, 306-2]

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 and help in reducing the impacts of global warming.

Energy Consumption

Higher energy consumption translates into higher carbon emissions as power is generated from the grid. Tower REIT aims to reduce our carbon footprint and electricity costs. While Tower REIT and the Manager do not have operational control over the tenants' electricity consumption, resources have been deployed to enhance the ecosystem of the buildings, raise environmental awareness and foster energy conservation.

In relation to 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 in both our buildings as part of our continuous efforts towards environmental sustainability. Listed below are the initiatives taken at Plaza Zurich and Menara HLX, which have contributed to cost and energy savings.

Plaza Zurich



Replacement of conventional lights with LED lights at the corridors.

SUSTAINABILITY STATEMENT

cont'd

ENVIRONMENTAL SUSTAINABILITY [302-1, 306-2] *cont'd*

Energy Consumption *cont'd*

Menara HLX



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

Waste Management

To minimize the amount of waste sent to landfills, we ensure that waste generated from our buildings is collected and disposed of safely and in compliance with legal requirements.

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

Tower REIT's initiative to go paperless and minimize paper usage is accomplished by the use of ServeDeck management software which enables tenants to use an online system to channel their requests and feedback instead of filing out forms. Furthermore, recycling bins are made available at Plaza Zurich and Menara HLX to encourage recycling activities. All the waste is then collected and disposed by a licensed contractor at approved disposal sites.

For this financial year, we are unable to report the volume of waste generated for each building and hope to be able to track them in the near future.

SUSTAINABILITY STATEMENT

cont'd

SOCIAL SUSTAINABILITY [202-2, 401-1, 403-2, 403-4, 403-5, 403-9, 404-1, 405-1, 413-1]

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

Tenant Satisfaction

The satisfaction of our tenants is a priority as it reflects our performance as Manager of our properties.

Our management team is dedicated to provide the best services to our tenants and also attend promptly and effectively to their feedback and complaints to ensure minimum disruption to their occupation and peaceful enjoyment of their premises.

For this financial year, we are unable to conduct any surveys. Moving forward, we aim to conduct surveys for both the buildings.

Health and Safety

Our top priority has always been the health and welfare of the Manager's employees, tenants and customers. Our employees, tenants, customers and contractors are expected to complete and file Incident Reports when making complaints as part of our effort to document and track health and safety incidents at our buildings. Based on the details provided, we endeavour to implement mitigation measures to ensure similar incidences do not recur. For the reporting year, only one (1) incident relating to a burst water pipe due to renovation works was reported.

We also set up an Emergency Response Team at our buildings to respond to fire, emergency evacuation, injuries and incidents, as well as medical emergencies. In coordination with the Fire and Rescue Department (BOMBA), we carry out annual fire drills.

As a result of the Covid-19 pandemic, we have implemented several preventive measures in both Plaza Zurich and Menara HLX. Listed below are the preventive measures implemented in both the buildings.



Temperature checks at the lobby for all the tenants, customers and visitors within the building.



Walk-in clients, customers and visitors are required to fill up the health declaration form at the lobby before entering into the building.



All tenants, customers and visitors are required to wear face mask within the common areas of the building.



All tenants, customers and visitors are encouraged to use the hand sanitizer provided at the lobby of the building.

SUSTAINABILITY STATEMENT

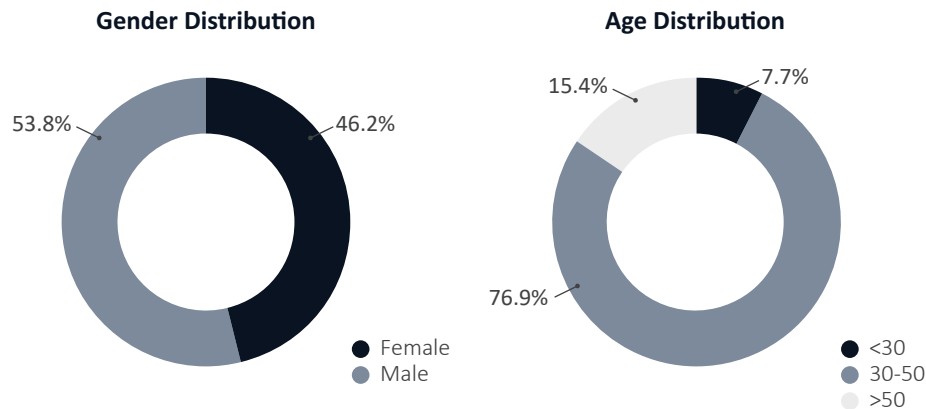
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SOCIAL SUSTAINABILITY [202-2, 401-1, 403-2, 403-4, 403-5, 403-9, 404-1, 405-1, 413-1] cont'd

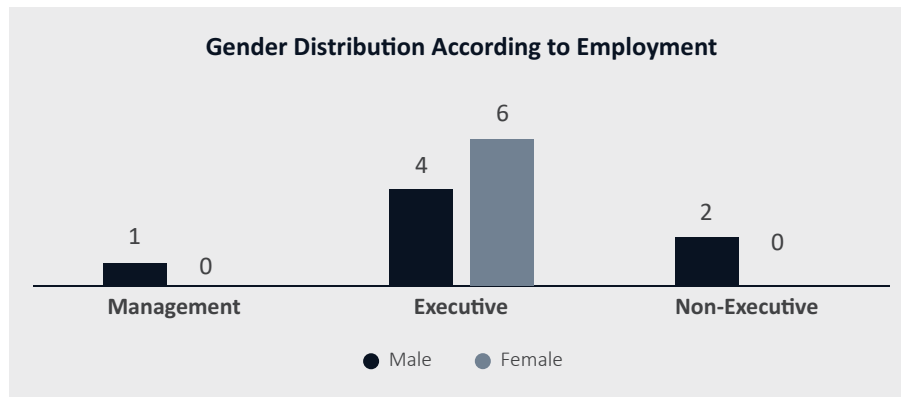
Diversity and Inclusiveness

We practice diversity and inclusion in our workplace. We believe that different backgrounds, age and gender help to achieve opinions and feedback from different perspectives that ultimately contribute to improved 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 Checkup. Furthermore, we provide car loan and housing loan interest subsidies, handphone allowance, and leave passage, among others. We value our employees and acknowledge their significant contributions, and are committed to treating them fairly.

SUSTAINABILITY STATEMENT

cont'd

SOCIAL SUSTAINABILITY [202-2, 401-1, 403-2, 403-4, 403-5, 403-9, 404-1, 405-1, 413-1] cont'd

Human Capital Development

We believe that the knowledge and development of our employees are crucial to ensuring our success. We provide a platform for our employees to attend training to update them on developments in real estate investment trust industry. Opportunities to attend relevant trainings are provided to our employees. The total training hours clocked in FY2020 was 24 hours, with 6 hours average training hours per employee. All the trainings were attended by management level only. Total training hours in FY2020 were less compared to FY2019 due to the Movement Control Order (MCO).

Total Training Hours	=	24 hours
Average per employee	=	6 hours



Looking Ahead

We are continuously trying to optimize value for our unitholders and one strategy is to upgrade our buildings to attract tenants, implement new, flexible leasing models to suit the needs of a new generation of millennials, and provide fitted spaces for businesses that do not want to be burdened with high capital expenditure. Asset enhancement initiatives have been carried out for both Plaza Zurich and Menara HLX (formerly known as Menara HLA), and they greatly improved the look, feel and usability of both buildings.

The recent acquisition of Menara Guoco in Damansara Heights - a grade-A building with Green Building Index (GBI) and Leadership in Energy and Environmental Design (LEED) Gold status - realigns our portfolio of assets to include green buildings with environmentally friendly technology such as rainwater harvesting and high efficiency chillers, thus reducing the energy requirements of the building and cutting our carbon footprint.

Apart from this aspect, the acquisition of Menara Guoco enabled Tower REIT to acquire tenancies with exposure to a broader range of sectors, increase our exposure to Grade A assets with headroom for positive rental reversion, lower the average age of our buildings and improve the overall occupancy rate of our portfolio.

Going forward, we will continue to implement policies which will promote sustainability for our environment and our community.

202-2	: Ratios of standard entry level wage by gender compared to local minimum wage
401-1	: New employees hires and employee turnover
403-2	: Hazard identification, risk assessment, and incident investigation
403-4	: Worker participation, consultation, and communication on occupational health and safety
403-5	: Worker training on occupational health and safety
403-9	: Work-related injuries
404-1	: Average hours of training per year per employee
405-1	: Diversity of governance bodies and employees
413-1	: Operations with local community engagement, impact assessments and development programs

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 primary responsibility to manage the assets and liabilities of Tower REIT for the benefit of unitholders. In this regard, 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 Corporate Governance Overview, Risk Management and Internal Control Statement (“Statement”) outlines the Manager’s corporate governance practices during the financial year ended 30 June 2020 (“FY 2020”) as 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 wide-ranging qualifications and breadth 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 amended and restated by the restated deed dated 29 May 2014 and the second restated deed dated 23 October 2019) (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 the SC to carry out the regulated activity of asset management in relation to Tower REIT. The Manager has two licensed representatives in compliance with the minimum requirements prescribed by the SC.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

cont'd

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 reviewing and approving 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, major capital expenditure as well as acquisitions and disposals.

The Chairman leads the Board and carries out a leadership role in the conduct of Board meetings to ensure its smooth and effective functioning. He is primarily responsible for ensuring the adequacy and integrity of the corporate governance process.

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’s website at www.ssm.com.my. In addition, the Manager also established a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are observed by the employees.

B. Board Composition

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

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committee

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

The composition of the Committee and a summary of its key activities in the discharge of its functions and duties for the financial year ended 30 June 2020 ("FY 2020") are set out in the Board Audit & Risk Management Committee Report in this Annual Report.

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 general 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 of them have complied with the minimum requirement of at least 50% attendance at Board meetings pursuant to the MMLR.

The Board meets quarterly and receives timely notices of matters to be discussed. Additional meetings may be convened on an ad-hoc basis as and when any direction or decision is required expeditiously from the Board between the scheduled meetings.

All directors are supplied with adequate and timely information prior to the Board meetings. The Manager has moved towards electronic Board reports to facilitate access to reports and to encourage a paperless environment for Board meetings. 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 as well as matters requiring the approval of the Board.

All directors have access to the advice and services of an experienced and qualified 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, Committee 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 year ended 30 June 2020 ("FY 2020"). Details of attendance of each director are as follows:

Directors	Attendance
YBhg Datuk Edmund Kong Woon Jun (<i>Resigned on 24 July 2020</i>)	8/8
YBhg Dato' Koh Hong Sun	8/8
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	8/8
Ms Lim Tau Kien (<i>Appointed on 25 July 2019</i>)	7/7
Ms Lim Chew Yan	8/8

Note: All attendances reflected were the number of meetings attended during the directors' tenure of service for FY 2020.

Mr Raymond Choong Yee How was appointed to the Board post FY 2020 and as such, did not attend any of the Board meetings held during FY 2020.

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. An induction programme which includes visits to Tower REIT's various properties and meetings with Senior Management of the Manager is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Tower REIT's properties and business.

All directors of the Manager 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 abreast with the latest developments in the business environment and to enhance their skills and knowledge. The Board is updated on any material changes to relevant laws, regulations and accounting standards during Board meetings and is kept informed of available training programmes including any talks organised by the regulatory bodies.

The Board ensures that its members have access to appropriate continuing education programmes to stay updated on relevant developments or changes in laws and regulations and financial reporting standards, and to enhance their skills and strengthen their participation in Board deliberation. The directors are encouraged to attend relevant training programmes covering issues on corporate governance, finance, legal, risk management, information technology, cyber security, internal control and/or statutory/regulatory compliance, and property industry related matters.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

D. Commitment *cont'd*

During FY 2020, the directors of the Manager received regular briefings and updates on the Manager's businesses, operations, risk management, internal controls, corporate governance, finance and any material changes to relevant legislations, rules and regulations.

The directors 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 2020, 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 cyber security, Digital Economy and Capital Market, Corporate Governance in the Capital Market, Malaysian Financial Reporting Standards updates, Covid-19 pandemic, global development, Islamic Finance, Audit Oversight Board, Corporate Liability under Section 17A of the Malaysian Anti-Corruption Commission Act 2009 and other legal and regulatory developments.

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 was one new appointment to the Board during FY 2020 with the appointment of Ms Lim Tau Kien on 25 July 2019.

Post FY 2020, there were changes to the composition of the Board with the appointment of Mr Raymond Choong Yee How as the Chairman and director of the Manager on 24 July 2020 in place of Datuk Edmund Kong Woon Jun who resigned on the same date.

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

F. Strengthening Corporate Governance Culture

- Whistleblowing Policy

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

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

- Anti-Bribery and Corruption Policy

An Anti-Bribery and Corruption Policy has been established by the Manager and it provides a guidance on how to prevent, deal with and combat bribery and corrupt activities and issues that may arise in the course of business.

The Anti-Bribery and Corruption Policy which applies to all employees of the Manager, directors and any person who performs services for and on behalf of the Manager and Tower REIT, is published on Tower REIT website.

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

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS cont'd

G. Corporate Governance Initiatives

The following corporate governance initiatives were undertaken in FY 2020:

- The Board achieved gender diversity with a 40% female representation on the Board, following the appointment of Ms Lim Tau Kien as an INED to the Board;
- Timely amendments to the Deed to align it with the REIT Guidelines, MMLR and CMSA.

In tandem with the above, approval of the unitholders of Tower REIT was obtained at the last Annual General Meeting ("AGM") to amend the objective of Tower REIT to include investment in residential and industrial properties; and

- Establishment of an Anti-Bribery and Corruption Policy and a Whistleblowing Policy.

On 5 April 2018, the Malaysian Anti-Corruption Commission Act 2009 ("MACC Act") was amended to incorporate, among others, a new Section 17A on corporate liability on commercial organisations (including a listed issuer) for corruption offences committed by any persons associated with the organisation (such as its directors and employees) which took effect on 1 June 2020.

In line with Section 17A of the MACC Act, the MMLR was also amended to include the requirements for all listed issuers to have policies and procedures on anti-corruption and whistle-blowing.

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 Independent Non-Executive Director 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 2020, 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 2020 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 nominated by the Manager and appointed by the Trustee. The auditors appointed must be independent of the Manager and the Trustee. The remuneration of the 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. In accordance with the Malaysian Institute of Accountants, KPMG PLT rotates its engagement partner once every 7 years to ensure objectivity, independence and integrity of the audit opinions.

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 2020 in respect of statutory audit services rendered to Tower REIT amounted to RM55,000, and there was no non-audit fee incurred.

For FY 2020, the Committee has conducted an annual assessment on the performance, suitability, independence and objectivity of the external auditors, and no major concerns were noted. The external auditors also gave their assurance confirming their independence and objectivity throughout the conduct of the audit engagement including the internal processes undertaken by them to determine their independence.

C. Internal Control

The Board is committed to maintain a sound and effective system of internal controls and 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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT cont'd

Accountability and Audit cont'd

C. Internal Control cont'd

The Manager takes cognisance of recommendations to enhance internal controls made by the external auditors, KPMG PLT, and by the internal auditor in their audit reports issued during the financial year.

D. Management and Decision-Making Processes

The internal control and risk management processes of the Manager and Tower REIT are in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report for FY 2020, 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 year under review is adequate and effective. The Board has received assurances from the Chief Executive Officer of the Manager 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 actions 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 Tower REIT's risk appetite;
- identify the risks faced by 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 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.

CORPORATE GOVERNANCE OVERVIEW, RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT cont'd

Accountability and Audit cont'd

E. Risk Management cont'd

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.

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.

Each director is under a fiduciary duty to Tower REIT to act in its 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 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 2020 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 in the general meetings 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 general meetings.

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

In addition, unitholders and investors can have the following channel of communication with the CEO of the Manager to direct queries and provide feedback to the Manager:-

Name	: Mr Eusoffe Chua Song Yong
Tel No.	: 603-2726 1000
Fax No.	: 603-2726 1120
E-mail address	: glmreit@guocoland.com

C. AGM and other Unitholders' Meetings ("collectively the "General Meetings")

The Board regards the General Meetings as important forums for effective communication and proactive engagement between the Board and unitholders of Tower REIT.

The AGM provides an opportunity for the unitholders to seek and clarify any issues and to have a better understanding of the performance of Tower REIT. 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 October 2019 and the Unitholders' Meeting held on 30 June 2020 to approve the acquisition of Menara Guoco by Tower REIT.

In line with Paragraph 8.29A(1) of the MMLR, all resolutions put forth for unitholders' approval at the last AGM and Unitholders' Meeting were voted by poll and the voting results were announced at the said meetings and to Bursa Securities.

Tower REIT has adopted electronic voting for the conduct of poll on all resolutions at General Meetings.

This Corporate Governance Overview, Risk Management and Internal Control Statement is made in accordance with the resolution of the Board.

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

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 and reasonable resources to enable it to discharge its functions properly.

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 submitted 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 abstains 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.

The Committee meets with the external auditors and internal auditors, without the presence of management at least once annually.

ACTIVITIES

During the FY 2020, six (6) 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	6/6
YBhg Dato' Koh Hong Sun	6/6
Ms Lim Tau Kien (<i>Appointed on 25 July 2019</i>)	5/5

Note: All attendances reflected were the number of meetings attended during the member's tenure of service for FY 2020.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

cont'd

ACTIVITIES *cont'd*

The Committee carried out the following key activities during the FY 2020:

- 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 the Internal Audit Charter as part of its annual review and recommended to the Board for approval.
- Reviewed the Enterprise Risk Management (“ERM”) Framework and ERM risk profile.
- Met with the external auditors and discussed the Annual Audit Plan 2020 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.
- Evaluated the suitability, performance, independence and objectivity of the external auditors and their services.
- Reviewed and recommended to the Board for approval the audit fees payable to the external auditors in respect of services provided to Tower REIT.
- Reviewed the quarterly report on recurrent related party transactions of Tower REIT.
- Reviewed the proposed Unitholders’ Mandate involving recurrent related party transactions which are carried out by Tower REIT with Hong Leong Company (Malaysia) Berhad (the ultimate holding company of the Manager and a major unitholder of Tower REIT) and persons connected to them.
- Reviewed a related party transaction in relation to the proposed acquisition by MTrustee Berhad (“Trustee”), acting as Trustee for and on behalf of Tower REIT, from DC Offices Sdn Bhd of a 19-storey office building known as Menara Guoco for a cash consideration of RM242.1 million and recommend to the Board for approval.
- Met with the internal auditors and approved the annual audit plan and also reviewed the internal audit findings and recommendations.
- Reviewed the Board Audit & Risk Management Committee Report and the Statement on Risk Management and Internal Control and recommended to the Board for inclusion in the Annual Report 2019.
- Reviewed and recommended to the Board for approval the Whistleblowing Policy.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

cont'd

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.

The IA activities carried out during FY 2020 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 year.

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 RM179,000 for FY 2020.

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

FINANCIAL STATEMENTS

58	Statement of Financial Position
59	Statement of Comprehensive Income
60	Statement of Changes in Net Asset Value
61	Statement of Cash Flows
63	Notes to the Financial Statements

97	Statement by the Directors of the Manager
98	Statutory Declaration
99	Trustee's Report to the Unitholders
100	Independent Auditors' Report

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020 RM'000	2019 RM'000
Assets			
Non-current assets			
Plant and equipment	3	22,358	-
Investment properties	4	562,600	562,300
		584,958	562,300
Current assets			
Trade and other receivables	5	2,207	3,425
Deposits placed with licensed banks	6	1,100	5,662
Cash and bank balances	6	506	779
Total current assets		3,813	9,866
Total assets		588,771	572,166
Represented by:			
Unitholders' funds			
Unitholders' capital	7	285,345	285,345
Undistributed income – realised		61,969	69,009
Undistributed income – unrealised	8	185,992	185,722
		533,306	540,076
Liabilities			
Trade and other payables	9	2,957	2,639
Deferred tax liability	10	20,653	20,623
Total non-current liabilities		23,610	23,262
Trade and other payables	9	7,855	8,728
Borrowings	11	24,000	100
Total current liabilities		31,855	8,828
Total liabilities		55,465	32,090
Total unitholders' funds and liabilities		588,771	572,166
Net asset value ("NAV")		533,306	540,076
Number of units in circulation ('000)	7	280,500	280,500
		RM	RM
NAV per unit			
- Before income distribution		1.9013	1.9254
- After income distribution		1.8895	1.8861

The NAV as at the reporting date has taken into account distributions paid during the financial year. 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 63 to 96 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Revenue	12	21,604	44,054
Property operating expenses	13	(11,558)	(17,421)
Net rental income		10,046	26,633
Change in fair value of investment properties		300	275
Other income		101	418
Interest income		105	222
Total income		10,552	27,548
Manager's fees	14	(1,632)	(2,731)
Trustee's fee	15	(161)	(243)
Auditors' fees		(58)	(55)
Administrative expenses		(389)	(321)
Valuation fee		(35)	(47)
Interest expense		(487)	(251)
Total expenses		(2,762)	(3,648)
Income before tax		7,790	23,900
Income tax expense	16	(30)	(10,073)
Net income and total comprehensive income for the year/period		7,760	13,827
Total comprehensive income/(loss) for the year/period is made up as follows:			
Realised		7,490	23,625
Unrealised		270	(9,798)
		7,760	13,827
Earnings/(loss) per unit (sen)			
Realised		2.67	8.42
Unrealised		0.10	(3.49)
	17	2.77	4.93

The notes on pages 63 to 96 form an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Undistributed income			Total RM'000
		Unitholders' capital RM'000	Non- Distributable - unrealised RM'000	Distributable realised RM'000	
At 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	18	-	-	(7,854)	(7,854)
- 2018 first interim	18	-	-	(5,890)	(5,890)
- 2018 second interim	18	-	-	(5,610)	(5,610)
Decrease in net assets resulting from unitholders' transactions		-	-	(19,354)	(19,354)
At 30 June 2019/1 July 2019		285,345	185,722	69,009	540,076
Operations for the year ended 30 June 2020					
Net income for the year		-	270	7,490	7,760
Total comprehensive income for the year		-	270	7,490	7,760
Unitholders' transactions					
Distribution to unitholders					
- 2019 final	18	-	-	(11,024)	(11,024)
- 2020 interim	18	-	-	(3,506)	(3,506)
Decrease in net assets resulting from unitholders' transactions		-	-	(14,530)	(14,530)
At 30 June 2020		285,345	185,992	61,969	533,306
		Note 7	Note 8		

The notes on pages 63 to 96 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Cash flows from operating activities		
Income before tax	7,790	23,900
Adjustments for:		
Depreciation	248	-
Change in fair value of investment properties	(300)	(275)
Interest income	(105)	(222)
Interest expense	487	251
Operating profit before changes in working capital	8,120	23,654
Changes in working capital:		
Trade and other receivables	1,218	(2,405)
Trade and other payables	(555)	250
Net cash from operating activities	8,783	21,499
Cash flows from investing activities		
Acquisition of property, plant and equipment	(22,606)	-
Payment for enhancement of investment properties	-	(25)
Withdrawal of deposit pledged as security	300	-
Interest received	105	222
Net cash (used in)/from investing activities	(22,201)	197
Cash flows from financing activities		
Distribution paid to unitholders	(14,530)	(19,354)
Interest paid	(487)	(251)
Proceeds from borrowings	26,300	7,000
Repayment of borrowings	(2,400)	(7,000)
Net cash from/(used in) financing activities	8,883	(19,605)
Net (decrease)/increase in cash and cash equivalents	(4,535)	2,091
Cash and cash equivalents at beginning of year/period	6,141	4,050
Cash and cash equivalents at end of year/period	1,606	6,141

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

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	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Cash and bank balances	6	506	779
Deposits placed with licensed banks	6	1,100	5,662
	6	1,606	6,441
Deposits pledged as security		-	(300)
		1,606	6,141

The notes on pages 63 to 96 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 principal Deed dated 17 February 2006 as amended and restated by the restated Deed dated 29 May 2014 and the second restated Deed dated 23 October 2019 ("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 year.

The financial statements were approved by the Board of Directors of GLM REIT Management Sdn. Bhd. on 23 July 2020.

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 amended and restated by the restated Deed dated 29 May 2014 and the second restated deed dated 23 October 2019, 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 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*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 June 2020

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts* [#]

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 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)* #
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework* #
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)* #

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 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for amendments marked as ["#"] which are not applicable to Tower REIT.
- from the annual period beginning 1 July 2020 for those amendment that is effective for annual periods beginning on or after 1 June 2020.
- from the annual period beginning on 1 July 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022, except for amendments marked as ["#"] which are not applicable to Tower REIT.

Tower REIT does not plan to apply MFRS 17, *Insurance Contracts* as it is not applicable to the Tower REIT.

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

1. Basis of preparation cont'd

(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 year 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 4 - 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 16, Leases, there are changes to the accounting policies applied to lease contracts entered into by Tower REIT as compared to those applied in previous financial statements. As Tower REIT is the lessor, hence no material financial impact to prior years arising from the adoption of the new accounting standards.

(a) Financial instruments

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

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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

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.

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

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.

All financial assets are subject to impairment assessment (see Note 2(f)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

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 transferred, or control of the asset is not retained or substantially all of the 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 of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) 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) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment, except for assets under construction, are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain and loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to Tower REIT, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use. Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

- Fittings 10 years

Depreciation methods, useful lives and residual values are reviewed at end of the reporting year, and adjusted as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(c) 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 12 March 2020 and 16 March 2020 on Menara HLX (formerly known as Menara HLA) and Plaza Zurich (formerly known as HP Tower) respectively.

(d) Leases

Tower REIT has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(d) Leases cont'd

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Tower REIT assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, Tower REIT allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which Tower REIT is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

As a lessor

When Tower REIT acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, Tower REIT makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, Tower REIT applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

Tower REIT recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. Tower REIT uses the interest rate implicit in the lease to measure the net investment in the lease.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(d) Leases cont'd

Current financial year cont'd

(ii) Recognition and initial measurement cont'd

As a lessor cont'd

When Tower REIT is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which Tower REIT applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent measurement

As a lessor

Tower REIT recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "revenue".

(e) 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.

(f) Impairment

Financial assets

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 for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. 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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(f) Impairment cont'd

Financial assets cont'd

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.

(g) 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.

(h) 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.

(i) Revenue and other income

(i) Service charge

Service charge is recognised in profit or loss upon services being rendered to the tenants over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(i) Revenue and other income cont'd

(ii) Car park income

Car park income is recognised in profit or loss upon services being rendered.

(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.

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(k) 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.

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.

(l) 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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. Significant accounting policies cont'd

(I) Fair value measurements cont'd

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.

3. Plant and equipment

	Fittings RM'000	Capital Work- in-Progress RM'000	Total RM'000
Cost			
At 1 January 2018/30 June 2019/1 July 2019	-	-	-
Additions	3,082	19,524	22,606
At 30 June 2020	3,082	19,524	22,606
Accumulated depreciation			
At 1 January 2018/30 June 2019/1 July 2019	-	-	-
Charge for the year	248	-	248
At 30 June 2020	248	-	248
Carrying amounts			
At 1 July 2019	-	-	-
At 30 June 2020	2,834	19,524	22,358

The plant and equipment are not subject to operating lease.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

4. Investment properties

	2020 RM'000	2019 RM'000
At 1 July/1 January	562,300	562,000
Enhancements/capital expenditure	-	25
Changes in fair value of investment properties	300	275
At 30 June	562,600	562,300

Description of property	Tenure of land	Location	Existing use	Fair value RM'000	Total cost RM'000	Percentage of fair value to net asset value %
Menara HLX (formerly known as Menara HLA)	Freehold	Kuala Lumpur	Office	342,300	222,734	64
Plaza Zurich*	Freehold	Kuala Lumpur	Office	220,300	133,434	41
				562,600	356,168	

* A lienholder caveat has been entered by Public Bank Berhad over the property (Note 11).

The operating lease payments to be received are as follows:

	2020 RM'000
Less than one year	8,724
One to two years	4,880
Two to three years	577
Three to four years	-
Four to five years	-
Total undiscounted lease payments	14,181
	2019 RM'000
Less than one year	7,923
Between one and five years	4,073
Total undiscounted lease payments	11,996

NOTES TO THE FINANCIAL STATEMENTS

cont'd

4. Investment properties cont'd

Fair value information

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2020				
Menara HLX	-	-	342,300	342,300
Plaza Zurich	-	-	220,300	220,300
	-	-	562,600	562,600
2019				
Menara HLX	-	-	342,200	342,200
Plaza Zurich	-	-	220,100	220,100
	-	-	562,300	562,300

Level 3 fair value

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

	2020 RM'000	2019 RM'000
At 1 July/1 January	562,300	562,000
Enhancements/capital expenditure	-	25
Changes in fair value recognised in profit or loss	300	275
At 30 June	562,600	562,300

NOTES TO THE FINANCIAL STATEMENTS

cont'd

4. Investment properties cont'd

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
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% (2019: 6.00% and 6.50%).	<p>Expected market rental rate (p.s.f):</p> <p>i) Office: RM3.78 – RM7.80 (2019: RM4.00 – RM6.90)</p> <p>ii) Retail: RM4.25 – RM11.00 (2019: RM7.60 – RM12.50)</p> <p>Outgoing (p.s.f) RM1.21 – RM1.37 (2019: RM1.28 – RM1.37)</p> <p>Term yield 6.00% (2019: 6.00%)</p> <p>Reversionary yield: 6.25% – 6.50% (2019: 6.25% – 6.50%)</p> <p>Void periods 10% (2019: 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

5. Trade and other receivables

	2020 RM'000	2019 RM'000
Trade receivables	395	243
Other receivables, deposits and prepayments	1,812	3,182
	2,207	3,425

- (i) Included in trade receivables are rental outstanding from companies related to the Manager, amounting to RM6,072 (2019: RM5,115).
- (ii) Included in other receivables are amount due to the Manager of RM nil (2019: RM10,748) which is unsecured, interest free and payable on demand.

6. Cash and cash equivalents

	2020 RM'000	2019 RM'000
Deposits placed with licensed banks	1,100	5,362
Cash and bank balances	506	779
	1,606	6,141
Deposits pledged as security	-	300
	1,606	6,441

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

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

	2020 RM'000	2019 RM'000
Cash and bank balances	500	680
Deposits placed with a licensed bank	1,100	900
	1,600	1,580

NOTES TO THE FINANCIAL STATEMENTS

cont'd

7. Unitholders' capital

	2020 '000	2019 '000
Issued and fully paid-up units	280,500	280,500
	2020 RM'000	2019 RM'000
Issued and fully paid-up paid units	285,345	285,345

As at 30 June 2020, the Manager did not hold any units in Tower REIT. However, the related parties of the Manager held units in Tower REIT as follows:

	2020		2019	
	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	45,273	60,769	53,477
Hong Leong Assurance Berhad	57,771	43,039	57,771	50,838
Asia Fountain Investment Company Limited	14,000	10,430	14,000	12,320
Associated Land Sendirian Berhad	13,409	9,990	13,409	11,800
Hong Leong Investment Bank Berhad	5,887	4,386	5,887	5,181
Dato' Poh Yang Hong	-**	-**	3,085*	2,714

* Indirect holdings

** Resigned as a Director on 25 July 2019

The market value is determined by multiplying the number of units with the market closing price of RM0.745 (2019: RM0.880) per unit as at 30 June 2020.

8. Unrealised undistributed income

	2020 RM'000	2019 RM'000
Cumulative net change arising from fair value movement of:		
- investment properties	185,992	185,722

NOTES TO THE FINANCIAL STATEMENTS

cont'd

9. Trade and other payables

	2020 RM'000	2019 RM'000
Non-current		
Tenants' deposits	2,957	2,639
	2,957	2,639
Current		
Trade		
Trade payables	314	686
Tenants' deposits	2,716	4,595
	3,030	5,281
Non-trade		
Other payables and accrued expenses	4,825	3,447
Total current	7,855	8,728
Total	10,812	11,367

Included in other payables and accrued expenses are amounts due to the Manager and the Trustee of RM 119,707 (2019: RM nil) and RM13,588 (2019: RM13,304) 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:

	2020 RM'000	2019 RM'000
Payable within 12 months	503	273
Payable after 12 months	257	486
	760	759

10. Deferred tax liability

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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

10. Deferred tax liability cont'd

Nevertheless, pursuant to Real Property Gains Tax Act 1976 ('the Act'), as amended by the Finance Act 2019 which came into effect from 1 January 2020, gain arising from its investment properties would be subjected RPGT at a rate which is 10%.

Deferred tax liability is attributable to the following:

	2020 RM'000	2019 RM'000
Investment properties	20,653	20,623

11. Borrowings

		2020 RM'000	2019 RM'000
Current			
Term loan	11.1	-	100
Revolving credit	11.2	24,000	-
		24,000	100

A lienholder caveat has been entered by the lender over Plaza Zurich (Note 4).

11.1 The interest on term loan were at rates ranging from 3.15% to 4.05% (2019: 3.97% to 4.22%) per annum during the financial year. The term loan has been fully settled during the financial year.

11.2 The interest on revolving credit were at rates ranging from 3.15% to 4.05% (2019: nil) per annum during the financial year. The revolving credit is repayable upon its maturity on 20 July 2020.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

11. Borrowings cont'd

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

	At 1 July/ 1 January RM'000	Net changes from financing cash flows RM'000	Interest expense RM'000	At 30 June RM'000
2020				
Term loan	100	(104)	4	-
Revolving credit facility	-	23,517	483	24,000
	100	23,413	487	24,000
2019				
Term loan	100	(6)	6	100
Revolving credit facility	-	(245)	245	-
	100	(251)	251	100

12. Revenue

	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Rental income	12,204	25,705
Service charge	5,998	10,464
Car park income	2,148	4,311
Others	1,254	3,574
	21,604	44,054

NOTES TO THE FINANCIAL STATEMENTS

cont'd

12. Revenue cont'd

12.1 Transaction price allocated to the remaining performance obligations

The following table shows revenue from performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The disclosure is only providing information for contracts that have a duration of more than one year.

Year ended 30 June 2020	2021 RM'000	2022 RM'000	2023 RM'000	Total RM'000
Service charge	3,238	2,392	213	5,843

01.01.2018 to 30.06.2019	2020 RM'000	2021 RM'000	2022 RM'000	Total RM'000
Service charge	2,193	1,643	656	4,492

The REIT applies the following practical expedients:

- exemption on disclosure of information on remaining performance obligation that have original expected durations of one year or less.
- exemption not to adjust the promised amount of consideration for the effects of a significant financing component when the period between the transfer of a promised service to a customer and when the customer pays for that service is one year or less.

13. Property operating expenses

	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Assessment	2,565	4,059
Service contracts and maintenance	3,907	5,346
Property management fees	324	482
Utilities	3,284	5,503
Others	1,478	2,031
	11,558	17,421

Property management fees of RM324,360 (2019: RM482,640) were charged by property managers, in accordance with the Valuers, Appraisers and Estate Agent Acts 1981 with permissible discount.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

14. Manager's fees

Pursuant to the Deed constituting Tower REIT, the Manager's fees consist of a base fee of up to 0.75% per annum of the gross asset value and a performance fee 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.

	Year ended 30.06.2020		01.01.2018 to 30.06.2019	
	RM'000	%	RM'000	%
Base Fee and % of Gross Asset Value	1,268	0.22	1,873	0.33
Performance Fee and % of Net Property Income	364	3.35	858	3.22
	<u>1,632</u>		<u>2,731</u>	

15. Trustee's fee

Pursuant to the Deed constituting Tower REIT, the Trustee is entitled to receive a fee of 0.03% (2019: 0.03%) per annum of the net asset value of Tower REIT with a cap of RM200,000 (2019: RM200,000).

Year ended 30 June 2020	RM'000
12-month period	<u>161</u>
01.01.2018 to 30.06.2019	RM'000
12-month period	163
6-month period	80
	<u>243</u>

16. Income tax expense

	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Current tax expense		
- under provision in prior years	-	-
Deferred tax expense		
- current year/period	30	10,073
	<u>30</u>	<u>10,073</u>
Total income tax expense	<u>30</u>	<u>10,073</u>

NOTES TO THE FINANCIAL STATEMENTS

cont'd

16. Income tax expense cont'd

	Year ended 30.06.2020	01.01.2018 to 30.06.2019
	RM'000	RM'000
Reconciliation of tax expense		
Income before tax	7,790	23,900
Income tax using Malaysian tax rate of 24% (2019: 24%)	1,870	5,736
Non-deductible expenses	206	147
Non-taxable income	(42)	(66)
Effect of income exempted from tax	(2,004)	(5,817)
	30	-
Effect of changes in tax rate of RPGT to 10% (2019: 10%)	-	10,073
Total income tax expense	30	10,073

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 is 10%.

17. Earnings/(loss) per unit

The calculation of earnings/(loss) per unit is based on net income for the financial year of RM7,760,000 (2019: RM13,827,000) and on the number of units in circulation during the financial year of 280,500,000 (2019: 280,500,000).

18. Distribution to unitholders

	Gross/Net distribution per unit sen	Total amount RM'000	Date of payment
Year ended 30.06.2020			
2019 Final income distribution	3.93	11,024	28 August 2019
2020 Interim income distribution	1.25	3,506	28 February 2020
		<u>14,530</u>	

NOTES TO THE FINANCIAL STATEMENTS

cont'd

18. Distribution to unitholders cont'd

	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>	

On 23 July 2020, the Directors of the Manager declared a final income distribution of 1.18 sen (2019: 3.93 sen) per unit amounting to RM3,309,900 (2019: RM11,023,650) in respect of the financial year ended 30 June 2020. The distribution will be recognised in the subsequent year.

The total income distribution for the financial year ended 30 June 2020 which comprises the first interim income distribution of 1.25 sen (2019: 2.10 sen & 2.00 sen) per unit and the proposed final income distribution of 1.18 sen (2019: 3.93 sen) per unit are from the following sources:

	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Net rental income	10,046	26,633
Interest income	105	222
Other income	101	418
	<u>10,252</u>	<u>27,273</u>
Less: Expenses	(2,762)	(3,648)
	<u>7,490</u>	<u>23,625</u>
Less: Current year's undistributed gain	(674)	(1,101)
	<u>6,816</u>	<u>22,524</u>
Net income distribution		
- First interim income distribution of 1.25 sen per unit paid on 28 February 2020 (2019: 2.10 sen per unit paid on 30 August 2018)	3,506	5,890
- Second interim income distribution of nil sen per unit (2019: 2.00 sen per unit paid on 28 November 2018)	-	5,610
- Final income distribution declared after the reporting year of 1.18 sen per unit payable on 28 August 2020 (2019: 3.93 sen per unit paid on 28 August 2019)	3,310	11,024
	<u>6,816</u>	<u>22,524</u>

NOTES TO THE FINANCIAL STATEMENTS

cont'd

18. Distribution to unitholders cont'd

	Year ended 30.06.2020	01.01.2018 to 30.06.2019
	RM'000	RM'000
Income distribution per unit		
- First Interim* (sen)	1.25 ^{\$}	2.10 [#]
- Second Interim* (sen)	-	2.00 [#]
- Final* (sen)	1.18 [@]	3.93 ^{\$}
	2.43	8.03

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

	Withholding tax rate		
	2020 [@]	2019 ^{\$}	2018 [#]
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.

19. Management expense ratio

	Year ended 30.06.2020	01.01.2018 to 30.06.2019
Management expense ratio ("MER") (%)	0.42	0.62

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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

20. 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.

	Year ended 30.06.2020	01.01.2018 to 30.06.2019
	RM'000	RM'000
Rental charged	2,493	3,347
Interest income	75	128

The above transaction has been established based on negotiated terms.

The outstanding balances arising from the above transaction have been disclosed in Notes 5 and 9 to the financial statements.

21. Financial instruments

21.1 Categories of financial instruments

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

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

	Carrying amount	AC/ (FL)
	RM'000	RM'000
2020		
Financial assets		
Trade and other receivables	2,192	2,192
Deposits placed with licensed banks	1,100	1,100
Cash and bank balances	506	506
	3,798	3,798
Financial liabilities		
Borrowings	(24,000)	(24,000)
Trade and other payables	(10,812)	(10,812)
	(34,812)	(34,812)

NOTES TO THE FINANCIAL STATEMENTS

cont'd

21. Financial instruments cont'd

21.1 Categories of financial instruments cont'd

	Carrying amount RM'000	AC/ (FL) RM'000
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
	<u>9,838</u>	<u>9,838</u>
Financial liabilities		
Borrowings	(100)	(100)
Trade and other payables	(11,367)	(11,367)
	<u>(11,467)</u>	<u>(11,467)</u>

21.2 Net gain and loss arising from financial instruments

	Year ended 30.06.2020 RM'000	01.01.2018 to 30.06.2019 RM'000
Net gain/(loss) arising on:		
- Loans and receivables	105	222
- Financial liabilities at amortised cost	(487)	(251)

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.

Tower REIT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

NOTES TO THE FINANCIAL STATEMENTS

cont'd

21. Financial instruments cont'd

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.

Recognition and measurement of impairment loss

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables.

	Carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2020			
Not past due	146	-	146
Past due 31 – 60 days	145	-	145
Past due 61 – 90 days	19	-	19
Past due 91 – 120 days	-	-	-
>121 days	85	-	85
Unallocated receipts	-	-	-
	395	-	395

NOTES TO THE FINANCIAL STATEMENTS

cont'd

21. Financial instruments cont'd

21.4 Credit risk cont'd

Receivables cont'd

Recognition and measurement of impairment loss cont'd

	Carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2019			
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)
	<u>243</u>	<u>-</u>	<u>243</u>

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

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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

21. Financial instruments cont'd

21.5 Liquidity risk cont'd

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
2020					
<i>Non-derivative financial liabilities</i>					
Revolving credit	24,000	3.15 - 4.05	24,000	24,000	-
Tenants' deposits	5,673	-	5,673	2,716	2,957
Trade and other payables	5,139	-	5,139	5,139	-
	<u>34,812</u>		<u>34,812</u>	<u>31,855</u>	<u>2,957</u>
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>

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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

21. Financial instruments cont'd

21.6 Market risk cont'd

21.6.1 Interest rate risk cont'd

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 year was:

	2020 RM'000	2019 RM'000
Fixed rate instruments		
<i>Financial assets</i>		
Deposits placed with licensed banks	1,100	5,662
Floating rate instruments		
<i>Financial liabilities</i>		
Revolving credit	(24,000)	-
Term loan	-	(100)
	(24,000)	(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 year 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
2020										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	(5,673)	(5,673)	(5,673)	(5,673)
Borrowings	-	-	-	-	-	-	(24,000)	(24,000)	(24,000)	(24,000)
	-	-	-	-	-	-	(29,673)	(29,673)	(29,673)	(29,673)
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)

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 11 to the financial statements.

	Note	2020 RM'000	2019 RM'000
Gross borrowings	11	24,000	100
Total assets		588,771	572,166
Gearing		4.08%	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		Property
	Year ended	01.01.2018 to	
	30.06.2020	30.06.2019	
	RM'000	RM'000	
Zurich Insurance Group	2,734	-	Plaza Zurich

24. Capital commitments

	2020	2019
	RM'000	RM'000
Investment properties		
Contracted but not provided for	247,304	6,329

Included in the capital commitments above is a proposed acquisition of an investment property. On 2 March 2020, MTrustee Berhad, the trustee of Tower REIT, has entered into a conditional sale and purchase agreement with DC Offices Sdn. Bhd. for the acquisition of a 19-storey office building known as Menara Guoco for a cash consideration of RM242.1 million. The acquisition is expected to be completed by August 2020.

25. Comparative figures

During the previous 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 eighteen months ended 30 June 2019 are not comparable to that for the current year of twelve months ended 30 June 2020.

STATEMENT BY THE DIRECTORS OF THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 58 to 96 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 2020 and of its financial performance and cash flows for the year 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: 23 July 2020

STATUTORY DECLARATION

I, Leong Chain Hong, 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 58 to 96 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 Leong Chain Hong, MIA No.: 13198, at Kuala Lumpur on 23 July 2020.

LEONG CHAIN HONG

Before me,

Pesuruhjaya Sumpah
Commissioner for Oaths
Kuala Lumpur

TRUSTEE'S REPORT

TO THE UNITHOLDERS OF TOWER REAL ESTATE INVESTMENT TRUST (ESTABLISHED IN MALAYSIA)

We have acted as Trustee of Tower Real Estate Investment Trust ("Tower REIT") for the financial year ended 30 June 2020. 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 2.43 sen per unit for the financial year ended 30 June 2020 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: 23 July 2020

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF TOWER REAL ESTATE INVESTMENT TRUST (INCORPORATED IN MALAYSIA)

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 2020, and the statements of comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 58 to 96.

In our opinion, the financial statements give a true and fair view of the financial position of Tower REIT as at 30 June 2020, and of its financial performance and cash flows for the year 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 auditors' 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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(c) – significant accounting policy: investment property and Note 4 – 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 4 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
(INCORPORATED IN MALAYSIA)
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.

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 annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of Tower REIT or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 and International Financial Reporting Standards. 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.

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF TOWER REAL ESTATE INVESTMENT TRUST
(INCORPORATED IN MALAYSIA)
cont'd

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.

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.

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF TOWER REAL ESTATE INVESTMENT TRUST
(INCORPORATED IN MALAYSIA)
cont'd

Auditors' Responsibilities for the Audit of the Financial Statements *cont'd*

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, actions taken to eliminate threats or safeguards applied.

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: 23 July 2020

OTHER INFORMATION

ANALYSIS OF UNITHOLDINGS AS AT 3 AUGUST 2020

DISTRIBUTION SCHEDULE OF UNITHOLDERS

Size of Holding	No. of Unitholders	% of Unitholders	No. of Units Held	% of Units Held
Less than 100	14	0.51	300	0.00
100 – 1,000	422	15.36	303,200	0.11
1,001 – 10,000	1,314	47.84	7,477,400	2.66
10,001 – 100,000	806	29.34	28,945,000	10.32
100,001 – less than 5% of issued units	189	6.88	125,234,300	44.65
5% and above of issued units	2	0.07	118,539,800	42.26
	2,747	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>	4,132,500	1.47
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. Lian Mong Yee @ Lian Mung Yee	3,013,400	1.08
12. Citigroup Nominees (Tempatan) Sdn Bhd - <i>MCIS Insurance Berhad (Life Par FD)</i>	2,372,200	0.85
13. Tan Kim Chuan	1,574,100	0.56

OTHER INFORMATION

cont'd

ANALYSIS OF UNITHOLDINGS AS AT 3 AUGUST 2020 *cont'd*

LIST OF THIRTY LARGEST UNITHOLDERS *cont'd*

	Name of Unitholders	No. of Units	%
14.	CGS-CIMB Nominees (Asing) Sdn Bhd - <i>Exempt AN for CGS-CIMB Securities (Singapore) Pte Ltd (Retail Clients)</i>	1,468,200	0.52
15.	CGS-CIMB Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Lim Chen Yik (Penang-CL)</i>	1,465,000	0.52
16.	AllianceGroup Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Law Kiu Kiong (6000710)</i>	1,454,800	0.52
17.	Hong Leong Foundation	1,313,800	0.47
18.	Citigroup Nominees (Tempatan) Sdn Bhd - <i>MCIS Insurance Berhad (ANN FD)</i>	1,124,000	0.40
19.	Gan Peoy Hong	1,116,900	0.40
20.	Ong Ee Nah	1,100,000	0.39
21.	Lim Kew Seng	1,065,000	0.38
22.	Goh Siew Cheng	1,048,200	0.37
23.	Yap Ah Ngah @ Yap Neo Nya	1,000,000	0.36
24.	HLIB Nominees (Tempatan) Sdn Bhd - <i>Pledged Securities Account for Ting Ching Kok (CCTS)</i>	931,700	0.33
25.	Citigroup Nominees (Tempatan) Sdn Bhd - <i>MCIS Insurance Berhad (SHH FD)</i>	913,700	0.33
26.	Michael Ng Hing Hiap @ Ng Heng Hock	900,000	0.32
27.	Chow Hon Keong	869,200	0.31
28.	CIMSEC Nominees (Tempatan) Sdn Bhd - <i>CIMB for RAM Holdings Berhad (PB)</i>	821,900	0.29
29.	Ling Thik Ping	713,700	0.26
30.	Tan Chong Pen	676,000	0.24
		205,705,600	73.34

OTHER INFORMATION

cont'd

ANALYSIS OF UNITHOLDINGS AS AT 3 AUGUST 2020 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 - As Beneficial Owner	57,771,000	20.60

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AS AT 3 AUGUST 2020

Subsequent to the financial year ended 30 June 2020, 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

Save as disclosed below, there was no material contract entered into by Tower REIT that involved the Directors of the Manager or major unitholders of Tower REIT during the financial year under review:

- Conditional Sale and Purchase Agreement dated 2 March 2020 entered between the MTrustee Berhad, the trustee of Tower REIT and DC Offices Sdn Bhd ("DC Offices"), an indirect wholly-owned subsidiary of GuocoLand (Malaysia) Berhad, for the proposed acquisition of an office building known as Menara Guoco from DC Offices for a cash consideration of RM242.1 million.

SANCTION AND/OR PENALTIES

There was no public sanction or penalty imposed on the Manager by the relevant regulatory bodies during the financial year under review.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of the unitholders of Tower Real Estate Investment Trust ("Tower REIT") will be held at Beyond4 Digital Campus, Level 6, Menara HLX, No. 3, Jalan Kia Peng, 50450 Kuala Lumpur on Tuesday, 13 October 2020 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 year ended 30 June 2020.

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions as Ordinary 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 Renewal Of 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 Renewal Of 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 the Circular to Unitholders dated 28 August 2020 ("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 Renewal Of 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 Renewal Of RRPT Mandate."

(Resolution 3)

NOTICE OF ANNUAL GENERAL MEETING

cont'd

5. 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 (SSM PC No. 201908001413) (MAICSA 7030413)
Company Secretary

Kuala Lumpur
 28 August 2020

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 6 October 2020 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 not 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 (1) 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, 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 issued units 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 the 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 the Manager at the last AGM of Tower REIT held on 17 October 2019 and which will lapse at the conclusion of the forthcoming Eighth 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.

NOTICE OF ANNUAL GENERAL MEETING

cont'd

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 Renewal Of RRPT Mandate**

The Proposed Renewal Of RRPT Mandate, if passed, will give a renewed 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, in the Manager's opinion, detrimental to the minority unitholders of Tower REIT.

Detailed information on the Proposed Renewal Of RRPT Mandate is set out in the Circular to Unitholders dated 28 August 2020 which is despatched together with Tower REIT's 2020 Annual Report.

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 Eighth Annual General Meeting of unitholders of Tower REIT to be held at Beyond4 Digital Campus, Level 6, Menara HLX, No. 3, Jalan Kia Peng, 50450 Kuala Lumpur on Tuesday, 13 October 2020 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 in 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 renewal of 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		

Dated this _____ day of _____ 2020

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 6 October 2020 shall be entitled to attend this meeting or appoint proxy(ies) to attend and to 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 (1) 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 presented

- 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 Eighth 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

Registration No. 200401020808 (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 (Registration No. 200401020808 (659312-H))

The Manager of Tower Real Estate Investment Trust

Level 13, Menara Guoco

Damansara City

No. 6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel : 03-2726 1000

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