YTL HOSPITALITY REIT

BUILDING THE RIGHT THING

Annual Report **2017**

YTL HOSPITALITY REIT

managed by
PINTAR PROJEK SDN BHD
(314009-W)

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ABOUT YTL HOSPITALITY REIT

YTL Hospitality REIT has a market capitalisation of approximately RM2,011 million (as at 30 June 2017) with a wide portfolio of prime hotel properties. The hospitality assets range from business to luxury hotels and are spread across a range of unique locations worldwide. In Malaysia, these include the JW Marriott Hotel Kuala Lumpur, The Ritz-Carlton, Kuala Lumpur – Hotel Wing (previously known as The Ritz-Carlton, Kuala Lumpur), The Ritz-Carlton, Kuala Lumpur – Suite Wing (previously known as The Residences at The Ritz-Carlton, Kuala Lumpur), the Pangkor Laut, Tanjong Jara and Cameron Highlands resorts and the Vistana chain of hotels in Kuala Lumpur, Penang and Kuantan. YTL Hospitality REIT's international portfolio comprises Hilton Niseko Village in Japan and the Sydney Harbour, Brisbane and Melbourne Marriott hotels in Australia.

YTL Hospitality REIT's principal objectives are to provide unitholders with stable cash distributions through owning and investing in yield accretive real estate assets. This provides potential for sustainable growth in its long term unit value, rewarding unitholders with noticeable returns.

YTL Hospitality REIT was listed on 16 December 2005 on the Main Market of Bursa Malaysia Securities Berhad under the name Starhill Real Estate Investment Trust, and consisted of prime retail estate properties within the Golden Triangle of Kuala Lumpur – the JW Marriott Hotel Kuala Lumpur, Starhill Gallery and parcels in Lot 10 Shopping Centre. Its principal investment strategy was investing in a diversified portfolio of retail, office and hospitality real estate assets, with an added focus on retail and hotel properties. In 2007, the REIT added part of The Ritz-Carlton, Kuala Lumpur – Suite Wing (previously known as The Residences at The Ritz-Carlton, Kuala Lumpur) to its portfolio.

In 2009, the Trust embarked on a rationalisation exercise to reposition itself as a pure play hospitality REIT, focused on building a class of hotel and hospitality-related assets. The first stage of the exercise was completed in June 2010 and involved disposing the REIT's retail properties (Starhill Gallery and parcels in Lot 10 Shopping Centre) to Starhill Global Real Estate Investment Trust in Singapore.

YTL Hospitality REIT subsequently acquired 9 additional hotel properties in November and December 2011, namely, the Pangkor Laut, Tanjong Jara and Cameron Highlands resorts, The Ritz-Carlton, Kuala Lumpur – Hotel Wing (previously known as The Ritz-Carlton, Kuala Lumpur), the remainder of The Ritz-Carlton, Kuala Lumpur – Suite Wing (previously known The Residences at The Ritz-Carlton, Kuala Lumpur), the Vistana chain of hotels in Kuala Lumpur, Penang and Kuantan, and Hilton Niseko Village in Japan. The REIT's international portfolio was further strengthened with the acquisitions of the Sydney Harbour, Brisbane and Melbourne Marriott hotels in Australia in November 2012. This extended the geographical scope of the REIT and significantly enhanced brand outreach, ultimately raising its appeal to existing and new investors.

YTL Hospitality REIT was established by a trust deed entered into on 18 November 2005 (as restated by the deed dated 3 December 2013) ("Restated Deed") between Pintar Projek Sdn Bhd ("Pintar Projek") and Maybank Trustees Berhad, as manager and trustee, respectively, of YTL Hospitality REIT. The Restated Deed was amended by a supplemental trust deed entered into between Pintar Projek and Maybank Trustees Berhad on 17 September 2014.

PROPERTY PORTFOLIO

The composition of YTL Hospitality REIT's investment portfolio as at 30 June 2017 is as follows:-

	RM '000	%
Real Estate - Commercial		
➤ JW Marriott Hotel Kuala Lumpur	411,000	11
➤ The Ritz-Carlton, Kuala Lumpur – Suite Wing *(previously known as The Residences at The Ritz-Carlton, Kuala Lumpur)*	301,000	8
➤ The Ritz-Carlton, Kuala Lumpur – Hotel Wing *(previously known as The Ritz-Carlton, Kuala Lumpur)*	341,000	9
➤ Vistana Penang Bukit Jambul	117,000	3
➤ Vistana Kuala Lumpur Titiwangsa	128,300	3
➤ Vistana Kuantan City Centre	88,000	2
➤ Pangkor Laut Resort	116,100	3
➤ Tanjong Jara Resort	101,100	3
➤ Cameron Highlands Resort	60,000	1
➤ Hilton Niseko Village	274,147	7
➤ Sydney Harbour Marriott	1,383,660	35
➤ Brisbane Marriott	279,907	7
➤ Melbourne Marriott	258,277	7
	3,859,491	99
Deposits with licensed financial institutions	51,051	1
Total	3,910,542	100

ABOUT THE MANAGER

Pintar Projek was incorporated in 1994 and is a 70%-owned subsidiary of YTL Land Sdn Bhd, which is a wholly-owned subsidiary of YTL Corporation Berhad. Pintar Projek's Board of Directors and key personnel comprise competent and capable individuals that have extensive experience in their respective fields of expertise.

PROPERTY PORTFOLIO

JW MARRIOTT HOTEL KUALA LUMPUR

Address/Location
No. 183, Jalan Bukit Bintang, 55100 Kuala Lumpur.

Description
A 5-star hotel with 569 rooms located on part of an 8-level podium block and entire 24-level tower block of Starhill Gallery together with car park bays located partially at basement 1 and 4 and the entire basement 2, 3 and 5 of JW Marriott Hotel Kuala Lumpur.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 20 years**
Title details	**Grant No. 28678/M1/B5/1, within Parcel No. 1, Storey No. B5 of Building No. M1 and 8 accessory parcels for Lot No. 1267 Section 67, Town and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**490 bays**
Lessee	**Star Hill Hotel Sdn. Bhd.**
Car park operator	**YTL Land Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 31 December 2023.**
Date of acquisition	**16 December 2005**
Cost of acquisition	**RM331,024,096**
Market value	**RM411,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM411,000,000**

PROPERTY PORTFOLIO

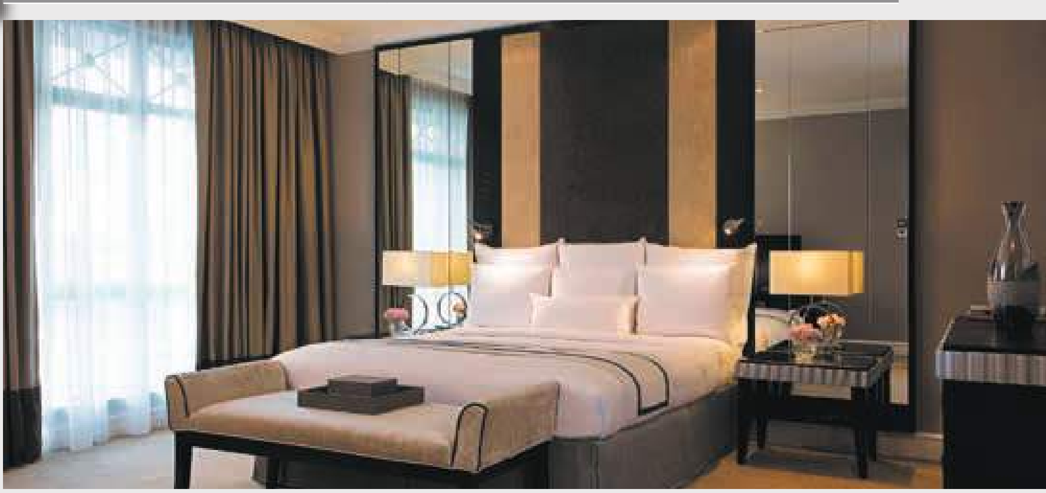
THE RITZ-CARLTON, KUALA LUMPUR – SUITE WING (PARCEL 1)

(PREVIOUSLY KNOWN AS THE RESIDENCES AT THE RITZ-CARLTON, KUALA LUMPUR (PARCEL 1))

Address/Location
No. 168, Jalan Imbi, 55100 Kuala Lumpur.

Description
60 units of hotel suites, 4 levels of commercial podium, 1 level of facilities deck and 2 levels of basement car parks, all located on part of a 38-storey block.

Property type	**Serviced apartment**
Age	**Approximately 12 years**
Title details	**Grant No. 47693 for Lot No. 1308 Section 67, Town and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**Total combined 187 bays from Parcel 1 and Parcel 2.**
Lessee	**Star Hill Hotel Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 30 June 2031.**
Date of acquisition	**16 May 2007**
Cost of acquisition	**RM125,000,000**
Market value	**RM204,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM204,000,000**



THE RITZ-CARLTON, KUALA LUMPUR – SUITE WING (PARCEL 2)

(PREVIOUSLY KNOWN AS THE RESIDENCES AT THE RITZ-CARLTON, KUALA LUMPUR (PARCEL 2))

Address/Location
No. 168, Jalan Imbi, 55100 Kuala Lumpur.

Description
50 units of hotel suites, 4 units of penthouses and 1 level of basement car park, all located on part of a 38-storey block.

Property type	**Serviced apartment**
Age	**Approximately 12 years**
Title details	**Grant No. 47693 for Lot No. 1308 Section 67, Town and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**Total combined 187 bays from Parcel 1 and Parcel 2.**
Lessee	**Star Hill Hotel Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 30 June 2031.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM73,000,000**
Market value	**RM97,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM97,000,000**

PROPERTY PORTFOLIO

CAMERON HIGHLANDS RESORT

Address/Location
By the Golf Course, 39000 Tanah Rata, Cameron Highlands, Pahang Darul Makmur.

Description
3-storey luxury resort with a 2-storey spa village block with 56 rooms and suites and a single storey building.

PROPERTY PORTFOLIO

Property type	**Resort**
Age	**Approximately 43 years**
Title details	**HSD 3881 for Lot No. PT 1812, Mukim of Tanah Rata, District of Cameron Highlands, State of Pahang.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**99-year leasehold expiring on 9 December 2108.**
Existing use	**Commercial building**
Parking spaces	**19 bays**
Lessee	**Cameron Highlands Resort Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM50,000,000**
Market value	**RM60,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM60,000,000**

PROPERTY PORTFOLIO

VISTANA KUALA LUMPUR TITIWANGSA

Address/Location
No. 9, Jalan Lumut, Off Jalan Ipoh, 50400 Kuala Lumpur.

Description
17-storey hotel building with 364 rooms and 2-storey basement car parks.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 22 years**
Title details	**GRN 33550, Lot No. 669 in Section 47, Town and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**125 bays**
Lessee	**Prisma Tulin Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM100,000,000**
Market value	**RM128,300,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Azmi & Co. Sdn. Bhd.**
Net book value	**RM128,300,000**

PROPERTY PORTFOLIO

VISTANA PENANG BUKIT JAMBUL

Address/Location

No. 213, Jalan Bukit Gambier, Bukit Jambul, 11950 Pulau Pinang.

Description

17-storey Hotel Wing with 238 hotel rooms and 26-storey Suite Wing with 189 hotel suites with an annexed 3-storey podium.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 18 years**
Title details	**HSD 9632, Lot No P.T. 1678, Mukim 13, District of Timor Laut, State of Pulau Pinang.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is restriction attached to the title.**
Status of holdings	**99-year leasehold expiring on 27 October 2094.**
Existing use	**Commercial building**
Parking spaces	**336 bays**
Lessee	**Business & Budget Hotels (Penang) Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM100,000,000**
Market value	**RM117,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM117,000,000**

PROPERTY PORTFOLIO

VISTANA KUANTAN CITY CENTRE

Address/Location
Jalan Teluk Sisek, 25000 Kuantan, Pahang.

Description
8-storey hotel building with 215 rooms.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 18 years**
Title details	**Lot No. 714, Section 37 held under PN No. 13491, Town and District of Kuantan, Pahang.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is restriction attached to the title.**
Status of holdings	**99-year leasehold expiring on 11 July 2092.**
Existing use	**Commercial building**
Parking spaces	**149 bays**
Lessee	**Business & Budget Hotels (Kuantan) Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM75,000,000**
Market value	**RM88,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM88,000,000**

PROPERTY PORTFOLIO

THE RITZ-CARLTON, KUALA LUMPUR - HOTEL WING

(PREVIOUSLY KNOWN AS THE RITZ-CARLTON, KUALA LUMPUR)

Address/Location

No. 168, Jalan Imbi, 55100 Kuala Lumpur.

Description

22-storey 5-star hotel building comprising 251 rooms with 4-storey basement car parks.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 20 years**
Title details	**Grant No. 26579 for Lot No. 225, Section 67, Town and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**153 bays**
Lessee	**East-West Ventures Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM250,000,000**
Market value	**RM341,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills (Malaysia) Sdn. Bhd.**
Net book value	**RM341,000,000**

PROPERTY PORTFOLIO

PANGKOR LAUT RESORT

Address/Location
Pangkor Laut Island, 32200 Lumut, Perak Darul Ridzuan.

Description
36 units of Garden Villas, 52 units of Hill Villas, 8 units of Beach Villas and 1 unit of Pavarotti Suite.

PROPERTY PORTFOLIO

Property type	**Resort**
Age	**Approximately 24 years.**
Title details	**PN 313713, Lot 12362 and PN 313715, Lot 12364, both in Mukim of Lumut, District of Manjung, State of Perak Darul Ridzuan.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is restriction attached to the title.**
Status of holdings	**99-year registered lease expiring 21 May 2095 obtained from Perbadanan Kemajuan Negeri Perak.**
Existing use	**Commercial building**
Parking spaces	**Not applicable**
Lessee	**Syarikat Pelanchongan Pangkor Laut Sendirian Berhad.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM97,000,000**
Market value	**RM116,100,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Azmi & Co. Sdn. Bhd.**
Net book value	**RM116,100,000**

PROPERTY PORTFOLIO

TANJONG JARA RESORT

Address/Location
Batu 8, Off Jalan Dungun, 23000 Dungun, Terengganu Darul Iman.

Description
Small luxury boutique resort with 100 rooms.

PROPERTY PORTFOLIO

Property type	**Resort**
Age	**Approximately 22 years**
Title details	**HSD 1473, Lot No. PT 18624, Mukim of Kuala Dungun, District of Dungun, State of Terengganu Darul Iman.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is restriction attached to the title.**
Status of holdings	**60-year leasehold expiring on 4 December 2067.**
Existing use	**Commercial building**
Parking spaces	**50 bays**
Lessee	**Tanjong Jara Beach Hotel Sdn. Bhd.**
Lease term	**The property is leased for a term expiring on 14 November 2026.**
Date of acquisition	**15 November 2011**
Cost of acquisition	**RM87,000,000**
Market value	**RM101,100,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Azmi & Co. Sdn. Bhd.**
Net book value	**RM101,100,000**

PROPERTY PORTFOLIO

HILTON NISEKO VILLAGE

Address/Location
Aza-Soga, Niseko-cho, Abuta-gun, Hokkaido.

Description
16-storey hotel building with 1-storey of basement comprising 506 rooms.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 23 years**
Title details	**Lot No. 919-15, 919-18, 919-19, 920-4, 920-5 and 920-7, Aza-Soga, Niseko-cho, Abuta-gun and Lot No. 214-6, 252-2 and 264-4, Aza-Kabayama, Kutchan-cho, Abuta-gun, Hokkaido, Japan.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**290 bays**
Lessee	**Niseko Village K.K.**
Lease term	**The property is leased for a term expiring on 21 December 2026.**
Date of acquisition	**22 December 2011**
Cost of acquisition	**JPY6,000,000,000**
Market value	**JPY7,140,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**Savills Japan Co., Ltd.**
Net book value	**RM274,147,000**

PROPERTY PORTFOLIO

SYDNEY HARBOUR MARRIOTT

Address/Location
30 Pitt Street, Sydney, New South Wales.

Description
33-storey hotel building with central atrium comprising 595 rooms including 3 levels of basement with car parking bays.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 28 years**
Title details	**Lot 1 in Deposited Plan 804285 in the Local Government Area of Sydney, Parish of St James and County of Cumberland.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**Approximately 45 bays**
Average occupancy rate	**85.65%**
Date of acquisition	**29 November 2012**
Cost of acquisition	**AUD249,000,000**
Market value	**AUD420,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**CIVAS (NSW) Pty Limited**
Net book value	**RM1,383,660,000**

PROPERTY PORTFOLIO

MELBOURNE MARRIOTT

Address/Location
Corner Exhibition and Lonsdale Streets, Melbourne, Victoria.

Description
16-storey hotel building comprising 186 rooms with 5 split levels of car park.

PROPERTY PORTFOLIO

Property type	**Hotel**
Age	**Approximately 35 years**
Title details	**Lot 1 on Plan of Subdivision 349277H (Volume 10323 Folio 372) and Lot 1 on Plan of Subdivision 349276K (Volume 10323 Folio 375) in the Local Government Area of City of Melbourne Council and Parish of North Melbourne.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**Approximately 80 bays**
Average occupancy rate	**89.21%**
Date of acquisition	**29 November 2012**
Cost of acquisition	**AUD53,000,000**
Market value	**AUD78,400,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**CIVAS (NSW) Pty Limited**
Net book value	**RM258,277,000**

PROPERTY PORTFOLIO

BRISBANE MARRIOTT

Address/Location
515 Queen Street, Brisbane, Queensland.

Description
28-storey hotel building comprising 267 rooms with 3 levels of basement car park.

PROPERTY PORTFOLIO

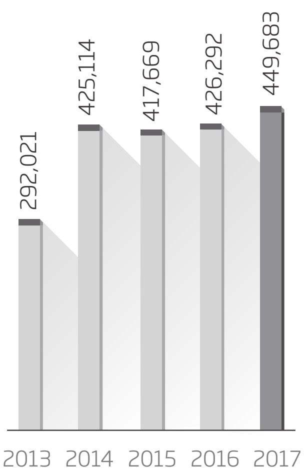
Property type	**Hotel**
Age	**Approximately 19 years**
Title details	**Lot 5 on survey plan 100339 comprised in certificate of title reference no. 50218402 in the Parish of North Brisbane and County of Stanley.**
Encumbrances/Limitation in title/interest	**The property is charged to secure financing and there is no restriction attached to the title.**
Status of holdings	**Freehold**
Existing use	**Commercial building**
Parking spaces	**78 bays**
Average occupancy rate	**87.90%**
Date of acquisition	**29 November 2012**
Cost of acquisition	**AUD113,000,000**
Market value	**AUD85,000,000**
Date of latest valuation	**31 May 2017**
Independent valuer	**CIVAS (QLD) Pty Limited**
Net book value	**RM279,907,000**

FINANCIAL HIGHLIGHTS

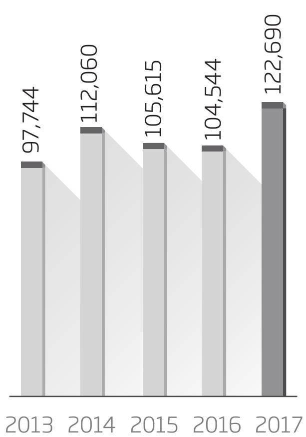
	2017	2016	2015	2014[*1]	2013
Revenue (RM'000)	**449,683**	426,292	417,669	425,114	292,021
Total income distribution (RM'000)	**122,690**	104,544	105,615	112,060	97,744
(Loss)/Profit before tax (RM'000)	**(9,219)**	(3,788)	96,808	196,515	56,242
(Loss)/Profit after tax (RM'000)	**(12,121)**	(5,775)	94,992	195,093	55,747
Total assets (RM'000)	**4,039,206**	3,621,918	3,430,672	3,325,634	2,991,620
Net asset value (RM'000)	**2,530,991**	1,922,403	1,782,595	1,669,666	1,316,068
Units in circulation ('000)	**1,704,389**[*2]	1,324,389	1,324,389	1,324,389	1,324,389
Net asset value per Unit (RM)	**1.485**	1.452	1.346	1.261	0.994
(Loss)/Earnings per Unit (sen)	**(0.79)**	(0.44)	7.17	14.73	4.21
Distribution per Unit (sen)	**8.0838**	7.8938	7.9746	8.4613	7.3803

[*1] *Valuation is carried out on the Group's real estate assets at least once in each financial year commencing the financial year ended 30 June 2014.*
[*2] *After the issuance of 380,000,000 new placement units on 16 December 2016.*

Revenue (RM'000)

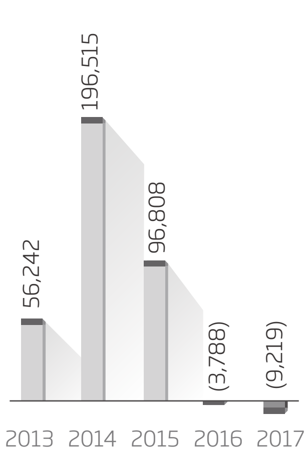


Total income distribution (RM'000)

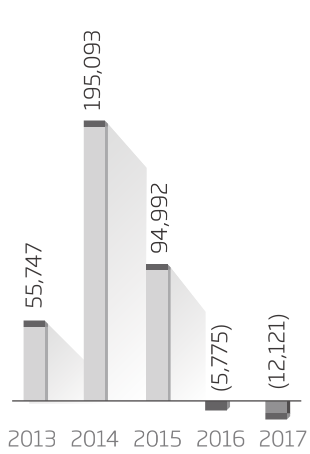


FINANCIAL HIGHLIGHTS

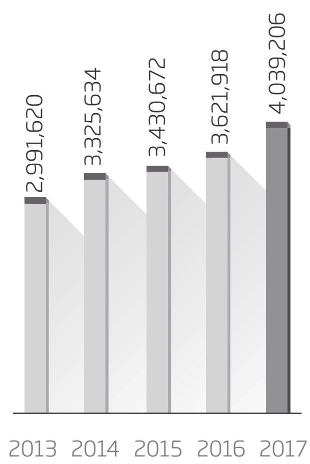
(Loss)/Profit before tax (RM'000)



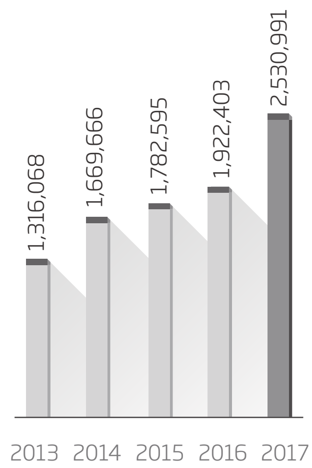
(Loss)/Profit after tax (RM'000)



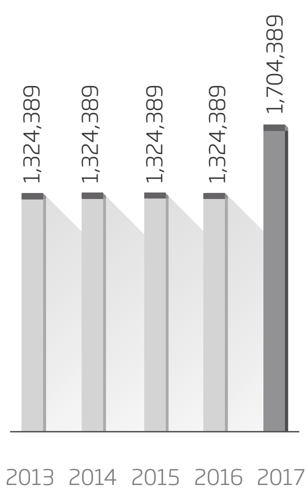
Total assets (RM'000)



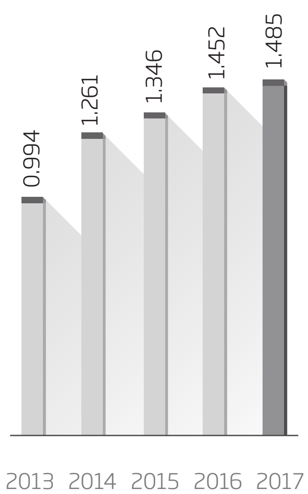
Net asset value (RM'000)



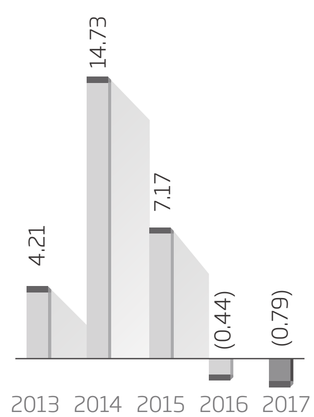
Units in circulation ('000)



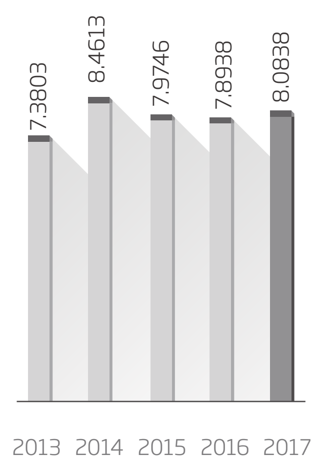
Net asset value per Unit (RM)



(Loss)/Earnings per Unit (sen)



Distribution per Unit (sen)



FUND PERFORMANCE

(I) PORTFOLIO COMPOSITION OF THE GROUP

At 30 June	2017 %	2016 %	2015 %	2014 %	2013 %
Real estate	**99**	99	98	97	96
Non-real estate-related assets	**-**	-	-	-	-
Deposits	**1**	1	2	3	4
	100	100	100	100	100

(II) NET ASSET VALUE & UNIT INFORMATION

	2017	2016	2015	2014	2013
Total assets (RM'000)	**4,039,206**	3,621,918	3,430,672	3,325,634	2,991,620
Total net asset value ("NAV") (RM'000)	**2,530,991**	1,922,403	1,782,595	1,669,666	1,316,068
Units in circulation ('000)	**1,704,389**	1,324,389	1,324,389	1,324,389	1,324,389
NAV per Unit (RM)					
- as at 30 June (before income distribution)	**1.557**	1.530	1.426	1.345	1.068
- as at 30 June (after income distribution)	**1.485**	1.452	1.346	1.261	0.994
- Highest NAV during the year	**1.485**	1.452	1.346	1.261	1.143
- Lowest NAV during the year	**1.386**	1.339	1.158	0.995	0.994
Market value per Unit (RM)					
- as at 30 June	**1.18**	1.07	1.03	0.92	1.06
- Weighted average price for the year	**1.16**	1.05	1.01	0.98	1.08
- Highest traded price for the year	**1.24**	1.09	1.05	1.07	1.15
- Lowest traded price for the year	**1.06**	0.99	0.92	0.89	1.02

FUND PERFORMANCE

(III) PERFORMANCE DETAILS OF THE GROUP

	2017	2016	2015	2014	2013
Distribution per Unit (sen)					
- First interim	**2.0528**	1.9175	1.9175	1.9175	3.5873
- Advance	**1.9181**	-	-	-	-
- Second interim	**0.3459**	1.9175	1.8697	1.9786	-
- Third interim	**1.8364**	1.9175	1.8616	2.0804	-
- Final	**1.9306**	2.1413	2.3258	2.4848	3.7930
	8.0838	7.8938	7.9746	8.4613	7.3803
Distribution date					
- First interim	**23 December 2016**	30 December 2015	24 December 2014	27 December 2013	28 February 2013
- Advance	**12 January 2017**	-	-	-	-
- Second interim	**30 March 2017**	31 March 2016	24 March 2015	27 March 2014	-
- Third interim	**30 June 2017**	30 June 2016	26 June 2015	24 June 2014	-
- Final	**30 August 2017**	30 August 2016	28 August 2015	29 August 2014	30 August 2013
Distribution yield (%) [1]	**6.97**	7.52	7.90	8.61	6.83
Management expense ratio (%)	**0.54**	0.68	0.86	1.05	0.97
Portfolio turnover ratio (times)	**-**	-	-	-	0.48
Total return (%) [2]	**17.44**	11.48	10.96	(0.65)	26.83
Average total return [3]					
- One year	**17.44**				
- Three years	**13.29**				
- Five years	**13.21**				

Notes:

1. Distribution yield is computed based on weighted average market price of the respective financial year.
2. Total return is computed based on the distribution yield per unit and the change in the weighted average market price of the respective financial year.
3. Average total return is computed based on total return per unit averaged over number of years.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate.

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW OF THE GROUP'S BUSINESS AND OPERATION

OVERVIEW OF YTL HOSPITALITY REIT

YTL Hospitality REIT ("YTL REIT" or "Trust") was established on 18 November 2005 pursuant to a trust deed (as restated by the deed dated 3 December 2013) ("Restated Deed") entered into between Pintar Projek Sdn Bhd, the Manager and Maybank Trustees Berhad, the trustee of YTL REIT and is categorised as a real property fund. The Restated Deed was amended by a supplemental deed ("Supplemental Deed") which has been registered with the Securities Commission Malaysia ("SC") on 29 October 2014.

MANAGEMENT DISCUSSION & ANALYSIS
OVERVIEW OF THE GROUP'S BUSINESS AND OPERATION


YTL REIT was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 16 December 2005 and is an income and growth type fund. The investment objective of YTL REIT is to own and invest in real estate and real estate-related assets, whether directly or indirectly through the ownership of single-purpose companies whose principal assets comprise real estate.

The investment portfolio of YTL REIT in Malaysia as at 30 June 2017 comprises the JW Marriott Hotel Kuala Lumpur, The Ritz-Carlton, Kuala Lumpur – Suite Wing (previously known as The Residences at The Ritz-Carlton, Kuala Lumpur) ("The Ritz-Carlton Suite Wing"), Cameron Highlands Resort, Vistana Penang Bukit Jambul, Vistana Kuala Lumpur Titiwangsa, Vistana Kuantan City Centre, The Ritz-Carlton, Kuala Lumpur – Hotel Wing (previously known as The Ritz-Carlton, Kuala Lumpur) ("The Ritz-Carlton Hotel Wing"), Tanjong Jara Resort and part of Pangkor Laut Resort. Hilton Niseko Village was acquired through the Trust's subsidiary, namely Starhill REIT Niseko G.K., a company incorporated in Japan while the Australian subsidiaries acquired Sydney Harbour Marriott, Brisbane Marriott and Melbourne Marriott.

MANAGEMENT DISCUSSION & ANALYSIS
OVERVIEW OF THE GROUP'S BUSINESS AND OPERATION

COMPOSITION OF INVESTMENT PORTFOLIO

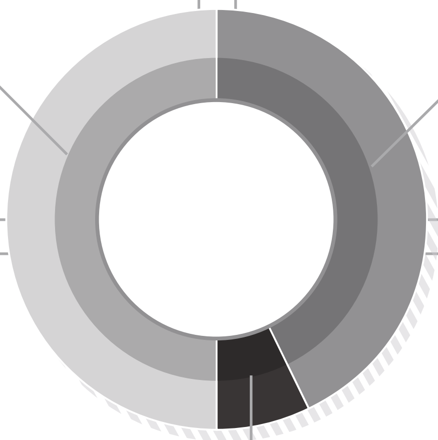
As at the reporting date, the composition of YTL REIT Group's investment portfolio is as follows:-

Real Estate – Commercial	Fair value as at 30.6.2017 RM'000	% of total investment	Fair value as at 30.6.2016 RM'000	% of total investment
1. JW Marriott Hotel Kuala Lumpur	**411,000**	11	410,000	12
2. The Ritz-Carlton Suite Wing	**301,000**	8	254,000	7
3. The Ritz-Carlton Hotel Wing	**341,000**	9	320,000	9
4. Vistana Penang Bukit Jambul	**117,000**	3	117,000	3
5. Vistana Kuala Lumpur Titiwangsa	**128,300**	3	125,000	4
6. Vistana Kuantan City Centre	**88,000**	2	86,000	3
7. Pangkor Laut Resort	**116,100**	3	114,000	3
8. Tanjong Jara Resort	**101,100**	3	101,000	3
9. Cameron Highlands Resort	**60,000**	1	59,000	2
10. Hilton Niseko Village	**274,147**	7	257,183	7
11. Sydney Harbour Marriott	**1,383,660**	35	1,132,499	32
12. Brisbane Marriott	**279,907**	7	259,578	7
13. Melbourne Marriott	**258,277**	7	231,251	7
Sub-total	**3,859,491**	99	3,466,511	99
Deposits with licensed financial institutions	**51,051**	1	31,190	1
Total	**3,910,542**	**100**	**3,497,701**	**100**

Asset Breakdown by Country
(as at 30 June 2017)

Australia
50%
RM1.92 billion

Malaysia
43%
RM1.66 billion



Japan
7%
RM0.27 billion

MANAGEMENT DISCUSSION & ANALYSIS
OVERVIEW OF THE GROUP'S BUSINESS AND OPERATION

MANAGER'S INVESTMENT STRATEGIES AND POLICIES

INVESTMENT STRATEGIES

During the financial year, the Manager continued to carry out the following investment strategies in order to achieve YTL REIT's business objectives:-

(i) Operating Strategy

The Trust continued to focus on the acquisition of hotel properties located both in Malaysia and internationally, subject to attractive valuations that will provide yield accretive returns to the unitholders and maintained the quality of the properties under its current portfolio.

The Trust was also able to leverage on focused co-branding and cross marketing strategies to enhance the performance of its hospitality assets that include integrated conference facilities to draw international business interest and internationally acclaimed food and beverage outlets.

(ii) Acquisition Strategy

The Manager seeks to increase cash flow and enhance unit value through selective acquisitions. This acquisition strategy takes into consideration:-

(a) location;
(b) opportunities; and
(c) yield thresholds.

The Manager also has access to networks and relationships with leading participants in the real estate and hotel industry which may assist YTL REIT in identifying (a) acquisition opportunities to achieve favourable returns on invested capital and growth in cash flow; and (b) underperforming assets.

The Manager intends to hold properties on a long-term basis. However, in the future where the Manager considers that any property has reached a stage that offers only limited scope for growth, the Manager may consider selling the property and using the proceeds for alternative investments in properties that meet its investment criteria.

(iii) Capital Management Strategy

The Manager optimises YTL REIT's capital structure and cost of capital within the borrowing limits prescribed by the Guidelines on Real Estate Investment Trusts issued by the SC ("REIT Guidelines") via a combination of debt and equity funding for future acquisitions and improvement works of its properties. This capital management strategy involves:-

(a) adopting and maintaining an optimal gearing level; and

(b) adopting an active interest rate management strategy to manage risks associated with changes in interest rates while maintaining flexibility in YTL REIT's capital structure to meet future investment and/or capital expenditure requirements.

INVESTMENT POLICIES

The Manager will continue to comply with the REIT Guidelines and other requirements as imposed by the SC from time to time and the Restated Deed, including (i) to invest in investments permitted by the SC; and (ii) to ensure the investment portfolio requirements and limits imposed by the REIT Guidelines and/or the Restated Deed are adhered to.

The Manager will also ensure that YTL REIT will not be involved in (i) extension of loans or any other credit facility; (ii) property development; and (iii) acquisition of a vacant land.

DISTRIBUTION POLICY

Pursuant to the Restated Deed, it is the policy of the Manager to distribute at least 90% of the distributable income for each financial year.

Commencing the financial year ended 30 June 2014, the frequency of distribution was changed from half yearly to quarterly.

DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS AND FINANCIAL CONDITION

PERFORMANCE OF THE GROUP

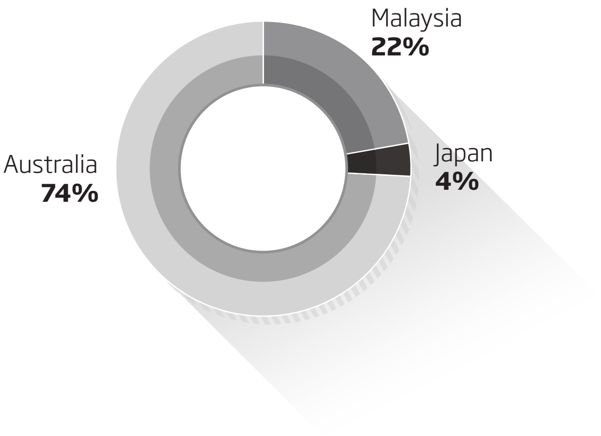
1 July – 30 June	FY2017 RM'000	FY2016 RM'000	Change %
Revenue			
– Hotel revenue (Management contracts)	**332,736**	312,415	+6.5%
– Property revenue (Master leases)	**116,947**	113,877	+2.7%
Total revenue	**449,683**	426,292	+5.5%
Net property income ("NPI")			
– Management Contracts	**102,251**	93,561	+9.3%
– Master Leases	**107,365**	105,379	+1.9%
Net property income	**209,616**	198,940	+5.4%
Income available for distribution	**122,692**	104,545	+17.4%
Total income distribution	**122,690**	104,544	+17.4%

The Group's segmental result for the financial year ended 30 June 2017 is as follows:-

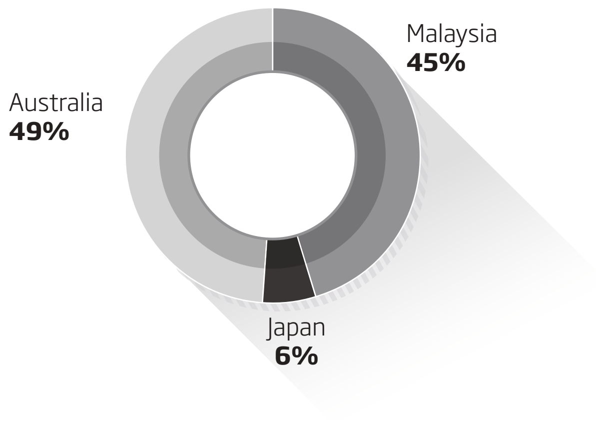
	<------ Property rental ------>		<--- Hotel --->	
	Malaysia RM'000	Japan RM'000	Australia RM'000	Total RM'000
External revenue	100,993	15,954	332,736	449,683
Operating expenses	(5,748)	(3,834)	(230,485)	(240,067)
Net property income	95,245	12,120	102,251	209,616

MANAGEMENT DISCUSSION & ANALYSIS
DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS AND FINANCIAL CONDITION

Revenue by Country



NPI by Country



(in RM'000)	Malaysia	Japan	Australia	Total
Revenue by country	100,993	15,954	332,736	**449,683**
NPI by country	95,245	12,120	102,251	**209,616**

For the financial year ended 30 June 2017, the Group recorded a revenue of RM449.683 million, representing an increase of 5.49% as compared to RM426.292 million recorded in the preceding financial year ended 30 June 2016 while the Group recorded a net property income of RM209.616 million for the current financial year ended 30 June 2017, representing an increase of 5.37% as compared to RM198.940 million recorded in the preceding financial year ended 30 June 2016.

Australian Properties contributed RM332.736 million in revenue, representing 73.99% of total revenue in the current financial year, 6.50% higher than that recorded in the preceding year. Net property income for Australian Properties was RM102.251 million, representing an increase of 9.29% as compared to the preceding year. The increase in revenue and net property income was due to the appreciation of the Australian Dollar in the current financial year.

Malaysian Properties contributed RM100.993 million in revenue, representing 22.46% of total revenue in the current financial year. Net property income for Malaysian Properties was RM95.245 million, representing an increase of 3.11% compared to the preceding year. The increase in revenue and net property income were mainly due to the step-up lease rental income from The Ritz-Carlton Suite Wing and other Malaysian properties (except for JW Marriott Hotel Kuala Lumpur) which took effect from July 2016 and November 2016, respectively. The commencement of additional rentals for The Ritz-Carlton Suite Wing and The Ritz-Carlton Hotel Wing on 1 June 2017 and 15 June 2017, respectively, also contributed to the increase in revenue and net property income of Malaysian Properties in the current financial year.

MANAGEMENT DISCUSSION & ANALYSIS

DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS AND FINANCIAL CONDITION

Hilton Niseko Village contributed RM15.954 million in revenue, representing 3.55% of total revenue in the current financial year, 1.26% higher than that recorded in the preceding year. Net property income for the current financial year was RM12.120 million, representing a decrease of 6.81% as compared to the preceding year due to the costs of maintenance works carried out at the property.

The Group's profit before tax decreased by 143.37% from a loss of RM3.788 million recorded in the preceding financial year ended 30 June 2016 to a loss of RM9.219 million in the current financial year ended 30 June 2017. The decrease was mainly due to the unrealised foreign currency translation loss on Australian Dollar denominated term loan of RM83.537 million recorded during the current financial year ended 30 June 2017 as compared to a translation loss of RM21.744 million recognised during the preceding financial year ended 30 June 2016. The translation loss was partially offset by the gain on fair value of properties of RM34.843 million recorded during the current financial year ended 30 June 2017 as compared to the loss on fair value of properties of RM11.723 million recognised in the preceding financial year ended 30 June 2016.

The Group's income available for distribution for the current financial year ended 30 June 2017 increased by 17.36% from RM104.545 million to RM122.692 million mainly due to the increase in net property income and saving in interest expenses from the prepayment of term loan denominated in Ringgit Malaysia.

DISTRIBUTION OF INCOME

Interim distributions of income (which are tax exempt at the Trust level under the amended Section 61A of the Income Tax Act 1967) totalling 6.1532 sen per unit (of which 5.8277 sen is taxable and 0.3255 sen is non-taxable in the hands of unitholders) amounted to RM89,785,037 were paid as follows:-

	Date of distribution	Distribution per unit Sen	Income distribution RM
First interim	23 December 2016	2.0528	27,187,055
Advance	12 January 2017	1.9181	25,403,103
Second interim	30 March 2017	0.3459	5,895,481
Third interim	30 June 2017	1.8364	31,299,398
Total		**6.1532**	**89,785,037**

The Manager has declared a final income distribution (which is tax exempt at the Trust level under the amended Section 61A of the Income Tax Act 1967) of 1.9306 sen per unit (of which 1.7276 sen is taxable and 0.2030 sen is non-taxable in the hands of unitholders), totaling RM32,904,932.

Total distribution paid and declared for the financial year ended 30 June 2017 is 8.0838 sen per unit, totaling RM122,689,969, which translates to a yield of 6.97% based on the twelve months weighted average market price of RM1.16 per unit as at 30 June 2017.

The total income distribution of RM122,689,969 represents approximately 100% of the realised and distributable income for the financial year ended 30 June 2017.

The effect of the income distribution in terms of the net asset value per unit of the Group as at 30 June 2017 is as follows:-

	Before distribution RM	After distribution RM
Net asset value ("NAV") per unit	1.557	1.485

FINANCIAL POSITION

As at 30 June	2017 RM'000	2016 RM'000	Change
Investment properties	**1,937,647**	1,843,183	+5.1%
Property, plant and equipment	**1,921,844**	1,623,328	+18.4%
Cash & cash equivalents	**142,462**	119,563	+19.2%
Other assets	**37,253**	35,844	+3.9%
Total assets	**4,039,206**	3,621,918	+11.5%
Borrowings	**1,404,590**	1,598,976	(12.2%)
Other liabilities	**103,625**	100,539	+3.1%
Total liabilities	**1,508,215**	1,699,515	(11.3%)
NAV	**2,530,991**	1,922,403	+31.7%
No. of units in circulation ('000)	**1,704,389**	1,324,389	+28.7%
NAV per unit (RM)	**1.485**	1.452	+2.3%

MANAGEMENT DISCUSSION & ANALYSIS

DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS AND FINANCIAL CONDITION

Analysis of net asset value of the Group since the last financial year ended 30 June 2016:-

At 30 June	2017	2016
Total net asset value (RM'000)	**2,530,991**	1,922,403
Net asset value per unit (RM)	**1.485**	1.452

The increase in total NAV and NAV per unit was mainly due to the issuance of 380 million new placement units and the recognition of revaluation surpluses on the properties during the current financial year.

CAPITAL MANAGEMENT

The Manager optimises YTL REIT's capital structure and cost of capital within the borrowing limits prescribed by the REIT Guidelines via a combination of debt and equity funding for future acquisitions and improvement works at the Properties.

The capital management strategy for the Group and the Trust involves:-

(a) adopting and maintaining an optimal gearing level; and

(b) adopting an active interest rate management strategy to manage risks associated with changes in interest rates while maintaining flexibility in YTL Hospitality REIT's capital structure to meet future investment and/or capital expenditure requirements.

Clause 8.37 of the REIT Guidelines provides that the total borrowings of a real estate investment trust (including borrowings through issuance of debt securities) should not exceed 50% of its total asset value at the time the borrowings are incurred, but provides further that notwithstanding this requirement, the fund's total borrowings may exceed this limit with the sanction of the unitholders by way of an ordinary resolution. At the meeting of unitholders held on 11 February 2015, the borrowing limit had been increased to 60% of the Group's total assets to provide the Group with the flexibility of funding larger acquisition opportunities through borrowing in the future.

The Manager reviews the capital structure of the Group on a regular basis and monitors capital using a gearing ratio, which is total borrowings divided by total assets.

- Gearing

As at 30 June	2017 RM'000	2016 RM'000	Change
Borrowings	**1,337,394**	1,603,734	(16.6%)
MTNs	**75,000**	10,000	+650.0%
Total borrowings	**1,412,394**	1,613,734	(12.5%)
Total Assets	**4,039,206**	3,621,918	+11.5%
Gearing Ratio (%)	**34.97**	44.56	(9.59pp)

- Debt profile:

The Group diversifies its risks from borrowings via a combination of fixed and floating rates, different currencies and different maturities. The borrowings in foreign currency is hedged using interest rate swaps to eliminate the risk of fluctuation in interest rates.

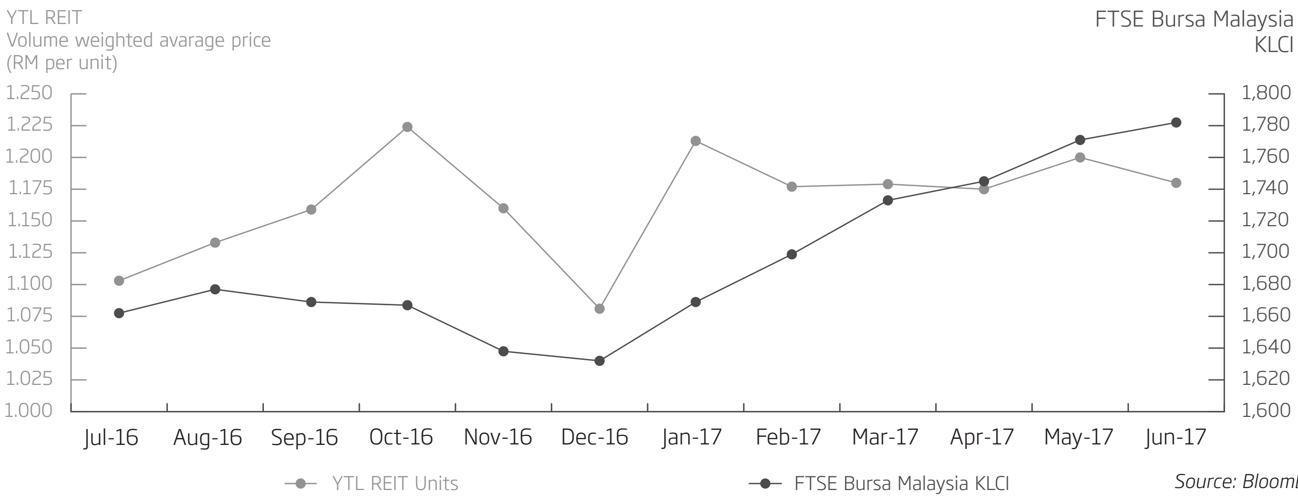
MANAGEMENT DISCUSSION & ANALYSIS

DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS AND FINANCIAL CONDITION

UNITS PERFORMANCE

The Trust's units traded at RM1.07 per unit at the beginning of the financial year and ended the year higher at RM1.18 per unit, with a volume weighted average price for the financial year of RM1.16 per unit. During the financial year under review, the Trust's unit price recorded a high of RM1.24 per unit and a low of RM1.06 per unit, and traded largely in line with the FTSE Bursa Malaysia KLCI.

PERFORMANCE OF YTL REIT UNITS VS FTSE BURSA MALAYSIA KLCI



Source: Bloomberg

BENCHMARK RELEVANT TO THE GROUP

Management Expense Ratio ("MER")

	2017	2016
MER for the financial year	**0.54%**	0.68%

MER is calculated based on the total of all the fees and expenses incurred by YTL REIT Group in the financial year and deducted directly from the income (including the manager's fees, the trustee's fee, the auditors' remuneration and other professional fees and expenses) and all the expenses not recovered from and/or charged to the Group (including the costs of printing, stationery and postage), to the average net asset value of the Group during the financial year calculated on a quarterly basis.

Since the basis of calculating MER can vary among real estate investment trusts, there is no sound basis for providing an accurate comparison of YTL REIT Group's MER against other real estate investment trusts.

SIGNIFICANT CORPORATE DEVELOPMENTS

PLACEMENT OF NEW UNITS IN YTL REIT

As reported previously, on 14 June 2013, the Manager announced proposals for, amongst others, a placement of new units in YTL REIT to raise gross proceeds of up to RM800 million and an increase in YTL REIT's existing approved fund size from 1.324 billion units to a maximum of 2.125 billion units. On 30 December 2013, the SC granted its approval for the listing of and quotation for the placement units on the Main Market of Bursa Securities and the proposed increase in fund size.

Subsequently, on 10 January 2014, Bursa Securities approved the listing of and quotation for up to 800.61 million placement units to be issued pursuant to the proposed placement. The Trust received approval for the Proposals and the proposed subscription of new units of up to RM310 million by YTL Corporation Berhad ("YTL Corp"), an existing major unitholder of the Trust, at the meeting of unitholders held on 11 February 2014. On 5 July 2016 and 21 July 2016, respectively, the Trust received approvals from the SC and Bursa Securities for a final extension of time until 29 December 2016 to implement the proposals.

380 million placement units raised

RM402.8 million gross proceeds

On 1 December 2016, the Board resolved to fix the issue price of 380 million placement units at RM1.06 per unit, representing a discount of approximately 9.25% to the 5-day volume weighted average market price of the units in YTL REIT up to and including 30 November 2016, being the last trading day immediately preceding the price fixing date, of RM1.168 per unit.

The placees for the entire 380 million placement units comprised: (i) 190 million placement units issued to YTL Corp; and (ii) 190 million placement units issued to placees identified through the placement agents, AmInvestment Bank Berhad, Credit Suisse (Singapore) Limited and Maybank Investment Bank Berhad. The placement raised total gross proceeds of RM402.8 million, and was completed on 16 December 2016 following the listing of and quotation for the 380 million placement units on the Main Market of Bursa Securities.

MANAGEMENT DISCUSSION & ANALYSIS
SIGNIFICANT CORPORATE DEVELOPMENTS

RENTAL REVISIONS

On 5 May 2017, the Trustee ("Lessor") entered into supplemental lease agreements with the lessees of The Ritz-Carlton Hotel Wing and The Ritz-Carlton Suite Wing ("Lessees") for a rental increase of RM4.56 million per annum ("Additional Rentals"). Pursuant to the supplemental agreements, the Lessees agreed to pay the Additional Rentals as the Lessor agreed to reimburse the Lessees for renovation costs totaling RM65.14 million. The reimbursement was completed on 23 May 2017 and the commencement dates of the Additional Rentals for The Ritz-Carlton Suite Wing and The Ritz-Carlton Hotel Wing were 1 June 2017 and 15 June 2017, respectively.

The Additional Rentals have allowed YTL REIT to participate in the value creation of the renovation works, which were carried out by the Lessees to ensure the ability of these two properties to maintain their market positions and further enhance their potential.

PROPOSED ACQUISITION OF THE MAJESTIC HOTEL KUALA LUMPUR

On 26 May 2017, the Trustee entered into a conditional sale and purchase agreement ("SPA") with YTL Majestic Hotel Sdn Bhd ("Vendor"), an indirect wholly-owned subsidiary of YTL Corp, for the acquisition of The Majestic Hotel Kuala Lumpur for a cash consideration of RM380 million ("Proposed Acquisition").

The Trustee, upon completion of the Proposed Acquisition will sub-lease The Majestic Hotel Kuala Lumpur to the Vendor under a sub-lease agreement for a lease period of 15 years with an option granted to the Vendor to renew for a further term of 15 years ("Proposed Lease"). The sub-lease arrangement will provide YTL REIT with a steady and secure income stream and is expected to be accretive to the Trust's future distributable income and distribution per unit ("DPU").

The Proposed Acquisition is in line with the investment objectives of the Manager to continuously pursue a strategy of acquiring and investing in high quality hospitality properties in Malaysia and internationally, with a view to providing long-term and sustainable income distribution to unitholders and achieving long-term growth in the NAV per unit.

The Proposed Lease is expected to be accretive to YTL REIT's future distributable income and DPU after taking into consideration the additional net property income received from the sub-lease arrangement and estimated borrowing costs. The sub-lease arrangement provides stable and secure cash flows with a step-up provision of 5% every five years. Risks associated with the hospitality and tourism industry which may result in reduced occupancy and uncertainty in cashflows are also substantially mitigated through this sub-lease arrangement.

The Proposed Acquisition and the Proposed Lease are currently pending completion as the Trust is in the process of obtaining the necessary approvals from the relevant authorities, unitholders and other third parties.

REVIEW OF OPERATING ACTIVITIES

YTL REIT's investment portfolio was valued at

RM3,910.5 million

YTL REIT's investment portfolio was valued at RM3,910.5 million as at 30 June 2017, an increase of RM412.8 million compared to the previous valuation of RM3,497.7 million as at 30 June 2016, contributed mainly by the increase in the valuation of the Sydney Harbour Marriott in Australia, with smaller increases also contributed by The Ritz-Carlton Suite Wing, The Ritz-Carlton Hotel Wing, Hilton Niseko Village, the Brisbane Marriott and the Melbourne Marriott.

MALAYSIAN PORTFOLIO

YTL REIT continued to receive steady income from its portfolio of assets in Malaysia for the financial year ended 30 June 2017. The Trust's Malaysian portfolio is made up of a distinctive range of nine assets, from five-star properties and luxury resorts to business hotels in key business centres across the country. YTL REIT maintains fixed lease arrangements for the properties and benefits from the stable income produced by this revenue structure.

The Trust's portfolio in Kuala Lumpur consists of luxury properties situated in the Golden Triangle commercial precinct, namely the JW Marriott Hotel Kuala Lumpur, The Ritz-Carlton Hotel Wing and The Ritz-Carlton Suite Wing. The three luxury assets operate in close proximity to Starhill Gallery, the Feast Village fine dining pavilion, the Carlton Conference Centre and Spa Village Kuala Lumpur, offering guests a comprehensive and exclusive range of luxury amenities and services.

The ongoing MRT works in and around the Golden Triangle area began coming on-stream progressively from July 2017, and these properties are expected to benefit from the improved tourist and traffic flows in the area. YTL REIT has also benefited from the recent renovation and rebranding of The Ritz-Carlton Hotel Wing and The Ritz-Carlton Suite Wing via the Additional Rentals generated from these two assets for the Trust.

YTL REIT's resort portfolio comprises Pangkor Laut Resort, Tanjong Jara Resort and Cameron Highlands Resort. Each resort offers a unique range of luxury services and experiences, including the award-winning Spa Village, distinctive to each resort. The resorts continued to see consistently good guest numbers for the year under review, drawing visitors from across the globe.

The Trust's domestic business product comprises the Vistana hotels, operating in Kuala Lumpur, Kuantan and Penang. Local and regional business travellers continue to be drawn to the blend of practical, modern amenities in comfortable rooms and refined service standards which set the Vistana hotels apart in this competitive segment of the hospitality industry.

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATING ACTIVITIES

INTERNATIONAL PORTFOLIO - JAPAN

In Japan, YTL REIT owns the Hilton Niseko Village situated in Hokkaido, which operates under a fixed lease arrangement, ensuring a stable level of income for the Trust. The Niseko region's tourism industry has healthy local support from domestic visitors from within Japan, as well as a large contingent of international tourists, including a growing number of visitors from Asian countries particularly China, South Korea and Taiwan.

Hilton Niseko Village continued to benefit from its reputation as one of the most well-known ski resorts in Japan due to its excellent powder snow, ski-in/ski-out location and onsite Onsen (hot springs) facilities, and occupancy levels remained healthy during the year under review. Despite weather conditions which saw the premature melting of snow in the region, leading to a drop in the number of skiers, Hilton Niseko Village's focus on offering a well-rounded suite of high quality summer facilities has enabled it to draw tourists throughout the year.

INTERNATIONAL PORTFOLIO - AUSTRALIA

In Australia, YTL REIT owns the Sydney Harbour Marriott, Brisbane Marriott and Melbourne Marriott, and the Trust is afforded the benefit of a variable source of income from the operation of these hotel assets.

The Sydney Harbour Marriott performed well during the year under review due to its well-established position and the quality of its service offerings. Occupancy at the Sydney Harbour Marriott eased marginally to 85.7% compared to 86.8% last year due to refurbishments undertaken during the financial year. Asset enhancements included reconfigurations of the ground floor lobby and food and beverage areas, which were completed in March 2017.

The Sydney Harbour Marriott is a 5-star, 595-room hotel set in the heart of Circular Quay, overlooking iconic landmarks including Harbour Bridge and the Sydney Opera House. The hotel is expected to continue to perform well, supported by local investments in tourism and transport infrastructure in the surrounding area, including notable developments such as the International Convention Centre Sydney, with limited new supply coming into the market.

The Melbourne Marriott recorded a slightly higher occupancy level of 89.21% for the financial year under review compared to 88.65% for the 2016 financial year. The 186-room hotel has continued to achieve solid occupancy levels, despite the increase in room supply in the Victoria area in recent years. The Melbourne Marriott is located close to the city's theatre precinct and within minutes of the Bourke and Collins street shopping districts, Chinatown, the Melbourne Museum and the Royal Exhibition Building.

The Brisbane Marriott, which consists of 263 rooms and 4 suites, registered higher occupancy of 87.90% for the 2017 financial year compared to 84.10% last year. The overall market continues to be impacted by increases in supply whilst demand has been relatively soft due to reduced corporate business associated with the mining industry. In response to changing market conditions, the Brisbane Marriott successfully diversified its market mix of corporate accounts allowing it to secure more business from a variety of companies as well as more group business.

The Brisbane Marriott is located between Brisbane's central business district and the Fortitude Valley hub, close to shopping, riverside dining, and the city's corporate and cultural locales. Though there are expectations that the market may recede further due to increases in supply, demand is expected to be bolstered by major upcoming events, including the Rugby World Cup and the 2018 Commonwealth Games on the Gold Coast, and significant developments such as Tigerair expanding its domestic connectivity to Brisbane and Australia's push to establish itself as one of world's largest exporters of gas, which is expected to drive an increase in corporate travel.

RISK MANAGEMENT

CREDIT RISK

Credit risk arises principally from credit exposure to receivables from lessees or other financial assets (including cash & bank balances), YTL REIT Group minimises credit risk by dealing with high credit rating counterparties.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally security deposits are obtained and credit evaluations are performed on customers requiring credit over a certain amount.

Cash and cash equivalents include bank deposits are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

YTL REIT Group 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.

LIQUIDITY RISK

YTL REIT Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

It 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 finance the operations, to distribute income to unitholders, and to mitigate the effects of fluctuations in cash flows.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of YTL REIT Group's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Trust's exposure to interest rate risk arise primarily from their floating rate bonds and borrowings, which is partially offset by the deposits held at variable rates. The Group and the Trust manage their cash flow interest rate risk by using a mix of fixed and variable rate debts. Derivative financial instruments are used, where appropriate, to generate the desired interest rate profile.

FOREIGN CURRENCY EXCHANGE RISK

The Group is exposed to foreign currency risk arising from Japanese Yen ("JPY") and Australian Dollar ("AUD"). The Group has investment in foreign operations whose net assets are exposed to foreign currency translation risk.

BUSINESS/MARKET RISK

The Group is exposed to the economic, financial and hospitality/tourism markets in Malaysia, Japan and Australia. Any negative developments in these areas may impact the Group's financial performance and the valuation of its asset portfolio. The Group works to manage these factors through the revenue structure of its portfolio whereby the Trust receives stable, medium to long term fixed lease income from its Malaysian and Japanese portfolios and variable income from its Australian assets. This structure is intended to insulate part of the portfolio from the cyclical nature of the hospitality industry, balanced with any potential upside generated from better performance in other parts of the portfolio.

REGULATORY/COMPLIANCE RISK

YTL REIT is required to comply with applicable legislation, regulations and guidelines including the Capital Markets and Services Act 2007, the Main Market Listing Requirements of Bursa Securities, the REIT Guidelines, exchange control rules issued by Bank Negara Malaysia and tax legislation and regulations, where failure to do so may result in fines, penalties or other remedies available to the regulatory authorities. Any such compliance failures may impact the Trust's financial performance or reputation, whilst amendments to existing requirements or introduction of new requirements may also increase compliance costs. The Manager addresses these risks via its governance and internal control frameworks to monitor and ensure compliance, further details of which can be found in the Statement on Corporate Governance in this Annual Report.

CORPORATE SOCIAL RESPONSIBILITY

The Manager believes that effective corporate responsibility can deliver benefits to its businesses and, in turn, to its unitholders, by enhancing reputation and business trust, risk management performance, relationships with regulators, staff motivation and attraction of talent, customer preference and loyalty, the goodwill of local communities and long-term unitholder value.

Social responsibility is one of the Manager's key values and a high priority is placed on acting responsibly in every aspect of its business. The Manager is part of the wider network of its parent company, YTL Corp, which has a long-standing commitment to creating successful, profitable and sustainable businesses. This in turn benefits the surrounding community through the creation of sustained value for unitholders, secure and stable jobs for employees, support for the arts and culture in Malaysia and contributions to promote education for the benefit of future generations.

The Statement on Corporate Governance, which elaborates on the Manager's governance, systems and controls, can be found as a separate section in this Annual Report.

OUTLOOK

Global growth is expected to continue to improve at a modest pace for the rest of 2017 calendar year, although downside risks arising from political uncertainties remain. Overall, the Malaysian economy is projected to grow by 4.3% to 4.8% in 2017 with domestic demand as the main driver of growth, underpinned primarily by private sector expenditure. Despite indications of further expenditure adjustments in response to increasing inflationary pressures, private consumption is anticipated to remain sustained, supported by continued employment and wage growth. Meanwhile, the Japanese economy is expected to continue expanding as improvements in manufacturing and trade on a global basis contribute to its exports, whilst Australian economic growth is also expected to improve, supported by the growth in household consumption, exports and non-mining business investment as the drag from falling mining investment diminishes *(sources: Malaysian Ministry of Finance, Bank Negara Malaysia, Australia Government Budget, Bank of Japan updates).*

The outlook for the Trust remains stable as YTL REIT remains committed to the stable, long-term growth and development of its portfolio in order to continue to deliver sound returns to its unitholders.

In May 2017, the Trust embarked on the proposed acquisition of a new property, The Majestic Hotel Kuala Lumpur, a five-star luxury property with 300 rooms. The Majestic Hotel Kuala Lumpur includes the original Hotel Majestic which is documented as a national heritage site. This colonial structure was built in 1932 and became one of the great hotels of Kuala Lumpur in its time. An icon of Malaya's boom years leading to World War II, the hotel came to be the place for glamorous social events, government receptions and the residence for prominent international visitors.

The Majestic Hotel Kuala Lumpur is positioned to share the glamour, heritage and success of its predecessor, and is part of the Autograph Collection of iconic historic hotels, where the allure of a city's distinctive past meets all of today's modern luxuries and stylish innovations. Upon completion of this acquisition, which is currently pending the necessary approvals from the relevant authorities, unitholders and other third parties, The Majestic Hotel Kuala Lumpur will be a stellar new addition to the Trust's portfolio.

The Trust's asset mix, covering a diverse geographic market and a wide range of product offerings catering to different market segments, coupled with the strategic revenue structure of its assets, is expected to continue to counter the more cyclical elements of the hospitality industry. The Trust will also pursue new yield-accretive additions to the portfolio, as well as value-creating asset-enhancement opportunities.

REVIEW OF THE PROPERTY MARKET

YTL Hospitality REIT and its subsidiaries own thirteen (13) hospitality properties, nine (9) in Malaysia, three (3) in Australia and one (1) in Japan. The Malaysian properties are located in Kuala Lumpur, Pahang, Perak, Terengganu and Penang. The Australian properties are located in the capital cities of Australia's three most populous states, i.e. Sydney of New South Wales, Brisbane of Queensland and Melbourne of Victoria. The Japanese property is located in the Niseko area of the island of Hokkaido.

MALAYSIA

1. ECONOMY

The Malaysian economy recorded a higher growth of 5.6% in the first quarter of 2017 compare to 4.5% at fourth quarter of 2016. Private sector activity remained as the main driver of growth and was higher compare to last year. Growth was further lifted by higher exports, as increased demand for manufactured products led to a strong growth in real exports (9.8%; 4Q 2016: 2.2%). Real imports also increased at a faster rate of 12.9% (4Q 2016: 1.6%) on account of higher growth of capital and intermediate goods. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.8% (4Q 2016: 1.3%).

Domestic demand growth increased to 7.7% in the first quarter of the year (4Q 2016: 3.2%), supported by continued expansion in private sector expenditure at 8.2% (4Q 2016: 5.9%) and the turnaround in public sector expenditure. Private consumption grew by 6.6% (4Q 2016: 6.1%). Household spending remained supported by continued expansion in employment and wage growth. The implementation of selected Government measures, including the higher amount of Bantuan Rakyat 1Malaysia cash transfers, also provided additional impetus to household spending.

Public consumption recorded a stronger growth of 7.5% (4Q 2016: -4.2%) attributed to higher spending on both emoluments and supplies and services.

On the supply side, most economic sectors expanded at a faster pace. The improvement in the overall growth was contributed primarily by the turnaround in the agriculture sector and higher growth in the manufacturing and services sectors.

Growth in the agriculture sector rebounded as crude palm oil yields recovered from the negative impact of El Niño. The performance of the sector was also supported by a double-digit expansion in rubber production. In the manufacturing sector, growth was driven mainly by the electronics and electrical segment, in line with the continued favourable global demand for semiconductors. The domestic-oriented industries were supported by the continued demand for food-related products and a rebound in the motor vehicle production.

The services sector expanded at a faster pace in the first quarter. Growth in the wholesale and retail sub-sector improved in line with higher household spending. The finance and insurance sub-sector also registered higher growth, supported by improvements in loan growth and capital market activity amid higher issuance of IPOs. Growth in the construction sector was stronger, supported by civil engineering activity in the petrochemical, power plant and transportation segments.

In the mining sector, growth moderated on lower crude oil production, particularly in Sarawak and Peninsular Malaysia, as part of the global initiative to reduce oil production.

Inflation increased to 4.3% in the 1Q 2017 driven by higher costs, but is expected to moderate in the second quarter onwards. However, compared to the forecast at the beginning of the year, the upside risks to global oil prices have increased given the rising geopolitical tensions in the Middle East and the possibilities of an extension to OPEC's output cut agreement. While the impacts of these developments on global oil prices remain limited at this juncture, if they persist, inflation could average higher than forecasted.

REVIEW OF THE PROPERTY MARKET

The Malaysian economy continued to expand in the first quarter of 2017, driven mainly by domestic demand activity. Looking ahead, leading indicators such as the Department of Statistics Malaysia's composite leading index, MIER Business Conditions Index and MIER Consumer Sentiments Index, point to continued expansion of the domestic economy.

Private consumption will be sustained by continued wage and employment growth, with additional lift coming from various policy measures to raise disposable income. Investment activity is projected to expand, driven mainly by the implementation of new and ongoing projects in the manufacturing and services sectors. The stabilization of commodity prices is also expected to lend support to investment activity in the mining sector. On the external front, exports are expected to benefit from the improvement in global growth, especially among Malaysia's key trading partners. Overall, the economy remains on track to expand as projected in 2017.

(Source: Savills (Malaysia) Sdn Bhd, June 2017)

2. HOTEL SECTOR

Malaysia

The leisure sub-sector saw a decline in the number of tourist arrivals by 6.8% from 27.4 million (2014) to 25.7 million (2015) as reported by Tourism Malaysia. However, the numbers of tourist arrivals having a slight recover to 26.8 million (2016).

In terms of performance of hotels, statistics by Tourism Malaysia (January – March 2016) indicated marginal improvements in occupancy, increased from 58.8% to 59.0%.

Tourist arrivals took a hit following the flight tragedies in 2014 but have now seen positive growth in the first 6 months of 2016, particularly from China which grew by 32% during this period, followed by Singapore, Indonesia, Thailand and Brunei. This was attributable to the introduction of the visa waiver programs for Chinese in March 2016 (valid through 2016) and coupled with intensive promotional efforts in China by the Malaysia Inbound Tourism Association.

In conjunction with the Visit Malaysia Year earlier in providing international standard accommodation for luxury and high spending tourists and the facilities for MICE (meeting, incentive, convention and exhibition) activities, the government has also extended the Pioneer Status promotion and Investment Tax Allowance for new investments in the 4 & 5-star hotels till 31 December 2018.

(Source: Savills (Malaysia) Sdn Bhd, June 2017)

Kuala Lumpur

As at 2016, the total supply of 3- to 5-star hotel rooms in Kuala Lumpur registered 29,891 rooms, consisting of 26 5-star hotels, 26 4-star hotels and 35 3-star hotels. 2016 saw the opening of a 5-star hotel which is The St. Regis Kuala Lumpur.

After a dip in 2003 due to SARS, both tourist arrivals and receipts in Malaysia has then been improving till 2014.

In 2015, tourist arrivals and receipts fell again by 6.3%. The fall of tourist arrivals was primarily affected by the weakening of global economy. In 2016, some growth to about 4% was recorded.

The Malaysia Tourism Board targets for tourist arrivals to increase to 36 million by 2020, equivalent to a CAGR of 4.2%. While this targeted rate is high, but it is to be supported by increase Chinese arrivals with the visa exemptions, as well as the competitive Ringgit exchange rate.

A significant portion of the hotel supply in Greater KL is from the 3 & 4-star categories which contributed to 49.6% of supply (25,031 rooms in Q1/2017).

REVIEW OF THE PROPERTY MARKET

The majority of these hotels are located within the KL Golden Triangle, especially along the tourist belt that covers Jalan Sultan Ismail, Jalan Ampang, Jalan Bukit Bintang and the KLCC vicinity.

From 2010 to 2016, the average occupancy rate fluctuates between 67% and 71% and the 4-star category leads the pack followed by the 3-star and 5-star categories. The average occupancy rates have been consistently achieving above 70% mark since 2010.

Kuala Lumpur is still one of the cheapest locations in Asia Pacific (and globally) for quality lodging, with the average 5-star rates trading at about USD100 per room per night.

As of Q1/2017, 74.5% of hotel supply exists in Kuala Lumpur. This overwhelming supply has contributed to the freeze of hotel developments by DBKL to relieve supply pressures from 2019 to 2021.

With the negative impacts on the local tourism and hotel market, new international brands coming on-stream would be a much needed boost. The entry of these new brands would continue to give recognition to Kuala Lumpur as an international destination thus putting KL on par with the rest of the world.

(Source: Savills (Malaysia) Sdn Bhd, June 2017)

Pahang

The outlook for the hotel sector in Pahang is expected to be healthy and is underpinned by the natural/pristine environmental factors such as the magnificent wilderness, the cool highland retreat and the beautiful 210 kilometers of shoreline offering tourist the full taste of sun, sand and sea.

The rapid growths of Kuantan Town and also in the numbers of beach resorts in Pahang are largely due to economic development of the state and the ecotourism attractions found all around the state.

As at 2016, the total supply of 3- to 5-star hotel rooms in Pahang registered 13,317 rooms, consisting of four 5-star hotels, sixteen 4-star hotels and twenty three 3-star hotels. A significant portion of the hotel room supply was from 3-star hotel category which contributed a total of 7,776 rooms (58.4%), followed by 3,740 4-star rooms (28.1%) and 1,801 5-star rooms (13.5%).

Laman Pesona Resort & Spa in Raub just opened offering 14 rooms in the review period. The overall occupancy rate of hotels in the State moderated from 77.6% to 71.6 % as reported by Tourism Malaysia as at 2016.

(Source: Savills (Malaysia) Sdn Bhd, June 2017)

Penang

The leisure sub-sector saw a slight decline in the overall occupancy from 60.7% in H1 2015 to 59.7% in H1 2016 as reported by Tourism Malaysia.

As at 2016, the total supply of 3- to 5-star hotel rooms in Penang registered 8,999 rooms. A significant portion of the hotel room supply is from the 4-star hotel category, which contributes to a total of 4,111 rooms, followed by the 5-star category at 3,285 rooms and the 3-star category at 1,603 rooms.

3 new hotels were opened in 2016 increasing the total to 44 hotels in Penang. Approximately 87% (38 hotels, 10,191 rooms) are found on Penang Island whilst the remaining 13% (6 hotels, 1,534 rooms) in Seberang Perai. The 3 new hotels in Penang are:-

1) 222-room Lexis Suite Penang @ Teluk Kumbar,
2) 231-room Vouk Hotel Suites @ Jalan Sultan Ahmad Shah, and
3) 195-room Iconic Hotel @ near Auto City in Juru.

The outlook for the Penang hotel sector remains healthy underpinned by both local and foreign tourists and boosted by the depreciating Ringgit and also the attractions of Penang as the one of the UNESCO world heritage status sites.

Tourism activities in the state is expected to stay vibrant with its popularity being highlighted among many international platforms, which can be seen from the new accolades in 2016 by international publications such as Lonely Planet, Los Angeles Times, Forbes, Holiday Lettings UK and The Culture Trip (2016). The growth of more international hotel brands in Penang is expected to further intensify the competition within the local hotel market.

(Source: Savills (Malaysia) Sdn Bhd, June 2017)

Perak

Perak received about 6.5 million tourists in 2016 as compared to 8.0 million tourists in 2015 (2014: 7.0 million; 2013: 6.0 million) and is targeting 8.0 million tourist arrivals for year 2017 in conjunction with *Visit Perak 2017*, with 10% increase of foreigners and 20% of local tourists. The targeted receipt is RM2.0 billion. The state government had held discussions with two national tourism operators in Japan to bring 30,000 tourists and also 100,000 tourists from China, Asean countries, Australia and Europe. The government is also drawing tourists from India and one of the initiatives is for Ipoh to be introduced as one of the destinations for the Singapore to Penang cruise holidays. Besides MAPS (Movie Animation Park Studios) in Bandar Meru Raya, there will be another two theme parks (water-based and jungle-based) in Kledang Saiong Eco Forest Park. On average, about 300,000 to 400,000 foreign tourists visit Perak annually. Perak was listed as one of the top ten destinations in Lonely Planet's "Best in Travel 2017". Ipoh is nurturing a burst of vintage-style cafes, boutique hotels and interesting food and beverages. Ipoh is also known for its famous colonial train stations. Uber, a mode of public transport, was introduced in Perak and is expected to also boost the state's tourism industry. The West Coast Expressway, currently under construction, will connect Sabak Bernam in Selangor to Taiping and is expected to have a positive spill-over effect for properties in Manjung.

The performance of the leisure sub-sector was less encouraging as Perak witnessed a decline in overall occupancy of hotels from 47.6% in the 1st Half of 2015 to 44.8% in the 3rd Quarter of 2016. The outlook for Perak hotels' occupancy should be bright with the Visit Perak Year 2017, the Visit ASEAN@50 Golden Celebration 2017, 2017 SEA and Para ASEAN Games. 3 top destinations in Perak are Ipoh, Manjung and Taiping.

(Source: Azmi & Co Sdn Bhd, June 2017)

Terengganu

Terengganu recorded about 4.7 million tourists in 2016 with receipts of RM1.473 billion as compared to 4.7 million tourists in 2015 with receipts of RM4.65 billion (2014: 4.517 million; 2013: 4.037 million). Terengganu is targeting 6.5 million tourist arrivals per annum in conjunction with *Visit Terengganu Year 2017* and 6.5 million tourist arrivals per annum in the following 4 years. The targeted receipt is RM5.0 billion for Year 2017. At the start of 2017, 3,000 travel agents and tourists from China planned to fly directly to Kuala Terengganu. More weekly direct flights from other Asian countries are in the pipeline.

The performance of the leisure sub-sector was better as Terengganu witnessed a slight increase in overall occupancy of hotels from 46.2% in the 1st Half of 2015 to 50.0% in the 3rd Quarter of 2016. There is planned construction for a 16-storey hotel and a serviced apartment within Mayang Mall in Kuala Terengganu.

(Source: Azmi & Co Sdn Bhd, June 2017)

REVIEW OF THE PROPERTY MARKET

AUSTRALIA

1. ECONOMY

Gross Domestic Product (GDP) growth for the fourth quarter of 2016 was stronger than expected, growing at 1.4% quarter on quarter.

Australia's unemployment rate has remained steady at 5.9 per cent boosted by the creation of 60,900 jobs in March 2017. The Bureau of Statistics estimated that 74,500 full-time jobs were created while 13,600 part-time jobs were lost.

The first quarter 2017 Consumer Price Index (CPI) rose by 0.5% quarter on quarter. Perth was flat with zero price growth over the quarter. At a category breakdown there was an increase in non-discretionary items such as housing due to household utility costs and transport due to an increase in all fuel types.

The Australian dollar weakened for a second consecutive month, with the AUD/USD rate slipping -2.21% to US$0.7475 in April. Despite the short term bounce above US$0.75 in early May, the outlook for the rest of 2017 points to further weakening as the US Federal Reserve looks set to raise rates in June and December. In addition, all other major trading currencies will likely outperform the Australian dollar over 2017-18 on the expectation that commodity prices will ease during that period.

The RBA left the official cash rate unchanged at 1.50% in May 2017 for the eighth consecutive board meeting. Discussion on the domestic economy has changed little with the RBA noting Australia's ongoing transition from mining investment to export and services growth, assisted by low interest rates.

(Source: Colliers International, May 2017)

2. HOTEL SECTOR

Australia

The latest data available from Tourism Research Australia indicates that the outlook for international visitor arrivals to Australia remains encouraging. International visitor arrivals for the full year to December 2016 grew by 11% to 7.6 million. This follows on from growth of 7.9% in 2015. This trend continues to be largely led by the emerging Asian economies, particularly from China with visitors increasing by 17% between 2015 and 2016. Other Asian countries are also showing growth, albeit form a lower base, including from Korea (28%), Taiwan (26%), Japan (24%), and Thailand (18%). Other than Asian countries, the growth of visitors from the United States of America (16%) also contributed to the growth for the top 10 regions.

Domestic business travel overall has also increased by 1.4%, to 18.7 million visitors in 2016. Importantly, growth has been seen in business visitors staying in commercial accommodation with 3.5% growth to 13 million visitors between 2015 and 2016.

According to data from STR Global, full year 2016 average Revenue Per Available Room (RevPAR) for Australia's key cities experienced growth in (Sydney, Melbourne, Adelaide, Cairns, Gold Coast, Canberra and Hobart), but decreases in (Brisbane, Perth and Darwin). The declines in the last three markets have been a consequence of increasing supply accompanied by decreasing demand particularly from the Resources and Mining Sectors.

Occupancy rates for major cities in Australia remain steady, with the full year 2016 figure of 78.3% in comparison to 2015 at 78%. The strongest growth was in Cairns (3.8%), while Sydney (88.1%) and Melbourne (86.6%) have the highest occupancy levels.

REVIEW OF THE PROPERTY MARKET

The Average Daily Rate (ADR) trend across major cities in Australia for 2016 showed a range of outcomes with growth in Sydney at 5.7%, Cairns at 7.8% and the Gold Coast at 6.0%, while declines were experienced in Brisbane at 6.8%, Darwin at 9.3% and Perth at 6.7%.

Sydney

Sydney remains Australia's best performing market. On a year-to-date April 2017 basis, RevPAR increased by 8.5% to $238.82 and ADR increased by 7.1% to $265.23, and occupancy increased by 1.4% to 90.0%.

Brisbane

Hotels in Brisbane continue to experience a challenging trading climate. On a year to date April 2017 basis, there has been some growth in occupancy by 2.1% to 69.8% explained by room night sold increasing by 6.7% in comparison to room nights available increasing at the lower rate of 4.6%. However room rates have continued to decline, reducing by 4.3% to $149.47 and RevPAR by 2.3% to $104.33.

Melbourne

The Melbourne hotel market continues to demonstrate stability. Growth on a year to date basis to April 2017 in comparison to the same period to April 2016 has continued to be subdued. RevPAR has decreased by 0.2% year-to-date April 2017 to $185.94 and ADR increased marginally by 0.3% to $214.39 over the same period, however, occupancy levels remained high at 86.7%.

(Source: Colliers International, June 2017)

JAPAN

1. ECONOMY

The real GDP growth rate for the October-December quarter of 2016 was 0.3 percent on a quarter-on-quarter basis and its annualized rate was 1.2 percent, representing positive growth for four consecutive quarters. With regard to domestic demand, private consumption had been somewhat sluggish, against the backdrop of a surge in fresh food prices. However, improvement in external demand was evident on the back of a pick-up in emerging economies. Thus, the real GDP growth rate as a whole was somewhat above the potential growth rate, which is estimated to be in the range of 0.5-1.0 percent. The output gap -- which captures the utilization of labor and capital -- had been more or less unchanged at around 0 percent, but it has improved for two consecutive quarters since mid-2016, due mainly to an increase in the manufacturing sector's capacity utilization, and was slightly positive for the October-December quarter.

Japan's economy has been turning toward a moderate expansion. Overseas economies have continued to grow at a moderate pace, although emerging economies remain sluggish in part. In this situation, exports have been on an increasing trend. On the domestic demand side, business fixed investment has been on a moderate increasing trend with corporate profits and business sentiment improving in a wider range of industries. Private consumption has been resilient against the background of steady improvement in the employment and income situation. Meanwhile, housing investment and public investment have been more or less flat.

REVIEW OF THE PROPERTY MARKET

Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (core CPI, all items less fresh food) has been about 0 percent. Under "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," the yield curve for Japanese government bonds (JGBs) has been in line with the current guideline for market operations, in which the short-term policy interest rate is set at minus 0.1 percent and the target level of 10-year JGB yields is around zero percent. That is, the yields for relatively short maturities have been stable in negative territory above minus 0.5 percent; the 10-year JGB yields, albeit having been under upward pressure temporarily, have generally been stable at around 0 percent in positive territory. The monetary base has been increasing at a high year-on-year growth rate of around 20 percent. With such long- and short-term JGB yields, firms' funding costs have been hovering at extremely low levels. Issuance rates for CP (Commercial paper) have remained at extremely low levels. Conditions for CP issuance have been favorable, as suggested by the DI (Diffusion Index) in the March Tankan (Short-Term Economic Survey of Enterprises in Japan) having been at around the highest level since 2008, which is when it was introduced in the Tankan. Issuance rates for corporate bonds have remained at extremely low levels. Lending rates (the average interest rates on new loans and discounts) have been around historical low levels.

With regard to the outlook, Japan's economy is likely to continue its moderate expansion. Through fiscal 2018, domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures. Business fixed investment is likely to continue increasing moderately, supported by accommodative financial conditions, heightened growth expectations, and increases in Olympic Games-related demand. Private consumption is expected to follow a moderate increasing trend as employee income continues to improve. Public investment is projected to increase through fiscal 2017, due mainly to the positive effects resulting from a set of stimulus measures, and thereafter remain at a relatively high level with Olympic Games-related demand. Meanwhile, the growth rates of overseas economies are expected to increase moderately as advanced economies continue to grow steadily. Furthermore, steady growth in advanced economies will continue to support the recovery in emerging economies as the policy measures taken by these emerging economies take effect. Exports are expected to increase on the back of the improvement in overseas economies.

(Source: Savills Japan Co Ltd, June 2017)

2. HOTEL SECTOR

Japan

International arrivals to Japan continue to expand at a stunning pace. In 2016, over 24 million travelers from overseas visited Japan, a 21.8% increase from the previous year. This marks the fifth consecutive year of over 20% growth, given that the county just achieved an astounding 47.1% increase in 2015. This figure between January and April in 2017 continues to increase by 16.4% compared to the same period in 2016. Japan can reach its target of 40 million visitors by 2020 if it adds 4 million visitors annually for the next four years.

The national Average Daily Rate (ADR) climbed for four consecutive years and recorded a new peak at JPY15,396. On a year-on-year basis, the national ADR increased by 5.2%, continuing strong growth after a 12% jump in 2015. Although occupancy rate slightly declined, it is still holding over 80%, indicating consistently strong lodging demand. Overall, RevPAR increased to JPY12,729 over the same period, up 4.0% from the 2015 average of JPY12,236.

Niseko

During 1 April 2015 to 31 March 2016 (FY March 2016), the number of visitor arrivals reached 3.3 million, up by 5.9% from the previous year. In FY March 2017 (1 April 2016 to 31 March 2017), there was a decrease of skiers due to premature melting of snow, thus the number of visitor arrivals decreased by 2.4%. Day visitors accounted for approximately 70% of the total visitors during this time period.

In FY March 2016, the total number of hotel guests in Niseko area increased by 11.2% as compared to the previous year. Due to the large improvement in FY March 2016 and premature melting of snow, the number of hotel guests in FY March 2017 decreased by 6.2% as compared to FY March 2016.

By visitor profile, the number of foreign guests had increased significantly. The number of international hotel guests in FY March 2006 was 97,227 and the figure grew more than 5 times to 558,797 in FY March 2017. Although the weather conditions and strength of the Japanese currency temporarily affected the number of visitors and hotel guests, the basic trend is considered to be positive in the mid-to-long run, supported by the growing number of visitors from Asian countries especially from China, South Korea, and Taiwan.

(Source: Savills Japan Co Ltd, June 2017)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fifth Annual General Meeting of YTL Hospitality REIT ("REIT") will be held at Mayang Sari Grand Ballroom, Lower Level 3, JW Marriott Hotel Kuala Lumpur, 183, Jalan Bukit Bintang, 55100 Kuala Lumpur on Friday, the 20th day of October, 2017 at 3.00 p.m. to transact the following business:-

ORDINARY BUSINESS

To lay before the meeting the Audited Financial Statements for the financial year ended 30 June 2017 together with the Reports attached thereon.	**Please refer Explanatory Note A**

By Order of the Board
of Pintar Projek Sdn Bhd (314009-W)
(Manager for YTL Hospitality REIT)

Ho Say Keng
Company Secretary

Kuala Lumpur
30 August 2017

Notes:-

1. A unitholder entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him. A proxy may, but need not, be a unitholder of the REIT. A unitholder other than an authorised nominee shall not be entitled to appoint more than one proxy to attend and vote at the same meeting and where such unitholder appoints more than one proxy to attend and vote at the same meeting, such appointment shall be invalid.
2. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy (but not more than two proxies) in respect of each securities account it holds in units standing to the credit of the said securities account. Where the unitholder appoints two proxies, the appointment will be invalid unless the unitholder specifies the proportions of his holdings to be represented by each proxy.
3. Where a unitholder is an exempt authorised nominee which holds units in the REIT for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.
4. The original Form of Proxy and the Power of Attorney or other authority (if any) under which it is signed or notarially certified copy thereof must be lodged at the office of Pintar Projek Sdn Bhd ("Manager") at 11th Floor, Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, not less than 48 hours before the time appointed for the meeting or at any adjournment thereof.
5. In the case of a corporation, the Form of Proxy should be executed under its common seal or under the hand of an officer or attorney who has been duly authorised by the corporation.
6. For the purpose of determining the unitholders who shall be entitled to attend the meeting, the Manager shall request Bursa Malaysia Depository Sdn Bhd, in accordance with Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 12 October 2017. Only a depositor whose name appears on the General Meeting Record of Depositors as at 12 October 2017 shall be entitled to attend the said meeting or appoint proxy to attend on his behalf.

EXPLANATORY NOTE A

There shall be no voting on the aforesaid Ordinary Business given that the laying of the Audited Financial Statements for the financial year ended 30 June 2017 of REIT together with the Reports attached thereon before the unitholders at the Annual General Meeting is meant for discussion only in accordance with Clause 15.33A of the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia.

CORPORATE INFORMATION

MANAGER

Pintar Projek Sdn Bhd

MANAGER'S REGISTERED OFFICE/ PRINCIPAL PLACE OF BUSINESS

11th Floor, Yeoh Tiong Lay Plaza
55 Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: 603-2117 0088/603-2142 6633
Fax: 603-2141 2703

BOARD OF DIRECTORS OF THE MANAGER

Chief Executive Officer
Tan Sri Dato' (Dr) Francis Yeoh Sock Ping
PSM, CBE, FICE, SIMP, DPMS, DPMP, JMN, JP
Hon LLD (Nottingham), Hon DEng (Kingston),
BSc (Hons) Civil Engineering, FFB, F Inst D, MBIM, RIM

Executive Directors

Dato' Yeoh Seok Kian
DSSA
BSc (Hons) Bldg, MCIOB, FFB

Dato' Mark Yeoh Seok Kah
DSSA
LLB (Hons)

Dato' Hj Mohamed Zainal Abidin Bin Hj Abdul Kadir
DPMP, PMP, AMN, PPN, PJK, OStJ, JP

Yeoh Keong Shyan
LLB (Hons)

Independent Non-Executive Directors

Dato' Ahmad Fuaad Bin Mohd Dahalan
ABS, DIMP, SIMP
BA (Hons)

Eu Peng Meng @ Leslie Eu
BCom, FCILT

MANAGEMENT TEAM

Datin Kathleen Chew Wai Lin
Legal Advisor

Ho Say Keng
Accountant/Company Secretary

Eoon Whai San
General Manager

COMPANY SECRETARY OF THE MANAGER

Ho Say Keng

TRUSTEE

Maybank Trustees Berhad
8th Floor, Menara Maybank
100 Jalan Tun Perak
50050 Kuala Lumpur
Tel: 603-2078 8363
Fax: 603-2070 9387
Email: mtb@maybank.com.my

REGISTRAR

Pintar Projek Sdn Bhd
11th Floor, Yeoh Tiong Lay Plaza
55 Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: 603-2117 0088/603-2142 6633
Fax: 603-2141 2703

AUDITORS

HLB Ler Lum (AF 0276)
Chartered Accountants
(A member of HLB International)

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Market (16.12.2005)

PROFILE OF THE BOARD OF DIRECTORS

Tan Sri Dato' (Dr) Francis Yeoh Sock Ping

Malaysian, aged 63, has been the Chief Executive Officer and Executive Director of Pintar Projek Sdn Bhd since 10 March 2005. Tan Sri Francis studied at Kingston University in the United Kingdom, where he obtained a Bachelor of Science (Hons) Degree in Civil Engineering and was conferred an Honorary Doctorate of Engineering in 2004. In July 2014, Tan Sri Francis was conferred an Honorary Degree of Doctor of Laws from University of Nottingham. He became the Managing Director of YTL Corporation Berhad Group in 1988 which, under his stewardship, has grown from a single listed company into a global integrated infrastructure developer, encompassing multiple listed entities ie. YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, YTL Hospitality REIT and Starhill Global REIT.

He is presently the Managing Director of YTL Corporation Berhad, YTL Power International Berhad and YTL Land & Development Berhad, all listed on the Main Market of Bursa Malaysia Securities Berhad. He is the Executive Chairman and Managing Director of YTL e-Solutions Berhad. He is also the Executive Chairman of YTL Starhill Global REIT Management Limited, the manager of Starhill Global REIT, a vehicle listed on the Main Board of the Singapore Exchange Securities Trading Limited (SGX-ST). Tan Sri Francis sits on the boards of several public companies such as YTL Industries Berhad and YTL Cement Berhad. He is the Chairman of private utilities corporations, Wessex Water Services Limited in England and Wales, and YTL PowerSeraya Pte Limited in Singapore. Tan Sri Francis is also an Independent Non-Executive Director of The Hong Kong and Shanghai Banking Corporation Limited. He also sits on the board of trustees of YTL Foundation. He also serves on the board of directors of Suu Foundation, a humanitarian organisation committed to improving healthcare and education in Myanmar.

He is a Founder Member of the Malaysian Business Council and The Capital Markets Advisory Council, member of The Nature Conservancy Asia Pacific Council, and the Asia Business Council, Trustee of the Asia Society and Chairman for South East Asia of the International Friends of the Louvre. He is also a member of the Advisory Council of London Business School, Wharton School and INSEAD. He is the first non-Italian board member of the historic Rome Opera House and helped fund its restoration to keep it from closing. He served as a member of the Barclays Asia-Pacific Advisory Committee from 2005 to 2012. Tan Sri Francis was made board member of Global Child Forum by His Majesty King Carl XVI Gustaf in May 2016.

He was ranked by both Fortune and Businessweek magazines as Asia's 25 Most Powerful and Influential Business Personalities and one of Asia's Top Executives by Asiamoney. He won the inaugural Ernst & Young's Master Entrepreneur in Malaysia in 2002 and was named as Malaysia's CEO of the Year by CNBC Asia Pacific in 2005.

In 2006, he was awarded the Commander of the Most Excellent Order of the British Empire (CBE) by Her Majesty Queen Elizabeth II, and received a prestigious professional accolade when made a Fellow of the Institute of Civil Engineers in London in 2008. He was the Primus Inter Pares Honouree of the 2010 Oslo Business for Peace Award, for his advocacy of socially responsible business ethics and practices. The Award was conferred by a panel of Nobel Laureates in Oslo, home of the Nobel Peace Prize. He also received the Corporate Social Responsibility Award at CNBC's 9th Asia Business Leaders Awards 2010. He received the Lifetime Achievement Award for Leadership in Regulated Industries at the 7th World Chinese Economic Summit held in London in 2015. He was also awarded the prestigious Muhammad Ali Celebrity Fight Night Award at the 2016 Celebrity Fight Night in Arizona. In 2017, he was honoured with the Kuala Lumpur Mayor's Award for Outstanding Contribution at the Kuala Lumpur Mayor Tourism Awards. This was in recognition of his efforts in the transformation of Kuala Lumpur into one of the top shopping and tourist destinations in the world.

PROFILE OF THE BOARD OF DIRECTORS

Dato' Yeoh Seok Kian

Malaysian, aged 59, has been an Executive Director of Pintar Projek Sdn Bhd since 10 March 2005. He graduated from Heriot-Watt University, Edinburgh, United Kingdom in 1981 with a Bachelor of Science (Hons) Degree in Building and was conferred an Honorary Degree of Doctor of the University in 2017. He attended the Advance Management Programme conducted by Wharton Business School, University of Pennsylvania in 1984. Dato' Yeoh is a Fellow of the Faculty of Building, United Kingdom as well as a Member of the Chartered Institute of Building (UK). He is also the Deputy Managing Director of YTL Corporation Berhad and YTL Power International Berhad and the Executive Director of YTL Land & Development Berhad, all listed on the Main Market of Bursa Malaysia Securities Berhad. Dato' Yeoh also serves on the boards of other public companies such as YTL Cement Berhad, YTL Industries Berhad and The Kuala Lumpur Performing Arts Centre, and private utilities corporations, Wessex Water Limited in England and Wales and YTL PowerSeraya Pte Limited in Singapore, as well as YTL Starhill Global REIT Management Limited, the manager of Starhill Global REIT, a vehicle listed on the Main Board of the Singapore Exchange Securities Trading Limited (SGX-ST).

Dato' Ahmad Fuaad Bin Mohd Dahalan

Malaysian, aged 67, was appointed to the Board on 17 January 2012 as an Independent Non-Executive Director. Dato' Ahmad Fuaad holds a Bachelor of Arts (Hons) degree from the University of Malaya. He was attached with Wisma Putra, Ministry of Foreign Affairs as Malaysian Civil Service ("MCS") Officer in April 1973 before joining Malaysia Airlines in July 1973. While in Malaysia Airlines, Dato' Ahmad Fuaad served various posts and his last position was as the Managing Director. He was formerly a director of Lembaga Penggalakan Pelanchongan Malaysia, Malaysia Industry-Government Group for High Technology and Malaysia Airports Holdings Berhad. Currently, Dato' Ahmad Fuaad is a director of Hong Leong Capital Berhad, YTL Corporation Berhad and YTL e-Solutions Berhad.

Dato' Mark Yeoh Seok Kah

Malaysian, aged 52, has been an Executive Director of Pintar Projek Sdn Bhd since 17 January 2012. He graduated from King's College, University of London, with an LLB (Hons) and was subsequently called to the Bar at Gray's Inn, London, in 1988. He was awarded Fellowship of King's College London in July 2014.

Dato' Mark Yeoh joined YTL Group in 1989 and is presently the Executive Director responsible for the YTL Hotels and Resorts Division. In addition, he is also part of YTL Power's Mergers & Acquisitions Team and was involved in the acquisition of ElectraNet SA (Australia), Wessex Water Limited (UK), P.T. Jawa Power (Indonesia) and PowerSeraya Limited (Singapore). He serves as an Executive Director of YTL Corporation Berhad, YTL Land & Development Berhad and YTL Power International Berhad, all listed on the Main Market of Bursa Malaysia Securities Berhad. He is also a board member of YTL Cement Berhad and private utilities corporations, Wessex Water Limited and Wessex Water Services Limited in England and Wales, and YTL PowerSeraya Pte Limited in Singapore.

PROFILE OF THE BOARD OF DIRECTORS

Dato' Hj Mohamed Zainal Abidin Bin Hj Abdul Kadir

Malaysian, aged 77, has been an Executive Director of Pintar Projek Sdn Bhd since 10 March 2005. He qualified as a teacher in 1963 from the Day Training Centre for Teaching in Ipoh, Perak, and was in the teaching profession from 1964 to 1981 prior to entering the business arena as a property developer in May 1981. Dato' Hj Mohamed Zainal Abidin also sits on the boards of several reputable private limited companies involved in construction, property development and resort operations such as Pakatan Perakbina Sdn Bhd, Seri Yakin Sdn Bhd and Syarikat Pelanchongan Pangkor Laut Sendirian Berhad.

Eu Peng Meng @ Leslie Eu

Malaysian, aged 82, has been an Independent Non-Executive Director of Pintar Projek Sdn Bhd since 10 March 2005. Mr Leslie Eu graduated with the degree of Bachelor of Commerce from the University College Dublin, Ireland in 1959. He was nominated by Bank Negara Malaysia to be one of the founding directors of Global Maritime Ventures Berhad to undertake the expansion and direct investment in the maritime industry in 1994. He has been in the shipping business for over 50 years and was the first Chief Executive Officer of Malaysian International Shipping Corporation Berhad from the company's inception in 1969 until his early retirement in 1985. Mr Leslie Eu was a board member of Lembaga Pelabuhan Kelang from 1970 to 1999 and is a Member Emeritus of the American Bureau of Shipping. He was appointed by the United Nations Conference on Trade and Development as one of 13 experts to assist developing nations in establishing their maritime fleets. Mr Leslie Eu presently serves on the boards of YTL Corporation Berhad, YTL Land & Development Berhad and YTL Cement Berhad.

Yeoh Keong Shyan

Malaysian, aged 31, has been an Executive Director of Pintar Projek Sdn Bhd since 18 January 2011. He graduated from the University of Nottingham with an LLB (Hons) in 2008. He obtained the Capital Markets and Financial Advisory Services (CMFAS) Certification in 2010. He joined YTL Group in 2009 and is presently engaged in the YTL Hotels and Resorts as well as the Property Development Divisions.

PROFILE OF THE BOARD OF DIRECTORS

DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

During the financial year, a total of 4 Board meetings were held and the details of attendance are as follows:-

	Attendance
Tan Sri Dato’ (Dr) Francis Yeoh Sock Ping	4
Dato’ Yeoh Seok Kian	3
Dato’ Ahmad Fuaad Bin Mohd Dahalan	4
Dato’ Mark Yeoh Seok Kah	4
Dato’ Hj Mohamed Zainal Abidin Bin Hj Abdul Kadir	2
Eu Peng Meng @ Leslie Eu	4
Yeoh Keong Shyan	3

Notes:

1. **Family Relationship with Director and/or Major Unitholder**

   Tan Sri Dato’ (Dr) Francis Yeoh Sock Ping, Dato’ Yeoh Seok Kian and Dato’ Mark Yeoh Seok Kah are siblings. Tan Sri Dato’ Seri (Dr) Yeoh Tiong Lay, the father of Tan Sri Dato’ (Dr) Francis Yeoh Sock Ping, Dato’ Yeoh Seok Kian and Dato’ Mark Yeoh Seok Kah, is a deemed major shareholder of YTL Corporation Berhad, which is a major unitholder of YTL Hospitality REIT. Mr Yeoh Keong Shyan is a son of Tan Sri Dato’ (Dr) Francis Yeoh Sock Ping. Save as disclosed herein, none of the Directors of the Manager has any family relationship with any director of the Manager and/or major unitholder of YTL Hospitality REIT.

2. **Conflict of Interest**

   Save for the Director’s interest in YTL Hospitality REIT (as disclosed under Directors’ Interests in the Manager’s Report) and the transactions with companies related to the Manager (as disclosed in the notes to the financial statements), no conflict of interest has arisen during the financial year under review.

3. **Conviction of Offences (other than traffic offences)**

   None of the Directors of the Manager has been convicted of any offences within the past ten (10) years.

STATEMENT ON CORPORATE GOVERNANCE

for the financial year ended 30 June 2017

YTL Hospitality REIT ("YTL REIT" or "Trust") was established on 18 November 2005 pursuant to a trust deed ("Deed") entered into between Pintar Projek Sdn Bhd ("PPSB" or "Manager") and Maybank Trustees Berhad ("Trustee"), as the manager and trustee, respectively, of the Trust. YTL REIT has been listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") since 16 December 2005.

The Board of Directors of PPSB ("Board") is firmly committed to ensuring that the Manager implements and operates good corporate governance practices in its overall management of the Trust and its subsidiaries ("YTL REIT Group"). In implementing its system of corporate governance, the Directors have been guided by the measures set out in the Guidelines on Real Estate Investment Trusts ("REIT Guidelines") and the Malaysian Code on Corporate Governance ("Code") issued by the Securities Commission Malaysia ("SC"), and the Main Market Listing Requirements of Bursa Securities ("Listing Requirements").

THE ROLE OF THE MANAGER

YTL REIT is managed and administered by PPSB, who has the primary objectives of: (a) providing unitholders of the Trust ("Unitholders") with stable cash distributions with the potential for sustainable growth, principally from the ownership of properties; and (b) enhancing the long-term value of YTL REIT's units ("Units").

The Manager is required to ensure that the business and operations of YTL REIT are carried on and conducted in a proper, diligent and efficient manner, and in accordance with acceptable and efficacious business practices in the real estate investment trust industry in Malaysia. Subject to the provisions of the Deed, the Manager has full and complete powers of management and must manage YTL REIT (including all assets and liabilities of the Trust) for the benefit of its Unitholders.

The Board recognises that an effective corporate governance framework is critical in order to achieve these objectives, to fulfil its duties and obligations and to ensure that YTL REIT continues to perform strongly.

The general functions, duties and responsibilities of the Manager include the following:

(a) to manage the YTL REIT Group's assets and liabilities for the benefit of Unitholders;

(b) to be responsible for the day-to-day management of the YTL REIT Group;

(c) to carry out activities in relation to the assets of the YTL REIT Group in accordance with the provisions of the Deed;

(d) to set the strategic direction of the YTL REIT Group and submit proposals to the Trustee on the acquisition, divestment or enhancement of assets of the YTL REIT Group;

(e) to issue an annual report and quarterly reports of YTL REIT to Unitholders within 2 months of YTL REIT's financial year end and the end of the periods covered, respectively; and

(f) to ensure that the YTL REIT Group is managed within the ambit of the Deed, the Capital Markets and Services Act 2007 (as amended) and other securities laws, the Listing Requirements, the REIT Guidelines and other applicable laws.

CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

The Deed provides that the Manager, the Trustee and any delegate of either of them shall avoid conflicts of interest arising or, if conflicts arise, shall ensure that the YTL REIT Group is not disadvantaged by the transaction concerned. The Manager must not make improper use of its position in managing the YTL REIT Group to gain, directly or indirectly, an advantage for itself or for any other person or to cause detriment to the interests of Unitholders.

In order to deal with any conflict-of-interest situations that may arise, any related party transaction, dealing, investment or appointment carried out for or on behalf of the YTL REIT Group involving parties related to the Trust must be executed on terms that are the best available to the Trust and which are no less favourable than an arm's length transaction between independent parties.

The Manager may not act as principal in the sale and purchase of real estate, securities and any other assets to and from the YTL REIT Group. "Acting as principal" includes a reference to:

(a) dealing in or entering into a transaction on behalf of a person associated with the Manager;

(b) acting on behalf of a corporation in which the Manager has a controlling interest; or

(c) the Manager acting on behalf of a corporation in which the Manager's interest and the interests of its Directors together constitute a controlling interest.

In addition, the Manager must not, without the prior approval of the Trustee, invest any moneys available for investment under the Deed in any securities, real estate or other assets in which the Manager or any officer of the Manager has a financial interest or from which the Manager or any officer of the Manager derives a benefit.

In dealing with any related party transactions that may arise, no real estate may be acquired from, or disposed to, a related party of the Manager unless the following criteria are satisfied:

(a) A valuation must be undertaken of the real estate by an approved valuer, in accordance with the Deed, and a valuation report given to the Trustee where the date of valuation must not be more than 6 months before the date of the sale and purchase agreement provided that since the last valuation, no circumstances have arisen to materially affect the valuation and that, where applicable, the valuation has not been revised by the SC;

(b) All related party transactions involving real estate must be transacted at a price equivalent to the value assessed in the valuation report, consented to by the Trustee and consistent with the investment objectives and strategy of the Trust; and

(c) the real estate may be transacted at a price other than as specified in (b) above provided that:

    (i) for acquisitions, the price is not more than 110% of the value assessed in the valuation report referred to in (a) above;

    (ii) for disposals, the price is not less than 90% of the value assessed in the valuation report referred to in (a) above; and

(d) the Trustee provides a written confirmation that the transaction is based on normal commercial terms, at arm's length and not prejudicial to the Unitholders' interests.

The Manager must inform Unitholders through an announcement to Bursa Securities of the Trustee's written confirmation. Where the transaction is conditional upon the approval of Unitholders, such approval must be sought prior to completion of the transaction.

In this regard, the Manager adheres strictly to the provisions of the REIT Guidelines which prohibit the Manager and its related parties from voting their Units at any meeting of Unitholders convened unless an exemption is obtained from the SC.

ROLES & RESPONSIBILITIES OF THE BOARD

The Manager is led and managed by an experienced Board with a wide and varied range of expertise. This broad spectrum of skills and experience gives added strength to the leadership, thus ensuring the Manager is under the oversight and guidance of an accountable and competent Board. The Directors recognise the key role they play in charting the strategic direction, development and control of the Manager. Key elements of the Board's stewardship responsibilities include those set out in the Code:

STATEMENT ON CORPORATE GOVERNANCE
for the financial year ended 30 June 2017

- Reviewing and adopting strategic plans for the YTL REIT Group;
- Overseeing the conduct of the YTL REIT Group's business operations and financial performance;
- Identifying the principal risks affecting the YTL REIT Group's businesses and maintaining a sound system of internal control and mitigation measures;
- Succession planning;
- Overseeing the development and implementation of Unitholder communication policies; and
- Reviewing the adequacy and integrity of the YTL REIT Group's management information and internal control system.

The Chief Executive Officer and Executive Directors are accountable to the Board for the profitability and development of the YTL REIT Group, consistent with the primary aim of enhancing long-term Unitholder value. The Independent Non-Executive Directors have the experience and business acumen necessary to carry sufficient weight in the Board's decisions and the presence of these Independent Non-Executive Directors brings an additional element of balance to the Board as they do not participate in the day-to-day running of YTL REIT.

The differing roles of Executive and Non-Executive Directors are delineated, both having fiduciary duties to Unitholders. Executive Directors have a direct responsibility for business operations whereas Non-Executive Directors have the necessary skill and experience to bring an independent and objective judgment to bear on issues of strategy, performance and resources brought before the Board. The Executive Directors are responsible for the Manager's operations and for ensuring that the strategies proposed by the executive management are fully discussed and examined, and take account of the long term interests of the Unitholders.

Board meetings are scheduled with due notice in advance at least four times a year in order to review and approve the interim and annual financial statements. Additional meetings may also be convened on an ad-hoc basis when significant issues arise relating to the Trust. The Board met four times during the financial year ended 30 June 2017.

The Directors have full and unrestricted access to all information pertaining to the business and affairs of the YTL REIT Group to enable them to discharge their duties. Prior to Board meetings, all Directors receive the agenda together with a comprehensive set of Board papers containing information relevant to the business of the meeting. This allows the Directors to obtain further explanations or clarifications, where necessary, in order to be properly briefed before each meeting.

All Directors have full access to the advice and services of the Company Secretary who ensures that Board procedures are adhered to at all times during meetings and advises the Board on matters including corporate governance issues and the Directors' responsibilities in complying with relevant legislation and regulations. The Company Secretary works very closely with management for timely and appropriate information, which will then be passed on to the Directors. In accordance with the Board's procedures, deliberations and conclusions in Board meetings are recorded by the Company Secretary, who ensures that accurate and proper records of the proceedings of Board meetings and resolutions passed are recorded and kept in the statutory register at the registered office of the Manager.

COMPOSITION & INDEPENDENCE OF THE BOARD

The Board currently has 7 Directors comprising 5 executive members and 2 non-executive members, all of whom are independent. This is in compliance with the provisions of the Listing Requirements and the REIT Guidelines for at least one-third of the Board to be independent.

The appointment of Directors is undertaken by the Board as a whole. The Chief Executive Officer makes recommendations on the suitability of candidates nominated for appointment to the Board and, thereafter, the final decision lies with the entire Board to ensure that the resulting mix of experience and expertise of members of the Board is sufficient to address the issues affecting the Manager. In its deliberations, the Board is required to take into account the integrity, professionalism, skill, knowledge, expertise and experience of the proposed candidate.

Directors' remuneration is decided in line with the objective recommended by the Code to determine the remuneration for Directors so as to attract and retain Directors of the calibre needed to successfully carry on the Manager's operations. The Executive Directors' remuneration consists of basic salary, other emoluments and other customary benefits as appropriate to a senior management member. In general, the component parts of remuneration are structured so as to link rewards to the overall performance of YTL REIT. In the case of Non-Executive Directors, the level of remuneration reflects the contribution, experience and responsibilities undertaken by the particular non-executive concerned.

BOARD COMMITMENT

The Directors are fully cognisant of the importance and value of attending seminars, training programmes and conferences in order to update themselves on developments and changes in the REIT industry, as well as wider economic, financial and governance issues to enhance their skills, knowledge and expertise in their respective fields. The Board will continue to evaluate and determine the training needs of its Directors on an ongoing basis.

Throughout the financial year under review, the Directors attended various conferences, programmes and speaking engagements covering areas that included corporate governance/risk management, internal controls, trade, economic development, investment, taxation, sustainability, leadership, legal and business management which they collectively or individually considered useful in discharging their stewardship responsibilities.

The conferences, seminars and training programmes attended by the Directors are set out below:-

Seminars/Conferences/Training	Attended by
➤ **Corporate Governance/Risk Management and Internal Controls**	
Cybersecurity in the Boardroom (17 April 2017)	Tan Sri Dato' (Dr) Francis Yeoh Sock Ping ("Tan Sri Francis Yeoh") Dato' Yeoh Seok Kian Dato' Ahmad Fuaad Bin Mohd Dahalan Dato' Mark Yeoh Seok Kah Dato' Hj Mohamed Zainal Abidin Bin Hj Abdul Kadir ("Dato' Zainal Abidin") Eu Peng Meng @ Leslie Eu
Establishing effective GRC (Governance, Risk and Compliance) practices to drive Strategy, Performance and Sustainability (2 June 2017)	Tan Sri Francis Yeoh Dato' Mark Yeoh Seok Kah

STATEMENT ON CORPORATE GOVERNANCE
for the financial year ended 30 June 2017

Seminars/Conferences/Training	Attended by
➤ Trade, Economic Development, Investment, Taxation and Sustainability	
After Brexit – Britain, Europe and the World (26 September 2016)	Dato' Ahmad Fuaad Bin Mohd Dahalan
Organisation for Economic Co-operation and Development Base Erosion and Profit Shifting Initiative (23 February 2017)	Tan Sri Francis Yeoh Dato' Yeoh Seok Kian Dato' Ahmad Fuaad Bin Mohd Dahalan Dato' Mark Yeoh Seok Kah Eu Peng Meng @ Leslie Eu Yeoh Keong Shyan
SGX-CLSA-REITAS S-REITS Corporate Day (12 & 13 March 2017)	Yeoh Keong Shyan
Credit Suisse 20th Annual Asian Investment Conference (27 – 30 March 2017)	Yeoh Keong Shyan
Hong Leong Capital Berhad Sustainability Reporting: Awareness Session (20 April 2017)	Dato' Ahmad Fuaad Bin Mohd Dahalan
4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Services (19 May 2017)	Dato' Ahmad Fuaad Bin Mohd Dahalan
➤ Leadership, Legal and Business Management	
Role of the Chairman & Independent Directors (28 September 2016)	Eu Peng Meng @ Leslie Eu
YTL Leadership Conference 2016 (19 December 2016)	Tan Sri Francis Yeoh Dato' Yeoh Seok Kian Dato' Mark Yeoh Seok Kah Dato' Zainal Abidin Yeoh Keong Shyan
Companies Act 2016 (25 April 2017)	Dato' Ahmad Fuaad Bin Mohd Dahalan

INTEGRITY IN FINANCIAL REPORTING

The Directors are responsible for ensuring that financial statements of the Trust are drawn up in accordance with applicable approved accounting standards in Malaysia, the REIT Guidelines and the Deed. In presenting the financial statements, the Manager has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates. The Directors also strive to ensure that financial reporting presents a fair and understandable assessment of the position and prospects of YTL REIT. Interim financial statements are reviewed and approved by the Directors prior to release to the relevant regulatory authorities.

RISK MANAGEMENT & INTERNAL CONTROL

The Manager's internal audit function is undertaken by the Internal Audit department of its parent company, YTL Corporation Berhad ("YTLIA"). YTLIA reports directly to the Audit Committee of YTL Corporation Berhad and to the Board on matters pertaining to the Manager and the Trust.

The activities of the internal audit function during the year under review included:-

- Developing the annual internal audit plan and proposing this plan to the Board;
- Conducting scheduled internal audit engagements, focusing primarily on the effectiveness of internal controls and recommending improvements where necessary;
- Conducting follow-up reviews to assess if appropriate action has been taken to address issues highlighted in audit reports; and
- Presenting audit findings to the Board for consideration.

None of the weaknesses or issues identified during the review for the financial year has resulted in non-compliance with any relevant policies or procedures, listing requirements or recommended industry practices that would require disclosure in the Trust's Annual Report.

The Manager's system of internal control will continue to be reviewed, enhanced and updated in line with changes in the operating environment. The Board will seek regular assurance on the continuity and effectiveness of the internal control system through independent appraisals by YTLIA. The Board is of the view that the current system of internal control in place is effective to safeguard the interests of the YTL REIT Group.

The Board has established a formal and transparent arrangement for maintaining an appropriate relationship with the auditors of YTL REIT. YTL REIT's auditors report their findings to members of the Board as part of the audit process on the statutory financial statements each financial year. From time to time, the auditors highlight matters that require attention to the Board.

CORPORATE DISCLOSURE & COMMUNICATION WITH SHAREHOLDERS

The Manager values dialogue with Unitholders and investors as a means of effective communication that enables the Board to convey information about the YTL REIT Group's performance, corporate strategy and other matters affecting Unitholders' interests. The Board recognises the importance of timely dissemination of information to Unitholders and, accordingly, ensures that they are well informed of any major developments of YTL REIT. Such information is communicated through the annual report, the Trust's various disclosures and announcements to Bursa Securities, including quarterly and annual results, and the corporate website.

Corporate information, annual financial results, governance information, business reviews and future plans are disseminated through the Annual Report, whilst current corporate developments are communicated via the company's website, www.ytlhospitalityreit.com, in addition to prescribed information, including financial results, announcements, circulars, prospectuses and notices, which is released through the official website of Bursa Securities.

The Chief Executive Officer and Executive Directors meet with analysts, institutional Unitholders and investors throughout the year to provide updates on strategies and new developments. However, price-sensitive information and information that may be regarded as undisclosed material information about YTL REIT is not disclosed in these sessions until after the requisite announcements to Bursa Securities have been made.

This statement was approved by the Board on 27 July 2017.

ANALYSIS OF UNITHOLDINGS

as at 20 July 2017

Size of holding	No. of Unitholders	%	No. of Units	%
1 - 99	532	4.85	5,698	0.00
100 - 1,000	2,481	22.61	2,101,273	0.12
1,001 - 10,000	4,741	43.20	24,894,041	1.46
10,001 - 100,000	2,616	23.83	93,882,819	5.51
100,001 - to less than 5% of issued units	604	5.50	723,224,169	42.44
5% and above of issued units	1	0.01	860,280,889	50.47
Total	**10,975**	**100.00**	**1,704,388,889**	**100.00**

THIRTY LARGEST UNITHOLDERS (as per Record of Depositors)

	Name	No. of Units	%
1	YTL Corporation Berhad	860,280,889	50.47
2	YTL Corporation Berhad	74,115,600	4.35
3	East-West Ventures Sdn Bhd	62,500,000	3.67
4	Valuecap Sdn Bhd	43,723,200	2.57
5	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (AFFIN-HWG)	36,262,100	2.13
6	Syarikat Pelanchongan Pangkor Laut Sendirian Berhad	24,250,000	1.42
7	YTL Power International Berhad	20,496,900	1.20
8	Business & Budget Hotels (Kuantan) Sdn Bhd	18,750,000	1.10
9	Megahub Development Sdn Bhd	18,250,000	1.07
10	Malaysia Nominees (Tempatan) Sendirian Berhad - Great Eastern Life Assurance (Malaysia) Berhad (PAR 3)	18,000,000	1.06
11	Citigroup Nominees (Tempatan) Sdn Bhd - Exempt An for AIA Bhd	17,842,500	1.05
12	YTL Power International Berhad	14,628,000	0.86
13	Malaysia Nominees (Tempatan) Sendirian Berhad - Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)	13,280,000	0.78
14	Malaysia Nominees (Tempatan) Sendirian Berhad - Great Eastern Life Assurance (Malaysia) Berhad (LEEF)	9,500,000	0.56
15	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for Allianz Life Insurance Malaysia Berhad (P)	9,000,000	0.53

ANALYSIS OF UNITHOLDINGS

as at 20 July 2017

	Name	No. of Units	%
16	Malaysia Nominees (Tempatan) Sendirian Berhad - Great Eastern Life Assurance (Malaysia) Berhad (PAR 2)	9,000,000	0.53
17	HSBC Nominees (Asing) Sdn Bhd - SIX SIS for Bank Sarasin CIE	8,500,000	0.50
18	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for Affin Hwang Select Asia (Ex Japan) Quantam Fund (4579)	8,124,700	0.48
19	Hong Leong Assurance Berhad - As Beneficial Owner (Life Par)	8,100,000	0.48
20	Khoo Chai Pek	8,000,000	0.47
21	YTL Power International Berhad	7,964,600	0.47
22	Steeloak International Limited	7,900,000	0.46
23	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (AFFIN AM A EQ)	7,747,000	0.45
24	Affin Hwang Investment Bank Berhad - IVT (JBD)	7,363,300	0.43
25	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for Affin Hwang Select Opportunity Fund (3696)	7,301,600	0.43
26	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Kenanga)	6,583,700	0.39
27	Amanah Raya Berhad - Kumpulan Wang Bersama	6,200,000	0.36
28	Citigroup Nominees (Asing) Sdn Bhd - CBNY for DFA International Real Estate Securities Portfolio of DFA Investment Dimensions Group INC	4,909,800	0.29
29	CIMB Group Nominees (Tempatan) Sdn Bhd - CIMB Islamic Trustee Berhad for Affin Hwang Select Dividend Fund	4,198,800	0.25
30	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Khoo Chai Pek (My 1030)	4,002,000	0.23
	Total	**1,346,774,689**	**79.04**

ANALYSIS OF UNITHOLDINGS
as at 20 July 2017

SUBSTANTIAL UNITHOLDERS

Name	No. of Units Held			
	Direct	%	Indirect	%
YTL Corporation Berhad	937,464,189	55.00	61,839,500 (1)	3.63
Yeoh Tiong Lay & Sons Holdings Sdn Bhd	-	-	1,104,303,689 (2)	64.79
Tan Sri Dato' Seri (Dr) Yeoh Tiong Lay	-	-	1,104,303,689 (3)	64.79
Dato' Hj Mohamed Zainal Abidin Bin Hj Abdul Kadir	100,000	0.01	88,500,000 (4)	5.19

(1) *Deemed interests by virtue of interests held by YTL Power International Berhad ("**YTL Power**") and Business & Budget Hotels (Kuantan) Sdn Bhd ("**BBHK**") pursuant to Section 8 of the Companies Act, 2016 ("**Act**").*

(2) *Deemed interests by virtue of interests held by YTL Corporation Berhad ("**YTL Corp**"), YTL Power, BBHK, Megahub Development Sdn Bhd ("**MDSB**"), East-West Ventures Sdn Bhd ("**EWV**") and Syarikat Pelanchongan Pangkor Laut Sendirian Berhad ("**SPPL**") pursuant to Section 8 of the Act.*

(3) *Deemed interests by virtue of interests held by YTL Corp, YTL Power, BBHK, MDSB, EWV and SPPL pursuant to Section 8 of the Act.*

(4) *Deemed interests by virtue of interests held by EWV, SPPL and Tanjong Jara Beach Hotel Sdn Bhd ("**TJBH**") pursuant to Section 8 of the Act.*

STATEMENT OF INTERESTS OF DIRECTORS OF THE MANAGER
Pintar Projek Sdn Bhd in YTL Hospitality REIT as at 20 July 2017

Name	No. of Units Held			
	Direct	%	Indirect	%
Tan Sri Dato' (Dr) Francis Yeoh Sock Ping, CBE, FICE	870,000	0.05	-	-
Dato' Hj Mohamed Zainal Abidin Bin Hj Abdul Kadir	100,000	0.01	88,500,000 →	5.19
Dato' Mark Yeoh Seok Kah	2,000,000	0.12	1,000,000 ←	0.06

→ *Deemed interests by virtue of interests held by EWV, SPPL and TJBH pursuant to Section 8 of the Act.*
← *Deemed interests by virtue of interests held by spouse and/or children pursuant to Section 59(11)(c) of the Act*

FINANCIAL STATEMENTS

MANAGER'S REPORT

The Directors of Pintar Projek Sdn. Bhd. ("Manager"), the manager of YTL Hospitality REIT ("YTL REIT" or "Trust"), is pleased to present the report to unitholders of YTL REIT together with the audited financial statements of YTL REIT and its subsidiaries ("Group") for the financial year ended 30 June 2017.

PRINCIPAL ACTIVITY OF THE MANAGER

The principal activity of the Manager is the management of real estate investment trusts. There has been no significant change in the nature of this activity during the financial year under review.

THE TRUST AND ITS INVESTMENT OBJECTIVE

YTL REIT was established on 18 November 2005 pursuant to a trust deed (as restated by the deed dated 3 December 2013) ("Restated Deed") entered into between the Manager and Maybank Trustees Berhad, the trustee of YTL REIT and is categorised as a real property fund. The Restated Deed was amended by a supplemental deed which has been registered with the Securities Commission Malaysia on 29 October 2014.

YTL REIT was listed on the Main Market of Bursa Malaysia Securities Berhad on 16 December 2005 and is an income and growth type fund. The investment objective of YTL REIT is to own and invest in real estate and real estate-related assets, whether directly or indirectly through the ownership of single-purpose companies whose principal assets comprise real estate.

RESERVES AND PROVISIONS

There were no material transfers to and from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIRECTORS

The Directors who served on the Board of the Manager during the financial year until the date of this report of the Trust are:-

Tan Sri Dato' (Dr) Francis Yeoh Sock Ping, CBE, FICE
Dato' Yeoh Seok Kian
Dato' Ahmad Fuaad Bin Mohd Dahalan
Dato' Mark Yeoh Seok Kah
Dato' Hj. Mohamed Zainal Abidin Bin Hj. Abdul Kadir
Eu Peng Meng @ Leslie Eu
Yeoh Keong Shyan

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement subsisted to which the Manager is a party, with the object or objects of enabling the Directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of YTL REIT or any other body corporate.

For the financial year ended 30 June 2017, no Director has received or become entitled to receive any benefit by reason of a contract made by the Manager for YTL 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' INTERESTS

The following Directors of the Manager who held office at the end of the financial year had, according to the register of unitholdings in YTL REIT, interests in the units of YTL REIT as follows:-

	Balance at 1.7.2016	No. of units acquired	No. of units disposed	Balance at 30.6.2017
Direct interest				
Tan Sri Dato' (Dr) Francis Yeoh Sock Ping, CBE, FICE	870,000	-	-	**870,000**
Dato' Mark Yeoh Seok Kah	2,000,000	-	-	**2,000,000**
Dato' Hj. Mohamed Zainal Abidin Bin Hj. Abdul Kadir	100,000	-	-	**100,000**

	Balance at 1.7.2016	No. of units acquired	No. of units disposed	Balance at 30.6.2017
Indirect Interest				
Dato' Mark Yeoh Seok Kah	1,000,000[(1)]	-	-	**1,000,000[(1)]**
Dato' Hj. Mohamed Zainal Abidin Bin Hj. Abdul Kadir	108,500,000[(2)]	-	(20,000,000)	**88,500,000[(2)]**

(1) Deemed interests by virtue of interests held by spouse pursuant to Section 59(11)(c) of the Companies Act 2016.

(2) Deemed interests by virtue of interests held by East-West Ventures Sdn. Bhd., Syarikat Pelanchongan Pangkor Laut Sendirian Berhad and Tanjong Jara Beach Hotel Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.

Other than as disclosed above, Directors who held office at the end of the financial year did not have interests in the units of YTL REIT.

MANAGER'S REPORT

BREAKDOWN OF UNITHOLDINGS

Set out below is the analysis of unitholdings of YTL REIT as at the reporting date:-

Unit class	No. of Unitholders	%	No. of Units held	%
Less than 100	532	4.85	5,698	0.00
100 to 1,000	2,476	22.56	2,098,068	0.12
1,001 to 10,000	4,747	43.25	24,942,846	1.46
10,001 to 100,000	2,615	23.82	93,786,819	5.50
100,001 to less than 5% of issued units	605	5.51	723,274,569	42.44
5% and above of issued units	1	0.01	860,280,889	50.48
	10,976	100.00	1,704,388,889	100.00

MATERIAL CONTRACTS

Set out below are the details of the material contracts involving the Manager and the major unitholders' interests, still subsisting at the reporting date:-

Name	Pintar Projek Sdn. Bhd.
Date of agreement	3 December 2013 and 17 September 2014
General nature	Restated Deed and Supplemental Deed
Consideration passing from the Trust	As disclosed in Note 7 to the financial statements
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	70%-owned subsidiary company

Name	Star Hill Hotel Sdn. Bhd.
Date of agreement	8 March 2005, 18 October 2006, 18 October 2006 and 5 May 2017
Deed of novation	16 December 2005, 16 May 2007 and 15 November 2011
General nature	Agreement for lease of two properties and Supplemental Agreement to Agreement for lease of a property
Consideration passing to the Trust	Annual lease rental of RM36,115,500
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	Wholly-owned subsidiary company

MATERIAL CONTRACTS (CONTINUED)

Name	Cameron Highlands Resort Sdn. Bhd.
Date of agreement	15 November 2011
General nature	Agreement for lease
Consideration passing to the Trust	Annual lease rental of RM4,125,556
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	Wholly-owned subsidiary company

Name	Business & Budget Hotels (Penang) Sdn. Bhd.
Date of agreement	15 November 2011
General nature	Agreement for lease
Consideration passing to the Trust	Annual lease rental of RM8,457,389
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	51%-owned subsidiary company

Name	Prisma Tulin Sdn. Bhd.
Date of agreement	15 November 2011
General nature	Agreement for lease
Consideration passing to the Trust	Annual lease rental of RM8,457,389
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	Wholly-owned subsidiary company

Name	Business & Budget Hotels (Kuantan) Sdn. Bhd.
Date of agreement	15 November 2011
General nature	Agreement for lease
Consideration passing to the Trust	Annual lease rental of RM6,188,333
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	50%-owned associated company

MANAGER'S REPORT

MATERIAL CONTRACTS (CONTINUED)

Name	Niseko Village K.K.
Date of agreement	22 December 2011
General nature	Agreement for lease
Consideration passing to the Group	Annual lease rental of RM15,954,041
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	Wholly-owned subsidiary company

Name	East-West Ventures Sdn. Bhd.
Date of agreement	15 November 2011 and 5 May 2017
General nature	Agreement for lease and Supplemental Agreement
Consideration passing to the Trust	Annual lease rental of RM19,917,063
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	70%-owned subsidiary company of holding company of the major unitholder

Name	Syarikat Pelanchongan Pangkor Laut Sendirian Berhad
Date of agreement	15 November 2011
General nature	Agreement for sub-lease
Consideration passing to the Trust	Annual lease rental of RM8,663,667
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	57%-owned subsidiary company of holding company of the major unitholder

Name	Tanjong Jara Beach Hotel Sdn. Bhd.
Date of agreement	15 November 2011
General nature	Agreement for lease
Consideration passing to the Trust	Annual lease rental of RM7,219,722
Mode of satisfaction of the consideration	By cash
Relationship with the manager	Company related to a director

MATERIAL CONTRACTS (CONTINUED)

Name	YTL Land Sdn. Bhd.
Date of agreement	11 May 2016
General nature	Car park agreement
Consideration passing to the Trust	Annual fee of RM1,848,818
Mode of satisfaction of the consideration	By cash
Relationship with the major unitholder	Wholly-owned subsidiary company

MATERIAL LITIGATION

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

SOFT COMMISSION

During the financial year, the Manager did not receive any soft commission (ie. goods and services) from its broker, by virtue of transactions conducted by the Trust.

MANAGER'S REMUNERATION

Pursuant to the Restated Deed, the Manager is entitled to receive from the Trust:-

(i) a base fee of up to 1.0% per annum of the gross asset value of the Group;

(ii) a performance fee of up to 5.0% of the Group's net property income, but before deduction of property management fees payable to any property manager appointed to manage any real estate;

(iii) an acquisition fee of 1.0% of the acquisition price of any real estate or single-purpose company purchased for the Group (pro rated if applicable to the proportion of the interest of the Trust in the asset acquired); and

(iv) a divestment fee of 0.5% of the sale price of any asset being real estate or a single-purpose company sold or diverted by the Group (pro rated if applicable to the proportion of the interest of the Trust in the asset sold).

The remuneration received by the Manager during the financial year is disclosed in Note 7 to the financial statements.

MANAGER'S REPORT

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and of the Trust were made out, the Manager took reasonable steps:-

(a) to ascertain that proper action has been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts have been written off and that adequate allowance has been made for doubtful debts; and

(b) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records of the Group and of the Trust in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Manager is not aware of any circumstances:-

(a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Trust inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Trust misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Trust misleading or inappropriate.

At the date of this report, there does not exist:-

(a) any charge on the assets of the Group and of the Trust which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and of the Trust which has arisen since the end of the financial year.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors of the Manager, will or may affect the ability of the Group and of the Trust to meet its obligations as and when they fall due.

OTHER STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

The Directors of the Manager state that:-

At the date of this report, they are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Trust which would render any amount stated in the financial statements misleading.

In their opinion,

(a) the results of the operations of the Group and of the Trust during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Trust for the financial year in which this report is made.

AUDITORS

The auditors, Messrs. HLB Ler Lum, Chartered Accountants, have expressed their willingness to continue in office.

Signed on behalf of the Board of Pintar Projek Sdn. Bhd. in accordance with a resolution of the Directors,

Dato' Mark Yeoh Seok Kah

Dato' Hj. Mohamed Zainal Abidin Bin Hj. Abdul Kadir

Dated: 4 August 2017

STATEMENT BY MANAGER

In the opinion of the Directors of PINTAR PROJEK SDN. BHD. ("Manager"), the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and the deed dated 18 November 2005 (as restated and amended) so as to give a true and fair view of the financial position of YTL HOSPITALITY REIT ("Trust") and its subsidiaries ("Group") as at 30 June 2017 and financial performance and cash flows of the Group and of the Trust for the financial year then ended.

In the opinion of the Directors of the Manager, the supplementary information set out on page 169 have been compiled in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Main Market Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Pintar Projek Sdn. Bhd. in accordance with a resolution of the Directors,

Dato' Mark Yeoh Seok Kah

Dato' Hj. Mohamed Zainal Abidin Bin Hj. Abdul Kadir

Dated: 4 August 2017

STATUTORY DECLARATION

I, DATO' MARK YEOH SEOK KAH, being the Director of PINTAR PROJEK SDN. BHD. primarily responsible for the financial management of YTL HOSPITALITY REIT, do solemnly and sincerely declare that to the best of my knowledge and belief the accompanying financial statements are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Dato' Mark Yeoh Seok Kah

Subscribed and solemnly declared by the
abovenamed DATO' MARK YEOH SEOK KAH
at Kuala Lumpur on 4 August 2017

Before me:

Commissioner for Oaths

TRUSTEE'S REPORT

TO THE UNITHOLDERS OF YTL HOSPITALITY REIT

We have acted as trustee of YTL HOSPITALITY REIT ("Trust") for the financial year ended 30 June 2017. To the best of our knowledge, PINTAR PROJEK SDN. BHD., the manager of the Trust has managed the Trust in accordance with the roles and responsibilities and limitation imposed on the investment powers of the management company under the deed dated 18 November 2005 (as restated and amended) ("Deed"), the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts, the Capital Markets and Services Act 2007 and other applicable laws during the financial year ended 30 June 2017.

We are of the opinion that:

(i) the valuation/pricing of the Trust's units are adequate and such valuation/pricing is carried out in accordance with the Deed and other regulatory requirements; and

(ii) the income distributions declared and paid during the financial year ended 30 June 2017 are in line with and are reflective of the objectives of the Trust.

For Maybank Trustees Berhad,

Bernice Lau Kam Mun
Head, Operations

Dated: 4 August 2017
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF YTL HOSPITALITY REIT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of YTL Hospitality REIT ("Trust") and its subsidiaries ("Group"), which comprise the Statements of Financial Position as at 30 June 2017 of the Group and of the Trust, and the Income Statements, Statements of Other Comprehensive Income, Statements of Changes in Net Asset Value and Statements of Cash Flows of the Group and of the Trust for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 93 to 168.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Trust as at 30 June 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and the Deed dated 18 November 2005 (as restated and amended).

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 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 the Group and of the Trust 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' Code of Ethics for Professional Accountants ("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 the Group and of the Trust for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Trust as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. VALUATION OF INVESTMENT PROPERTIES

The risk

Investment properties of the Group amounting to RM1,938 million, represent 48% of total assets are the most quantitatively material account balance in the financial statements.

The investment properties are stated at their fair values based on independent professional valuations using the income capitalisation approach, which capitalise the estimate rental income stream, net projected operating costs, using a discount rate derived from market yield. Valuation of the properties was carried out once a year.

We focused on this area due to the magnitude of the balance and the complexities in determining the fair value of the investment properties, which involves significant judgement and estimation that could result in material misstatement.

Our response:

Our and component auditors' audit procedures included the following:

- evaluated the qualifications and competence of the external valuers based on their membership of recognised professional body.
- checked the accuracy and relevance of the input data used in the valuations.
- performed site visits to major properties.
- evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive, that is, those that have the most significant effect on the determination of the fair value of the investment properties, by comparing them to the information disclosed in the valuation reports.

2. REVALUATION OF FREEHOLD LAND AND BUILDINGS

The risk

The valuation of freehold land and buildings comprises 43% of value of total assets and is measured at fair value.

Freehold land carried at the revalued amount less accumulated impairment losses and buildings carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Valuation is carried out on the freehold land and buildings by the independent professional valuer once a year.

The valuation of freehold land and buildings is significant to our audit due to their magnitude, complex valuation method and high dependency on a range of estimates (amongst others, forecast income, discount rate and capitalisation rate) which are based on current and future market or economic conditions.

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF YTL HOSPITALITY REIT

2. REVALUATION OF FREEHOLD LAND AND BUILDINGS (CONTINUED)

Our response:

Our and component auditors' audit procedures included the following:

- evaluated the competence, capabilities and objectivity of the professional valuers' specialist.
- checked the accuracy and relevance of the input data used in the valuations.
- considered the other alternative valuation methods commonly used by professional valuers.
- used internal valuation specialist in assessing appropriateness of methodologies used and the reasonableness of the key assumptions applied in the valuations.
- evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive, that is, those that have the most significant effect on the determination of the valuation of the land and buildings, by comparing them to the information disclosed in the valuation reports.

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 the Group and of the Trust and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Trust does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Trust, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Trust 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 this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS OF THE MANAGER FOR THE FINANCIAL STATEMENTS

The Directors of the Manager of the Trust are responsible for the preparation of financial statements of the Group and of the Trust that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and the Deed dated 18 November 2005 (as restated and amended). 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 the Group and of the Trust that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Trust, the Directors of the Manager are responsible for assessing the Group's and the Trust's ability 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 the Group or the Trust or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Trust 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Trust, 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 Group's and the Trust's internal control.

- 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's 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 Group's or the Trust'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 the Group and of the Trust 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 the Group or the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Trust, including the disclosures, and whether the financial statements of the Group and of the Trust represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the 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 YTL HOSPITALITY REIT

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, related safeguards.

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 the Group and of the Trust for 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 report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out on page 169 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors of the Manager are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the unitholders of the Trust, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

HLB LER LUM
AF 0276
Chartered Accountants

LUM TUCK CHEONG
01005/03/2019 J
Chartered Accountant
Dated : 4 August 2017
Kuala Lumpur

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Group		Trust	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue					
– Hotel revenue	4	**332,736**	312,415	**-**	-
– Property revenue	4	**116,947**	113,877	**100,993**	98,122
Total revenue		**449,683**	426,292	**100,993**	98,122
Operating expenses					
– Hotel operating expenses	5	**(230,485)**	(218,854)	**-**	-
– Property operating expenses	5	**(9,582)**	(8,498)	**(5,748)**	(5,749)
Total operating expenses		**(240,067)**	(227,352)	**(5,748)**	(5,749)
Net property income		**209,616**	198,940	**95,245**	92,373
Finance income	6	**3,077**	1,704	**114,199**	104,140
Other income – others	6	**5,966**	3,364	**3,843**	1,676
Expenses					
– Manager's fees	7	**(8,021)**	(7,497)	**(8,021)**	(7,497)
– Trustee's fees	8	**(1,148)**	(1,055)	**(1,148)**	(1,055)
– Finance costs	9	**(79,084)**	(83,163)	**(78,994)**	(83,154)
– Auditors' remuneration		**(702)**	(667)	**(101)**	(95)
– Tax agent's fees		**(219)**	(222)	**(12)**	(12)
– Valuation fees		**(484)**	(362)	**(420)**	(351)
– Depreciation		**(83,444)**	(75,123)	**-**	-
– Administration expenses		**(6,030)**	(6,200)	**(963)**	(609)
Total income before unrealised items		**39,527**	29,719	**123,628**	105,416
Unrealised items					
– fair value on investment properties		**34,794**	19,192	**12,360**	52,738
– fair value on trade receivable		**(52)**	(40)	**(52)**	(40)
– Unrealised (loss)/gain on foreign exchange		**(83,537)**	(21,744)	**30,157**	48,699
– Revaluation gain/(loss) on property		**49**	(30,915)	**-**	-
(Loss)/Profit before tax		**(9,219)**	(3,788)	**166,093**	206,813

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Group		Trust	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss)/Profit before tax		**(9,219)**	(3,788)	**166,093**	206,813
Income tax expense	10	**(2,902)**	(1,987)	**(936)**	(871)
(Loss)/Profit after tax		**(12,121)**	(5,775)	**165,157**	205,942
Distribution adjustments					
– Depreciation		**83,444**	75,123	**-**	-
– Net income from foreign operations		**2,623**	1,690	**-**	-
– Unrealised foreign translation differences		**83,537**	21,744	**(30,157)**	(48,699)
– Unrealised loss on fair value of trade receivable		**52**	40	**52**	40
– Unrealised gain on fair value of investment properties		**(34,794)**	(19,192)	**(12,360)**	(52,738)
– Revaluation (gain)/loss on property		**(49)**	30,915	**-**	-
Income available for distribution		**122,692**	104,545	**122,692**	104,545

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Group		Trust	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net income distribution					
- First interim income distribution paid on 23 December 2016 (2016: paid on 30 December 2015)		**27,187**	25,395	**27,187**	25,395
- Advance income distribution paid on 12 January 2017		**25,403**	-	**25,403**	-
- Second interim income distribution paid on 30 March 2017 (2016: paid on 31 March 2016)		**5,896**	25,395	**5,896**	25,395
- Third interim income distribution paid on 30 June 2017 (2016: paid on 30 June 2016)		**31,299**	25,395	**31,299**	25,395
- Final income distribution (2016: paid on 30 August 2016)		**32,905**	28,359	**32,905**	28,359
Total income distribution		**122,690**	104,544	**122,690**	104,544

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Group		Trust	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
Income distribution per unit					
– First interim income distribution					
– Gross (sen)		**2.0528**	1.9175	**2.0528**	1.9175
– Advance income distribution					
– Gross (sen)		**1.9181**	-	**1.9181**	-
– Second interim income distribution					
– Gross (sen)		**0.3459**	1.9175	**0.3459**	1.9175
– Third interim income distribution					
– Gross (sen)		**1.8364**	1.9175	**1.8364**	1.9175
– Final income distribution					
– Gross (sen)		**1.9306**	2.1413	**1.9306**	2.1413
Total income distribution per unit (sen)		**8.0838**	7.8938	**8.0838**	7.8938
(Loss)/Earnings per unit					
– after manager's fees (sen)	11	**(0.79)**	(0.44)	**10.80**	15.55
– before manager's fees (sen)	11	**(0.27)**	0.13	**11.32**	16.12

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Group		Trust	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss)/Profit after tax		**(12,121)**	(5,775)	**165,157**	205,942
Other comprehensive income					
Items that may be reclassified subsequently to income statement					
– currency translation differences		**103,928**	94,995	**-**	-
– cash flow hedge		**9,851**	(23,724)	**9,851**	(23,724)
Item that will not be reclassified subsequently to income statement					
– surplus on revaluation of properties		**230,209**	178,856	**-**	-
Total comprehensive income		**331,867**	244,352	**175,008**	182,218
(Loss)/Profit after tax is made up as follows:-					
Realised and distributable		**120,069**	102,855	**122,692**	104,545
Unrealised items		**(132,190)**	(108,630)	**42,465**	101,397
		(12,121)	(5,775)	**165,157**	205,942
Total comprehensive income is made up as follows:-					
(Loss)/Profit after tax		**(12,121)**	(5,775)	**165,157**	205,942
Unrealised currency translation differences		**103,928**	94,995	**-**	-
Surplus on revaluation of properties		**230,209**	178,856	**-**	-
Cash flow hedge		**9,851**	(23,724)	**9,851**	(23,724)
		331,867	244,352	**175,008**	182,218

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Trust 2017 RM'000	Trust 2016 RM'000
ASSETS					
Non-current assets					
Investment properties	12	**1,937,647**	1,843,183	**1,663,500**	1,586,000
Property, plant and equipment	13	**1,921,844**	1,623,328	**-**	-
Investment in subsidiaries	14	**-**	-	**396,657**	351,892
Amount due from subsidiaries	14	**-**	-	**1,357,497**	1,248,723
Deferred tax assets	15	**2,733**	2,663	**-**	-
		3,862,224	3,469,174	**3,417,654**	3,186,615
Current assets					
Inventories	16	**860**	729	**-**	-
Trade receivables	17	**12,458**	10,886	**4,071**	2,608
Other receivables & prepayments	18	**21,202**	21,474	**6,233**	3,598
Amount due from subsidiaries	14	**-**	-	**99,524**	95,390
Income tax assets		**-**	92	**-**	-
Deposits with licensed financial institutions	19	**51,051**	31,190	**30,975**	15,825
Cash at banks		**91,411**	88,373	**888**	529
		176,982	152,744	**141,691**	117,950
Total assets		**4,039,206**	3,621,918	**3,559,345**	3,304,565

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2017

		Group		Trust	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
UNITHOLDERS' FUNDS AND LIABILITIES					
Unitholders' funds					
Unitholders' capital	20	**1,690,806**	1,291,395	**1,690,806**	1,291,395
Undistributed income		**1,079**	135,890	**421,698**	379,231
Reserves	21	**839,106**	495,118	**(13,873)**	(23,724)
Total unitholders' funds/Net asset value ("NAV")		**2,530,991**	1,922,403	**2,098,631**	1,646,902
Non-current liabilities					
Borrowings	22	**915,830**	1,590,422	**915,830**	1,590,422
Medium Term Notes	23	**74,007**	8,554	**-**	-
Other payables	24	**1,195**	836	**-**	-
Derivative financial instruments	26	**13,873**	23,724	**13,873**	23,724
Amount due to a subsidiary	14	**-**	-	**75,000**	10,000
		1,004,905	1,623,536	**1,004,703**	1,624,146
Current liabilities					
Borrowings	22	**414,753**	-	**414,753**	-
Trade payables	25	**5,120**	7,703	**-**	-
Other payables	24	**49,603**	39,917	**8,353**	5,158
Income tax liabilities		**929**	-	**-**	-
Provision for income distribution	27	**32,905**	28,359	**32,905**	28,359
		503,310	75,979	**456,011**	33,517
Total liabilities		**1,508,215**	1,699,515	**1,460,714**	1,657,663
Total unitholders' funds and liabilities		**4,039,206**	3,621,918	**3,559,345**	3,304,565
NAV		**2,530,991**	1,922,403	**2,098,631**	1,646,902
Number of units in circulation ('000)	20	**1,704,389**	1,324,389	**1,704,389**	1,324,389
NAV per unit (RM)					
- before income distribution		**1.557**	1.530	**1.303**	1.322
- after income distribution		**1.485**	1.452	**1.231**	1.244

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Distributable	Non distributable				
	Unitholders' Capital RM'000	Undistributed Realised Income RM'000	Unrealised Income/(Loss) RM'000	Currency Translation Reserves RM'000	Revaluation Reserve RM'000	Cash Flow Hedge Reserve RM'000	Total Unitholders' Funds RM'000
Group							
At 1 July 2015	1,291,395	186,525	59,684	(168,388)	413,379	-	1,782,595
Operations for the financial year ended 30 June 2016							
Loss for the year	-	102,855	(108,630)	-	-	-	(5,775)
Other comprehensive income	-	-	-	94,995	178,856	(23,724)	250,127
Total comprehensive income for the year	-	102,855	(108,630)	94,995	178,856	(23,724)	244,352
Unitholders transactions							
Distributions paid	-	(76,185)	-	-	-	-	(76,185)
Provision for income distribution (Note 27)	-	(28,359)	-	-	-	-	(28,359)
Decrease in net assets resulting from unitholders transactions	-	(104,544)	-	-	-	-	(104,544)
At 30 June 2016	1,291,395	184,836	(48,946)	(73,393)	592,235	(23,724)	1,922,403

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Distributable	Non distributable				
	Unitholders' Capital RM'000	Undistributed Realised Income RM'000	Unrealised Loss RM'000	Currency Translation Reserves RM'000	Revaluation Reserve RM'000	Cash Flow Hedge Reserve RM'000	Total Unitholders' Funds RM'000
Group							
At 1 July 2016	1,291,395	184,836	(48,946)	(73,393)	592,235	(23,724)	1,922,403
Operations for the financial year ended 30 June 2017							
Loss for the year	-	120,069	(132,190)	-	-	-	(12,121)
Other comprehensive income	-	-	-	103,928	230,209	9,851	343,988
Total comprehensive income for the year	-	120,069	(132,190)	103,928	230,209	9,851	331,867
Unitholders transactions							
Issuance of units	402,800	-	-	-	-	-	402,800
Issuing expenses	(3,389)	-	-	-	-	-	(3,389)
Distributions paid	-	(89,785)	-	-	-	-	(89,785)
Provision for income distribution (Note 27)	-	(32,905)	-	-	-	-	(32,905)
Increase in net assets resulting from unitholders transactions	399,411	(122,690)	-	-	-	-	276,721
At 30 June 2017	**1,690,806**	**182,215**	**(181,136)**	**30,535**	**822,444**	**(13,873)**	**2,530,991**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Distributable	Non distributable				
	Unitholders' Capital RM'000	Undistributed Realised Income RM'000	Unrealised Income RM'000	Currency Translation Reserves RM'000	Revaluation Reserve RM'000	Cash Flow Hedge Reserve RM'000	Total Unitholders' Funds RM'000
Trust							
At 1 July 2015	1,291,395	184,696	93,137	-	-	-	1,569,228
Operations for the financial year ended 30 June 2016							
Profit for the year	-	104,545	101,397	-	-	-	205,942
Other comprehensive expense	-	-	-	-	-	(23,724)	(23,724)
Total comprehensive income for the year	-	104,545	101,397	-	-	(23,724)	182,218
Unitholders transactions							
Distributions paid	-	(76,185)	-	-	-	-	(76,185)
Provision for income distribution (Note 27)	-	(28,359)	-	-	-	-	(28,359)
Decrease in net assets resulting from unitholders transactions	-	(104,544)	-	-	-	-	(104,544)
At 30 June 2016	1,291,395	184,697	194,534	-	-	(23,724)	1,646,902

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Distributable	Non distributable				
	Unitholders' Capital RM'000	Undistributed Realised Income RM'000	Unrealised Income RM'000	Currency Translation Reserves RM'000	Revaluation Reserve RM'000	Cash Flow Hedge Reserve RM'000	Total Unitholders' Funds RM'000
Trust							
At 1 July 2016	1,291,395	184,697	194,534	-	-	(23,724)	1,646,902
Operations for the financial year ended 30 June 2017							
Profit for the year	-	122,692	42,465	-	-	-	165,157
Other comprehensive income	-	-	-	-	-	9,851	9,851
Total comprehensive income for the year	-	122,692	42,465	-	-	9,851	175,008
Unitholders transactions							
Issuance of units	402,800	-	-	-	-	-	402,800
Issuing expenses	(3,389)	-	-	-	-	-	(3,389)
Distributions paid	-	(89,785)	-	-	-	-	(89,785)
Provision for income distribution (Note 27)	-	(32,905)	-	-	-	-	(32,905)
Increase in net assets resulting from unitholders transactions	399,411	(122,690)	-	-	-	-	276,721
At 30 June 2017	**1,690,806**	**184,699**	**236,999**	**-**	**-**	**(13,873)**	**2,098,631**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from operating activities				
(Loss)/Profit before tax	**(9,219)**	(3,788)	**166,093**	206,813
Adjustments for:-				
Amortisation of transaction costs	**6,501**	6,502	**6,501**	6,502
Depreciation of property, plant and equipment	**83,444**	75,123	**-**	-
Impairment losses on trade receivables – net	**52**	40	**52**	40
Interest income	**(3,077)**	(1,704)	**(114,199)**	(104,140)
Interest expense	**71,750**	76,289	**70,877**	76,236
Fair value on investment properties	**(34,794)**	(19,192)	**(12,360)**	(52,738)
Loss on disposal of property, plant & equipment	**35**	1,882	**-**	-
Unrealised loss/(gain) on foreign currency exchange	**83,537**	21,744	**(30,157)**	(48,699)
Revaluation (gain)/loss on property	**(49)**	30,915	**-**	-
Operating profit before changes in working capital	**198,180**	187,811	**86,807**	84,014
(Increase)/Decrease in inventories	**(54)**	146	**-**	-
Decrease/(Increase) in receivables	**1,474**	(3,558)	**(4,149)**	(3,374)
Increase/(Decrease) in payables	**3,004**	(4,340)	**3,194**	(4,728)
Inter-company balances	**-**	-	**65,000**	3,423
Cash generated from operations	**202,604**	180,059	**150,852**	79,335
Income tax paid	**(722)**	(1,527)	**-**	-
Net cash from operating activities	**201,882**	178,532	**150,852**	79,335

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash flows from investing activities				
Interest received	**2,140**	833	**114,407**	108,310
Acquisition of property, plant and equipment	**(43,572)**	(13,436)	**-**	-
Enhancement of investment properties	**(65,140)**	(1,262)	**(65,140)**	(1,262)
Proceed from disposal of equipment	**76**	24	**-**	-
Net cash (used in)/from investing activities	**(106,496)**	(13,841)	**49,267**	107,048
Cash flows from financing activities				
Proceed from issuance of units	**402,800**	-	**402,800**	-
Interest paid	**(71,750)**	(76,236)	**(70,877)**	(76,236)
Distribution paid	**(118,144)**	(106,988)	**(118,144)**	(106,988)
Transaction costs paid	**(72)**	(1,498)	**-**	-
Net (repayment)/proceed of borrowing	**(284,689)**	7,100	**(395,000)**	(2,900)
Issuance expenses	**(3,389)**	-	**(3,389)**	-
Net cash used in financing activities	**(75,244)**	(177,622)	**(184,610)**	(186,124)
Net changes in cash and cash equivalents	**20,142**	(12,931)	**15,509**	259
Effect on exchange rate changes	**2,757**	5,725	**-**	-
Cash and cash equivalents at beginning of the financial year	**119,563**	126,769	**16,354**	16,095
Cash and cash equivalents at end of the financial year	**142,462**	119,563	**31,863**	16,354
NOTES TO THE STATEMENTS OF CASH FLOWS				
Cash and cash equivalents comprise:-				
Deposits with licensed financial institutions	**51,051**	31,190	**30,975**	15,825
Cash at banks	**91,411**	88,373	**888**	529
	142,462	119,563	**31,863**	16,354

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The principal activity of Pintar Projek Sdn. Bhd. ("Manager"), the manager of YTL Hospitality REIT ("YTL REIT" or "Trust"), is the management of real estate investment trusts.

YTL REIT was established on 18 November 2005 pursuant to a trust deed (as restated by the deed dated 3 December 2013) ("Restated Deed") entered into between the Manager and Maybank Trustees Berhad ("Trustee") and is categorised as a real property fund. The Restated Deed was amended by a supplemental deed ("Supplemental Deed") which has been registered with the Securities Commission Malaysia ("SC") on 29 October 2014.

YTL REIT was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 16 December 2005 and is an income and growth type fund. The investment objective of YTL REIT is to own and invest in real estate and real estate-related assets, whether directly or indirectly through the ownership of single-purpose companies whose principal assets comprise real estate.

The consolidated financial statements reported for the financial year ended 30 June 2017 relates to the Trust and its subsidiaries ("Group").

The address of the registered office and principal place of business of the Manager is as follows:-

11th Floor, Yeoh Tiong Lay Plaza
55 Jalan Bukit Bintang
55100 Kuala Lumpur

The address of the principal place of business of the Trust is as follows:-

11th Floor, Yeoh Tiong Lay Plaza
55 Jalan Bukit Bintang
55100 Kuala Lumpur

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements of the Group and the Trust have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, accounting principles generally acceptable in Malaysia, the SC's Guidelines on Real Estate Investment Trusts ("REIT Guidelines") and the Restated Deed.

These financial statements have been prepared on the historical cost convention (unless stated otherwise in the significant accounting policies).

2. BASIS OF PREPARATION (CONTINUED)

(b) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Trust's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand (RM'000), unless otherwise stated.

(c) Changes in accounting policies

The Group and the Trust adopted the following standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") for annual financial year beginning on or after 1 July 2016.

MFRSs and IC Interpretations (Including The Consequential Amendments)
Amendments to MFRS 5, Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 7, Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 10, Consolidated Financial Statements, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
MFRS 14, Regulatory Deferral Accounts
Amendments to MFRS 101, Presentation of Financial Statements – Disclosure Initiative
Amendments to MFRS 116, Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116, Property, Plant and Equipment and MFRS 141, Agriculture – Bearer Plants
Amendments to MFRS 119, Employee Benefits (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 127, Separate Financial Statements – Equity Method in Separate Financial Statements
Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements to MFRSs 2012-2014 Cycle)

The adoption of the above accounting standards, amendments and interpretation did not have any significant financial impact to the Group and the Trust.

2. BASIS OF PREPARATION (CONTINUED)

(d) The new or revised financial reporting standards not yet effective

The following are accounting standards, amendments and interpretations of the MFRS Framework that have been issued by the MASB but have not been adopted by the Group and the Trust.

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
Amendments to MFRS 12, Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014 – 2016 Cycle)	1 January 2017
Amendments to MFRS 107, Statement of Cash Flows – Disclosure Initiative	1 January 2017
Amendments to MFRS 112, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
MFRS 9, Financial Instruments (2014)	1 January 2018
MFRS 15, Revenue from Contracts with Customers	1 January 2018
Clarifications to MFRS 15, Revenue from Contracts with Customers	1 January 2018
IC Interpretation 22, Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 1, First Time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014 – 2016 Cycle)	1 January 2018
Amendments to MFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4, Insurance Contracts – Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts	1 January 2018
Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014 – 2016 Cycle)	1 January 2018
Amendments to MFRS 140, Investment Property – Transfers of Investment Property	1 January 2018
MFRS 16, Leases	1 January 2019
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	To be announced by the MASB Board

2. BASIS OF PREPARATION (CONTINUED)

(d) The new or revised financial reporting standards not yet effective (continued)

The initial applications of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Trust except as mentioned below:-

(i) MFRS 16 Leases

MFRS 16 Leases supersedes MFRS 117 Leases and the related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 Property, Plant and Equipment and the lease liability is accreted over time with interest expense recognised in the income statement. For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently. MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted provided MFRS 15 is also applied.

This amendment is not expected to have any significant impact on the financial statements of the Group.

(ii) MFRS 9 Financial instruments

The complete version of MFRS 9 replaces most of the guidance in MFRS 139. MFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in MFRS 139.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, and for liabilities designated at fair value, through profit or loss. MFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentations is still required but is different to that currently prepared under MFRS 139.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

(iii) MFRS 15 Revenue from Contracts with Customers

MFRS 15 Revenue from Contracts with Customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONTINUED)

(d) The new or revised financial reporting standards not yet effective (continued)

(iii) MFRS 15 Revenue from Contracts with Customers (continued)

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:-

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligation in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The standard replaces MFRS 118 Revenue and MFRS 111 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of MFRS 15.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires the Directors of the Manager 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 period 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 below:-

(i) Provisions

The Trust recognises provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgements about the ultimate resolution of these obligations. As a result, provisions are reviewed at each reporting date and adjusted to reflect the Trust's current best estimate.

2. BASIS OF PREPARATION (CONTINUED)

(e) Use of estimates and judgements (continued)

(ii) Impairment loss on trade receivables

The Group and the Trust assess at each reporting date whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairment.

(iii) Depreciation of property, plant and equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial and production factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iv) Fair value estimates for investment properties

The Group and the Trust carry investment properties at fair value, which requires extensive use of accounting estimates and judgements. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group and the Trust use different valuation methodologies. Any changes in fair value of these investment properties would affect income statement.

(v) Revaluation of properties

The Group's properties which are reported at valuation are based on valuation performed by independent professional valuers. The independent professional valuers have exercised judgement in determining the discount rates, estimates of future cash flows, capitalisation rate, terminal year value, market rental and other factors used in the valuation process. Also, judgement has been applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting valuation estimates.

2. BASIS OF PREPARATION (CONTINUED)

(f) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Trust.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in net asset value and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(i) Acquisitions

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in income statement.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree over the (b) fair values of the identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed, is recorded as goodwill.

2. BASIS OF PREPARATION (CONTINUED)

(f) Basis of consolidation (continued)

(ii) Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to income statement or transferred directly to undistributed income if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in income statement.

The accounting policy on investment in subsidiaries are disclosed in Note 3(f) to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Investment properties

(i) Investment properties carried at fair value

Investment properties consist of freehold and leasehold land & buildings which are held for long term rental yield or for capital appreciation or both.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in income statement for the period in which they arise.

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 income statement in the period in which the item is derecognised.

A property interest held under operating lease is classified and accounted for as investment property as the Group holds it to earn rental income or for capital appreciation or both.

(ii) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio at least once in every 3 years from the last valuation, in compliance with the SC's REIT Guidelines. The frequency of revaluation of the Group's real estate assets is at least once during each financial year.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Investment properties (continued)

(ii) Determination of fair value (continued)

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate:-

- the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness;
- the allocation of property taxes, maintenance and insurance responsibilities between the Group and the lessee; and
- the remaining economic life of the property.

When lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

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 income statement in the period in which the item is derecognised.

Any increase or decrease arising from changes in the fair value is credited or charged directly to income statement as a net appreciation or depreciation in the value of the investment properties.

(b) Leases

(i) Operating leases - as lessee

Leases of assets where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in the income statement on a straight-line basis over the period of the lease.

(ii) Operating leases - as lessor

Leases of properties where the Group and the Trust retain substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in the income statement on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant & equipment and depreciation

Property, plant & equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses while equipment and other assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation on property, plant & equipment is calculated on the straight-line basis at rates required to write off the cost of the property, plant & equipment over their estimated useful lives.

The principal annual rates of depreciation used are as follows:-

Buildings	4%
Equipment	4% - 25%
Other assets*	12.5% - 19%

* Other assets include assets under construction with no depreciation. Upon completion, assets under construction are transferred to categories of property, plant and equipment depending on nature of assets and depreciation commences when they are ready for their intended used.

After the revaluation of the hotel assets, management has reassessed the useful life of the building and determined it to be 25 years.

Residual values, useful life and depreciation method of assets are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant & equipment.

Gains and losses on disposals are determined by comparing net disposal proceeds with net carrying amount and are recognised in the income statement.

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognised in other comprehensive income, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in income statement. Decreases in carrying amounts that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases in carrying amounts are recognised in income statement.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant & equipment and depreciation (continued)

When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to undistributed income.

(d) Impairment of non-financial assets

The carrying amounts of assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Any subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the first-in-first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment in subsidiaries

In the Trust's separate financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit and loss.

(g) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Trust become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of a financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Trust determine the classification of their financial assets at initial recognition, and the categories include loans and receivables.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in income statement.

(h) Impairment of financial assets

The Group and the Trust assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

Loans and receivables

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and deposits with licensed financial institutions.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy in Note 3(g).

(j) Interest-bearing borrowings

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in income statement 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.

(k) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statements of financial position when, and only when, the Group and the Trust become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as other financial liabilities.

<u>Other financial liabilities</u>

The Group's and the Trust's other financial liabilities include trade and other payables and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in income statement when the liabilities are derecognised, and through amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Derivatives financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group and the Trust document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group and the Trust also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 26. Movements on the hedging reserve in other comprehensive income are shown in Note 21(iii). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

<u>Cash flow hedge</u>

The fair value changes on the effective portion the derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to income statement in the periods when the hedged item affects income statement. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in within 'revenue'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to income statement within 'other gains/(losses) – net'.

(m) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount. 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.

<u>Provision for income distribution</u>

Provision for income distribution is recognised when any distribution is declared, determined or publicly recommended by the Directors of the Manager but not distributed at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax and deferred tax

Income tax on the profit or loss for the financial year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributable to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unabsorbed tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(o) Revenue recognition

Revenue is recognised when it is probable that the future economic benefits will flow to the Group and the benefits can be reliably measured.

(i) Hotel operations charges

Revenue from room rental is recognised on the accrual basis. Revenue from the sale of food and beverages is recognised based on invoiced value of goods sold. Rendering of other services is recognised when the services are rendered.

(ii) Rental income and other related charges

Rental income is recognised in income statement on a straight-line basis over the term of the lease.

(iii) Interest income

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

(iv) Dividend income

Dividend income is recognised in income statement on the date that the Trust’s right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

(i) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial year when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as expenses when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(ii) Post-employment benefits

The Group has various post-employment benefit schemes in accordance with local conditions and practices in the industries in which it operates. These benefit plans are either defined contribution or defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

Defined contribution plan

The Group's contributions to a defined contribution plan are charged to income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(q) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency using exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in foreign currency translation reserve relating to that particular foreign operation is recognised in income statement.

(r) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments.

(s) Fair value measurement

(i) Financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting date. The quoted market prices used for financial assets are the current bid prices, the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions that are existing at each reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis, are also used to determine the fair values of the financial instruments.

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows discounted at actively quoted interest rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

(ii) Non-financial assets

For non-financial asset, 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.

4. REVENUE

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Hotel revenue				
- Rental of room	**269,418**	250,305	**-**	-
- Food and beverage income	**53,331**	52,347	**-**	-
- Other hotel operating income	**9,987**	9,763	**-**	-
	332,736	312,415	**-**	-
Property revenue				
- Lease rental income	**115,098**	112,028	**99,144**	96,273
- Car park income	**1,849**	1,849	**1,849**	1,849
	116,947	113,877	**100,993**	98,122
Total revenue	**449,683**	426,292	**100,993**	98,122

5. OPERATING EXPENSES

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Hotel operating expenses				
- Operating expenses	**133,626**	132,388	**-**	-
- Repair and maintenance expenses	**12,183**	11,506	**-**	-
- Utilities	**6,502**	6,398	**-**	-
- Property taxes	**8,051**	5,715	**-**	-
- Insurance	**478**	459	**-**	-
- General and administration expenses	**56,811**	50,737	**-**	-
- Other direct expenses	**12,834**	11,651	**-**	-
	230,485	218,854	**-**	-
Property operating expenses				
- Property taxes	**6,645**	6,246	**4,268**	4,267
- Insurance	**2,297**	2,241	**1,469**	1,471
- Lease rental	**11**	11	**11**	11
- Property maintenance	**629**	-	**-**	-
	9,582	8,498	**5,748**	5,749
Total operating expenses	**240,067**	227,352	**5,748**	5,749

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING EXPENSES (CONTINUED)

The staff benefit expense recognised in hotel operating expenses is in respect of the following:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries, wages and bonus	**63,755**	73,563	**-**	-
Defined contribution plan	**23,840**	28,318	**-**	-
	87,595	101,881	**-**	-

6. FINANCE INCOME & CURRENCY EXCHANGE GAINS

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Financial institution deposits interests	**3,077**	1,704	**2,737**	704
Subsidiary loan interests	**-**	-	**111,462**	103,436
Finance income	**3,077**	1,704	**114,199**	104,140
Currency exchange gains – realised	**3,843**	1,676	**3,843**	1,676

7. MANAGER'S FEES

Fees paid and payable to the Manager during the financial year comprise:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(i) Base fee	**3,828**	3,518	**3,828**	3,518
(ii) Performance fee	**4,193**	3,979	**4,193**	3,979
	8,021	7,497	**8,021**	7,497

(i) Pursuant to the Restated Deed, the base fee, accrued and payable monthly, represents 0.1% per annum of the gross asset value of the Group; and

(ii) Pursuant to the Restated Deed, the performance fee, accrued and payable monthly, represents 2% of the net property income of the Group recorded during the financial year.

8. TRUSTEE'S FEES

Pursuant to the Restated Deed, the Trustee's fees, accrued monthly and payable every half year to the Trustee, represents 0.03% per annum of the gross asset value of the Group.

9. FINANCE COSTS

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Interest expense:				
- Term loans (Note 22)	**70,877**	76,236	**70,877**	76,236
- Medium Term Notes (Note 23)	**873**	53	**-**	-
- Subsidiary (Note 14)	**-**	-	**873**	53
Incidental cost incurred to administer the borrowing facilities:				
- Amortisation of transaction costs	**6,501**	6,502	**6,501**	6,502
- Facility fee	**833**	372	**743**	363
	79,084	83,163	**78,994**	83,154

10. INCOME TAX EXPENSE

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Current income tax				
- Malaysian income tax				
- current year	**106**	112	**-**	-
- over-provision in prior year	**(9)**	-	**-**	-
- Foreign income tax*	**2,597**	1,082	**936**	871
Deferred tax				
- Origination and reversal of temporary differences (Note 15)	**208**	793	**-**	-
	2,902	1,987	**936**	871

The Trust has provided approximately 100% (2016: 100%) of the distributable income to unitholders, which is more than 90% of the taxable income, which income at the Trust level is exempted from tax in accordance with the amended Section 61A of Income Tax Act 1967.

* Included withholding taxes from the foreign interest income received from shareholder loan interest.

NOTES TO THE FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of income tax expense applicable to (loss)/profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and the Trust is as follows:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss)/Profit before tax	**(9,219)**	(3,788)	**166,093**	206,813
Income tax using Malaysian statutory tax rate of 24% (2016: 24%)	**(2,212)**	(909)	**39,862**	49,635
Expenses not deductible for tax purposes	**32,966**	46,371	**6,841**	6,412
Utilisation of capital allowances	**(5,098)**	(5,098)	**(5,098)**	(5,098)
Income exempted from tax	**(1,979)**	(1,349)	**(1,979)**	(1,349)
Income not subject to tax	**(20,052)**	(35,965)	**(38,690)**	(48,729)
Different tax rates in other countries	**(723)**	(1,063)	**-**	-
Income tax expense	**2,902**	1,987	**936**	871

11. (LOSS)/EARNINGS PER UNIT

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss)/Profit for the year after manager's fees	**(12,121)**	(5,775)	**165,157**	205,942
(Loss)/Profit for the year before manager's fees	**(4,100)**	1,722	**173,178**	213,439
Weighted average number of units ('000)	**1,529,485**	1,324,389	**1,529,485**	1,324,389
(Loss)/Earnings per unit after manager's fees (sen)	**(0.79)**	(0.44)	**10.80**	15.55
(Loss)/Earnings per unit before manager's fees (sen)	**(0.27)**	0.13	**11.32**	16.12

12. INVESTMENT PROPERTIES

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At beginning of the financial year	**1,843,183**	1,764,714	**1,586,000**	1,532,000
Enhancements	**65,140**	1,262	**65,140**	1,262
Change in fair value	**34,794**	19,192	**12,360**	52,738
Currency translation differences	**(5,470)**	58,015	**-**	-
At end of the financial year	**1,937,647**	1,843,183	**1,663,500**	1,586,000
Analysis of investment properties:-				
Freehold land & building	**1,455,447**	1,366,183	**1,181,300**	1,109,000
Leasehold land & building	**482,200**	477,000	**482,200**	477,000
	1,937,647	1,843,183	**1,663,500**	1,586,000

NOTES TO THE FINANCIAL STATEMENTS

12. INVESTMENT PROPERTIES (CONTINUED)

The fair value of the investment properties are as follows:-

Description of property	Tenure	Fair value as at 30.6.2017 RM'000	% of fair value to Net Asset Value as at 30.6.2017 %	Fair value as at 30.6.2016 RM'000	% of fair value to Net Asset Value as at 30.6.2016 %
JW Marriott Hotel Kuala Lumpur	Freehold	**411,000**	**16.2**	410,000	21.3
The Ritz-Carlton, Kuala Lumpur – Suite Wing (previously known as The Residences at The Ritz-Carlton, Kuala Lumpur)					
– (60 units)	Freehold	**204,000**	**8.1**	163,000	8.5
– (54 units)	Freehold	**97,000**	**3.8**	91,000	4.7
The Ritz-Carlton, Kuala Lumpur – Hotel Wing (previously known as The Ritz-Carlton, Kuala Lumpur)	Freehold	**341,000**	**13.5**	320,000	16.6
Pangkor Laut Resort	Leasehold	**116,100**	**4.6**	114,000	5.9
Tanjong Jara Resort	Leasehold	**101,100**	**4.0**	101,000	5.3
Vistana Kuala Lumpur Titiwangsa	Freehold	**128,300**	**5.1**	125,000	6.5
Vistana Penang Bukit Jambul	Leasehold	**117,000**	**4.6**	117,000	6.1
Vistana Kuantan City Centre	Leasehold	**88,000**	**3.5**	86,000	4.5
Cameron Highlands Resort	Leasehold	**60,000**	**2.4**	59,000	3.1
Hilton Niseko Village	Freehold	**274,147**	**10.8**	257,183	13.4
		1,937,647	**76.6**	1,843,183	95.9
Net Asset Value		**2,530,991**		1,922,403	

12. INVESTMENT PROPERTIES (CONTINUED)

The following are recognised in income statement in respect of investment properties:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Rental income	**116,947**	113,877	**100,993**	98,122
Direct operating expenses:-				
- income generating investment properties	**(9,583)**	(8,498)	**(5,748)**	(5,749)

Investment properties with carrying amount of RM1,938 million (2016: RM1,843 million) are charged as security for financing granted to the Group as disclosed in Note 22 and Note 23 to the financial statements.

Fair value information

The fair value of investment properties of the Group and the Trust are categorised as Level 3. The different levels of the fair value hierarchy are defined in Note 34(b) to the financial statements. The properties are valued by independent professional valuers, Savills (Malaysia) Sdn. Bhd., Azmi & Co Sdn. Bhd. and Savills Japan Co., Ltd. on 31 May 2017 using the income capitalisation approach, also known as the investment approach. In the income capitalisation approach, capitalisation rates are applied to the income of the investment properties to determine the value of the investment properties. A valuation is carried out on each property at least once during each financial year.

During the current financial year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

The following table shows 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 technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Income approach which capitalise the estimate rental income stream, net projected operating costs, using a discount rate derived from market yield.	Discount rate of 5.1% to 7.5% (2016: 5.2% to 7.5%) Capitalisation rate of 5.3% to 7.5% (2016: 5.3% to 7.5%)	The higher the discount rate, the lower the fair value. The higher the capitalisation rate, the lower the fair value.

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Buildings RM'000	Equipment RM'000	Other assets RM'000	Total RM'000
Cost/Valuation					
At 1.7.2016	227,233	1,212,466	233,075	55,125	1,727,899
Additions	-	13,714	3,077	26,781	43,572
Transfers	-	26,021	2,395	(28,416)	-
Disposals	-	-	(844)	(17)	(861)
Revaluation losses - net	-	49	-	-	49
Revaluation surplus	21,014	142,784	-	-	163,798
Revaluation adjustments	-	(52,842)	-	-	(52,842)
Currency translation differences	24,531	131,292	24,778	5,798	186,399
At 30.6.2017	**272,778**	**1,473,484**	**262,481**	**59,271**	**2,068,014**
Representing:					
At cost	-	-	262,481	59,271	321,752
At valuation	272,778	1,473,484	-	-	1,746,262
At 30.6.2017	**272,778**	**1,473,484**	**262,481**	**59,271**	**2,068,014**
Accumulated depreciation					
At 1.7.2016	-	4,041	64,830	35,700	104,571
Charge for the financial year	-	53,274	19,344	10,826	83,444
Disposals	-	-	(738)	(12)	(750)
Revaluation adjustment	-	(52,842)	-	-	(52,842)
Currency translation differences	-	437	7,285	4,025	11,747
At 30.6.2017	**-**	**4,910**	**90,721**	**50,539**	**146,170**
Net book value:					
At cost	-	-	171,760	8,732	180,492
At valuation	272,778	1,468,574	-	-	1,741,352
At 30.6.2017	**272,778**	**1,468,574**	**171,760**	**8,732**	**1,921,844**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land RM'000	Buildings RM'000	Equipment RM'000	Other assets RM'000	Total RM'000
Cost/Valuation					
At 1.7.2015	182,200	1,123,106	224,013	52,843	1,582,162
Additions	–	3,110	3,243	7,083	13,436
Transfers	–	3,844	2,312	(6,156)	–
Disposals	–	–	(2,955)	(72)	(3,027)
Written off	–	–	–	(96)	(96)
Revaluation losses - net	9,734	(40,649)	–	–	(30,915)
Revaluation surplus	30,238	137,534	–	–	167,772
Revaluation adjustments	–	(46,649)	–	–	(46,649)
Currency translation differences	5,061	32,170	6,462	1,523	45,216
At 30.6.2016	227,233	1,212,466	233,075	55,125	1,727,899
Representing:					
At cost	–	–	233,075	55,125	288,200
At valuation	227,233	1,212,466	–	–	1,439,699
At 30.6.2016	227,233	1,212,466	233,075	55,125	1,727,899
Accumulated depreciation					
At 1.7.2015	–	3,743	46,415	25,028	75,186
Charge for the financial year	–	46,840	18,242	10,041	75,123
Disposals	–	–	(1,080)	(41)	(1,121)
Revaluation adjustments	–	(46,649)	–	–	(46,649)
Currency translation differences	–	107	1,253	672	2,032
At 30.6.2016	–	4,041	64,830	35,700	104,571
Net book value:					
At cost	–	–	168,245	19,425	187,670
At valuation	227,233	1,208,425	–	–	1,435,658
At 30.6.2016	227,233	1,208,425	168,245	19,425	1,623,328

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The fair value of the property, plant and equipment are as follows:-

Description of property	Tenure	Fair value as at 30.6.2017 RM'000	% of fair value to Net Asset Value as at 30.6.2017 %	Fair value as at 30.6.2016 RM'000	% of fair value to Net Asset Value as at 30.6.2016 %
Sydney Harbour Marriott	Freehold	**1,383,660**	**54.7**	1,132,499	58.9
Brisbane Marriott	Freehold	**279,907**	**11.0**	259,578	13.5
Melbourne Marriott	Freehold	**258,277**	**10.2**	231,251	12.0
		1,921,844	**75.9**	1,623,328	84.4
Net Asset Value		**2,530,991**		1,922,403	

Property, plant and equipment at net book value amounting to RM1,922 million (2016: RM1,623 million) are charged as security for a term loan facility granted to the Trust as disclosed in Note 22 to the financial statements.

A valuation is carried out on the freehold land and buildings at least once during each financial year. The latest annual valuation exercise was conducted by independent professional valuers, CIVAS (NSW) Pty Limited and CIVAS (QLD) Pty Limited on 31 May 2017, using the income capitalisation approach, also known as the investment approach.

Had the revalued properties been carried at cost less accumulated depreciation, the net book values of the properties that would have been included in the financial statements are as follows:-

	Group	
	2017 RM'000	2016 RM'000
Freehold land	**172,094**	155,620
Buildings	**839,385**	759,207
	1,011,479	914,827

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Fair value information

The Group's freehold land and buildings are valued based on unobservable inputs and classified in Level 3 of the fair value hierarchy. The different levels of the fair value hierarchy are defined in Note 34(b) to the financial statements.

During the current financial year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

The following table shows 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 technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Discounted cash flow method is the total of discounted income stream and present value of the properties' anticipated sale value in arriving at the total present market value.	Discount rate of 8.0% to 8.5% (2016: 8.8% to 9.0%) Capitalisation rate of 5.75% to 6.75% (2016: 5.5% to 9.0%)	The higher the discount rate, the lower the fair value. The higher the capitalisation rate, the lower the fair value.

14. INVESTMENT IN SUBSIDIARIES

	Trust	
	2017 RM'000	2016 RM'000
Unquoted shares, at costs	**396,657**	351,892

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The details of subsidiaries are as follows:-

Name of subsidiary	Place of incorporation	Principal activities	Effective equity interest 2017 %	Effective equity interest 2016 %
Held by the Trust				
* Starhill REIT Niseko G.K.	Japan	Purchase, possession, disposal, lease and management of real properties	**100**	100
Starhill Hospitality REIT (Australia) Sdn. Bhd.	Malaysia	Investment holding	**100**	100
YTL REIT MTN Sdn. Bhd.	Malaysia	To undertake the issuance of medium term notes	**100**	100
Held through Starhill Hospitality REIT (Australia) Sdn. Bhd.				
Starhill Hotel (Australia) Sdn. Bhd.	Malaysia	Investment holding	**100**	100
* Starhill REIT (Australia) Pty. Ltd.	Australia	Trustee company	**100**	100
* Starhill Hospitality (Australia) Pty. Ltd.	Australia	Trustee company	**100**	100
* Starhill Hospitality REIT (Australia) Trust	Australia	Real estate investment	**100**	100
Held through Starhill Hotel (Australia) Sdn. Bhd.				
* Starhill Hotel (Brisbane) Pty. Ltd.	Australia	Hotel operator	**100**	100
* Starhill Hotel (Sydney) Pty. Ltd.	Australia	Hotel operator	**100**	100
* Starhill Hotel (Melbourne) Pty. Ltd.	Australia	Hotel operator	**100**	100
Held through Starhill Hospitality REIT (Australia) Trust				
* Starhill Hospitality REIT (Brisbane) Trust	Australia	Real estate investment	**100**	100
* Starhill Hospitality REIT (Sydney) Trust	Australia	Real estate investment	**100**	100
* Starhill Hospitality REIT (Melbourne) Trust	Australia	Real estate investment	**100**	100

* Subsidiaries not audited by HLB Ler Lum

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The amounts due from subsidiaries pertain mainly to loans, loan interest, advances and payments on behalf. The outstanding amounts are unsecured, interest free and payable on demand save for loans. The loans in foreign currencies of RM1,357 million (2016: RM1,249 million) with tenure of ten and fifteen years bear interest at rates of 8.86% and 5% (2016: 8.86% and 5%) per annum respectively, interest is payable quarterly and monthly respectively. The loans shall be repaid by way of a bullet repayment on maturity date. Upon maturity, the Trust allows the loans to be renewed for another ten and fifteen years respectively, where the interest rate is mutually agreed upon in the later stage.

The amount due to a subsidiary relates to advances of RM10 million and RM65 million with tenure of three and five years respectively and bear fixed interest rates of 5.23% and 5.05% (2016: 5.23% and Nil) per annum respectively, interest is payable half yearly. The advances shall be repaid on maturity dates.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly or indirectly by the parent company do not differ from the proportion of ordinary shares held.

There were no changes during the year (2016: Nil) in the Group's ownership interest in its significant subsidiaries.

The long term loans and advances are receivable/repayable by the Trust:

	Amount due from subsidiaries	Amount due to subsidiaries
	RM'000	RM'000
2017		
Later than 1 year and not later than 5 years	**-**	**75,000**
Later than 5 years	**1,357,497**	**-**
	1,357,497	**75,000**
2016		
Later than 1 year and not later than 5 years	-	10,000
Later than 5 years	1,248,723	-
	1,248,723	10,000

NOTES TO THE FINANCIAL STATEMENTS

15. DEFERRED TAX ASSETS

	Group	
	2017 RM'000	**2016 RM'000**
At beginning of the financial year	**2,663**	3,355
Charged to income statement (Note 10)	**(208)**	(793)
Currency translation differences	**278**	101
At end of the financial year	**2,733**	2,663

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off income tax assets against income tax liabilities and when deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting are shown in the statement of financial position:-

	Group	
	2017 RM'000	**2016 RM'000**
Deferred tax provided are in respect of:-		
Deferred tax assets		
Receivables	**-**	184
Accruals	**2,718**	2,867
Others	**15**	14
	2,733	3,065
Deferred tax liabilities		
Prepayments	**-**	(402)
	-	(402)
Net (after offsetting)	**2,733**	2,663

16. INVENTORIES

	Group	
	2017 RM'000	2016 RM'000
Beverage inventories	**720**	578
Operating inventories	**140**	151
	860	729

The Group's cost of inventories recognised as expenses and included in "hotel operating expenses" amounted to approximately RM7,776,000 (2016: RM8,882,000).

17. TRADE RECEIVABLES

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade receivables	**15,332**	13,708	**6,945**	5,430
Less : Accumulated impairment losses on trade receivables	**(2,874)**	(2,822)	**(2,874)**	(2,822)
	12,458	10,886	**4,071**	2,608

The movements in the allowance for impairment during the financial year were:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At beginning of the financial year	**2,822**	2,782	**2,822**	2,782
Change in fair value of trade receivables	**52**	40	**52**	40
At end of the financial year	**2,874**	2,822	**2,874**	2,822

The amount due from companies related to the Manager, which amounted to RM3,675,630 (2016: RM2,161,632) relate to rental due in respect of agreements and is subject to normal trade terms.

The normal trade credit terms of trade receivables range from 15 to 30 (2016: 15 to 30) days.

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE RECEIVABLES (CONTINUED)

The ageing analysis of the Group's and the Trust's trade receivables is as follows:-

	Gross	Individual impairment	Net
	RM'000	RM'000	RM'000
Group - 2017			
Not past due	**1,147**	**-**	**1,147**
Past due 1 - 90 days	**10,712**	**-**	**10,712**
Past due 91 - 180 days	**106**	**-**	**106**
Past due more than 180 days	**3,367**	**(2,874)**	**493**
Trust - 2017			
Not past due	**164**	**-**	**164**
Past due 1 - 90 days	**3,513**	**-**	**3,513**
Past due more than 180 days	**3,268**	**(2,874)**	**394**
Group - 2016			
Not past due	7,041	-	7,041
Past due 1 - 90 days	3,190	-	3,190
Past due 91 - 180 days	209	-	209
Past due more than 180 days	3,268	**(2,822)**	446
Trust - 2016			
Not past due	164	-	164
Past due 1 - 90 days	1,998	-	1,998
Past due more than 180 days	3,268	**(2,822)**	446

The allowance account in respect of receivables is used to record impairment losses. At the end of the financial year, the Group and the Trust are satisfied that recovery of the amount is possible.

18. OTHER RECEIVABLES & PREPAYMENTS

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Other receivables	**12,793**	16,570	**218**	201
GST receivables	**2,793**	–	**2,793**	–
Prepayments	**5,616**	4,904	**3,222**	3,397
	21,202	21,474	**6,233**	3,598

Included in the other receivables of the Group is RM12,554,918 (2016: RM10,348,982) recoverable from Australian tax authorities for withholding tax on foreign source distribution received by a subsidiary.

19. DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS

The effective interest rate of deposits placed with licensed banks of the Group and of the Trust were 2.4% and 3.7% (2016: 2.2% and 3.4%) per annum, respectively.

The average maturities of deposits of the Group and of the Trust ranged from 1 day to 91 days (2016: 1 day to 91 days).

Included in deposits with licensed financial institutions is RM4,741,663 (2016: RM4,589,383) pledged for a bank facility granted to the Trust as stated in Note 22 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

20. UNITHOLDERS' CAPITAL

	2017 No. of units '000	2016 No. of units '000
Authorised:-		
At beginning of the financial year	**1,324,389**	1,324,389
Issuance of new placement units	**380,000**	–
At end of the financial year	**1,704,389**	1,324,389
Issued and fully paid:-		
At beginning of the financial year	**1,324,389**	1,324,389
Issuance of new placement units	**380,000**	–
At end of the financial year	**1,704,389**	1,324,389

	2017 RM'000	2016 RM'000
Issued and fully paid:-		
At beginning of the financial year	**1,291,395**	1,291,395
Issuance of new placement units		
(380,000,000 units at RM1.06 per unit)	**402,800**	–
Issuing expenses	**(3,389)**	–
At end of the financial year	**1,690,806**	1,291,395

21. RESERVES

		Group		Trust	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Currency translation reserves	21(i)	**30,535**	(73,393)	**-**	–
Revaluation reserve	21(ii)	**822,444**	592,235	**-**	–
Cash flow hedge reserve	21(iii)	**(13,873)**	(23,724)	**(13,873)**	(23,724)
		839,106	495,118	**(13,873)**	(23,724)

21. RESERVES (CONTINUED)

(i) Currency translation reserves

	Group	
	2017 RM'000	2016 RM'000
At beginning of the financial year	**(73,393)**	(168,388)
Net currency translation differences from financial statement of foreign subsidiaries	**103,928**	94,995
At end of the financial year	**30,535**	(73,393)

(ii) Revaluation reserve

	Group	
	2017 RM'000	2016 RM'000
At beginning of the financial year	**592,235**	413,379
Revaluation gain of property	**163,798**	167,772
Currency translation differences	**66,411**	11,084
At end of the financial year	**822,444**	592,235

The revaluation reserve represents increases in the fair value of freehold land and buildings.

(iii) Cash flow hedge reserve

	Group/Trust	
	2017 RM'000	2016 RM'000
At beginning of the financial year	**(23,724)**	-
Change in fair value	**9,851**	(23,724)
At end of the financial year	**(13,873)**	(23,724)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

NOTES TO THE FINANCIAL STATEMENTS

22. BORROWINGS - SECURED

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-current				
- Term loans	**920,594**	1,603,734	**920,594**	1,603,734
- Capitalised transaction costs	**(4,764)**	(13,312)	**(4,764)**	(13,312)
	915,830	1,590,422	**915,830**	1,590,422
Current				
- Term loans	**416,800**	-	**416,800**	-
- Capitalised transaction costs	**(2,047)**	-	**(2,047)**	-
	414,753	-	**414,753**	-
Total borrowings	**1,330,583**	1,590,422	**1,330,583**	1,590,422

(i) The term loan denominated in Ringgit Malaysia of RM416,800,000 (2016: RM811,800,000), which is repayable by bullet payment on 23 November 2017, bears a weighted average interest rate of 4.73% (2016: 4.91%) per annum and is secured by:-

(a) a first legal charge over some properties as disclosed in Note 12 to the financial statements;

(b) an assignment of fire insurance policies in relation to the secured properties; and

(c) a Memorandum of Deposit over the fixed deposit of the Trust as disclosed in Note 19 to the financial statements.

During the financial year, RM395,000,000 of term loan has been repaid.

(ii) The term loan denominated in Australian Dollar of AUD278,427,954 (2016: AUD264,869,843) which is repayable by bullet payment on 29 June 2020, bears a weighted average interest rate of 4.57% (2016: 4.52%) per annum and is secured by:-

(a) a first legal charge over properties as disclosed in Note 13 to the financial statements; and

(b) an assignment of fire insurance policies in relation to the secured properties.

The interest rate on the term loan was largely hedged using interest rate swaps fixed at 4.76% per annum.

23. MEDIUM TERM NOTES ("MTNs")

	Group	
	2017 RM'000	**2016 RM'000**
Non-current		
Medium Term Notes	**75,000**	10,000
Capitalised transaction costs	**(993)**	(1,446)
	74,007	8,554

The MTNs of the Group were issued pursuant to an MTNs issuance programme of up to RM1,650 million constituted by a Trust Deed and Programme Agreement, both dated 11 May 2016.

(a) A nominal value of RM10 million of MTNs was issued on 25 May 2016 to refinance part the Group's existing RM821.8 million term loan. The coupon rate of the MTNs is 5.23% (2016: 5.23%) per annum, payable semi-annually in arrears and the MTNs are redeemable on 24 May 2019 at nominal value.

(b) A nominal value of RM65 million of MTNs was issued on 23 May 2017 to finance the renovation costs carried out at two properties owned by the Trust. The coupon rate of the MTNs is 5.05% (2016: Nil) per annum, payable semi-annually in arrears and the MTNs are redeemable on 23 May 2022 at nominal value.

The facility is secured by properties as disclosed in Note 12 to the financial statements.

24. OTHER PAYABLES

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Non-current				
Other payables	**1,195**	836	**-**	-

Included in the other payables is the long service leave of approximately RM1,195,000 (2016: RM836,000).

NOTES TO THE FINANCIAL STATEMENTS

24. OTHER PAYABLES (CONTINUED)

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current				
Other payables	**28,957**	24,783	**1,495**	2,024
Accruals	**14,015**	10,492	**6,858**	3,134
Advance deposits	**6,631**	4,642	**-**	-
	49,603	39,917	**8,353**	5,158

The amounts due to the Manager and the companies related to the Manager, which amounted to RM1,436,405 (2016: RM1,487,227) are unsecured, interest free and payable on demand.

25. TRADE PAYABLES

The credit terms of trade payables granted to the Group vary from 15 to 30 (2016: 15 to 30) days.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract/ Notional Value	Fair Value
	RM'000	RM'000
Group/Trust - 2017		
Cash flow hedge		
Interest rate swaps		
- 1 - 5 years	**868,058**	**(13,873)**
Group/Trust - 2016		
Cash flow hedge		
Interest rate swaps		
- 1 - 5 years	784,965	(23,724)

The Group entered into interest rate swap contracts to manage its interest rate risk arising primarily from interest-bearing borrowings. Borrowings at floating rate expose the Group to fair value interest rates and the derivative financial instruments minimise the fluctuation of cash flow due to changes in the market interest rates. The derivative financial instruments are executed with credit-worthy financial institutions which are governed by appropriate policies and procedures with a view to limit the credit risk exposure of the Group.

26. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The derivative financial instruments are stated at fair value based on banks' quotes. The fair value changes on the effective portion of the derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in income statement.

The Group's derivative financial instruments are classified in Level 2 of the fair value hierarchy. The different levels of the fair value hierarchy are defined in Note 34(b) to the financial statements.

27. PROVISION FOR INCOME DISTRIBUTION

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
At beginning of the financial year	**28,359**	30,803	**28,359**	30,803
Provision made during the financial year	**122,690**	104,544	**122,690**	104,544
Distribution paid during the financial year	**(118,144)**	(106,988)	**(118,144)**	(106,988)
At end of the financial year	**32,905**	28,359	**32,905**	28,359

Pursuant to the Restated Deed, it is the policy of the Manager to distribute at least 90% of the distributable income for each financial year.

For the financial year ended 30 June 2017, the Manager has declared a final income distribution of 1.9306 sen per unit (2016: 2.1413 sen per unit), totaling RM32,904,932 (2016: RM28,359,139) which will be paid on 30 August 2017. Total distribution paid and declared for the financial year ended 30 June 2017 is 8.0838 sen per unit, totaling RM122,689,969, representing approximately 100% of the total distributable income for the financial year ended 30 June 2017 (2016: 7.8938 sen per unit, totaling RM104,544,610).

NOTES TO THE FINANCIAL STATEMENTS

27. PROVISION FOR INCOME DISTRIBUTION (CONTINUED)

Distribution to unitholders is from the following sources:-

	Group	
	2017 RM'000	2016 RM'000
Net property income	**209,616**	198,940
Finance income	**3,077**	1,704
Other income	**40,809**	22,556
	253,502	223,200
Less : Expenses	**(262,721)**	(226,988)
Less : Income tax expense	**(2,902)**	(1,987)
	(12,121)	(5,775)
Add/(Less):-		
Depreciation	**83,444**	75,123
Net income from foreign operations	**2,623**	1,690
Unrealised foreign translation differences	**83,537**	21,744
Unrealised loss on fair value of trade receivable	**52**	40
Unrealised gain on fair value of investment properties	**(34,794)**	(19,192)
Revaluation (gain)/loss on property	**(49)**	30,915
Income available for distribution/Total distributable income	**122,692**	104,545
Less : Income distribution	**(122,690)**	(104,544)
Undistributed distributable income	**2**	1
Distributable income per unit (sen)	**8.0838**	7.8938
Gross distribution per unit (sen)	**8.0838**	7.8938
Net distribution per unit (sen)	**8.0838**	7.8938

28. TRANSACTIONS WITH STOCKBROKING COMPANIES

No transactions with stockbroking companies were made during the financial year.

29. UNITHOLDING BY THE MANAGER

As at 30 June 2017, the Manager did not hold any unit in the Trust.

30. UNITHOLDERS RELATED TO THE MANAGER

	2017		
	No. of units held	Percentage of total units	Market value
	'000	%	RM'000
YTL Corporation Berhad	**937,464**	**55.00**	**1,106,208**
YTL Power International Berhad	**43,090**	**2.53**	**50,846**
Business & Budget Hotels (Kuantan) Sdn. Bhd.	**18,750**	**1.10**	**22,125**
Megahub Development Sdn. Bhd.	**18,250**	**1.07**	**21,535**
East-West Ventures Sdn. Bhd.	**62,500**	**3.67**	**73,750**
Syarikat Pelanchongan Pangkor Laut Sendirian Berhad	**24,250**	**1.42**	**28,615**
Tanjong Jara Beach Hotel Sdn. Bhd.	**1,750**	**0.10**	**2,065**
	1,106,054	**64.89**	**1,305,144**

	2016		
	No. of units held	Percentage of total units	Market value
	'000	%	RM'000
YTL Corporation Berhad	747,464	56.44	799,787
YTL Power International Berhad	43,090	3.25	46,106
Business & Budget Hotels (Kuantan) Sdn. Bhd.	18,750	1.42	20,063
Megahub Development Sdn. Bhd.	18,250	1.38	19,528
East-West Ventures Sdn. Bhd.	62,500	4.72	66,875
Syarikat Pelanchongan Pangkor Laut Sendirian Berhad	24,250	1.83	25,948
Tanjong Jara Beach Hotel Sdn. Bhd.	21,750	1.64	23,273
	936,054	70.68	1,001,580

NOTES TO THE FINANCIAL STATEMENTS

30. UNITHOLDERS RELATED TO THE MANAGER (CONTINUED)

The market value of the units held by the companies related to the Manager is determined by using the closing market value of the Trust as at 30 June 2017 of RM1.180 per unit (2016: RM1.070 per unit).

Pintar Projek Sdn. Bhd., the manager of the Trust is also a subsidiary of YTL Corporation Berhad, a public listed company. YTL Corporation Berhad is therefore deemed to have control over the Trust as Pintar Projek Sdn. Bhd. governs the financial and operating policies of the Trust.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group 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 Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The following significant transactions which have been transacted with companies related to the Manager and the major unitholder are as follows:-

			Group/Trust	
Entity	Relationship	Nature of transaction	2017 RM'000	2016 RM'000
Business & Budget Hotels (Penang) Sdn. Bhd.	Subsidiary company of the major unitholder	Lease rental of investment property	**8,457**	8,200
Business & Budget Hotels (Kuantan) Sdn. Bhd.	Associated company of the major unitholder	Lease rental of investment property	**6,188**	6,000
Cameron Highlands Resort Sdn. Bhd.	Subsidiary company of the major unitholder	Lease rental of investment property	**4,126**	4,000
Prisma Tulin Sdn. Bhd.	Subsidiary company of the major unitholder	Lease rental of investment property	**8,457**	8,200

31. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Entity	Relationship	Nature of transaction	Group/Trust 2017 RM'000	Group/Trust 2016 RM'000
Star Hill Hotel Sdn. Bhd.	Subsidiary company of the major unitholder	Lease rental of investment properties	**36,116**	35,223
		Reimbursement of renovation cost	**44,494**	-
YTL Land Sdn. Bhd.	Subsidiary company of the major unitholder	Rental of car park space	**1,849**	1,849
Tanjong Jara Beach Hotel Sdn. Bhd.	Company related to a director of the manager	Lease rental of investment property	**7,219**	7,000
East-West Ventures Sdn. Bhd.	Subsidiary company of the holding company of major unitholder	Lease rental of investment property	**19,917**	19,250
		Reimbursement of renovation cost	**20,646**	-
Syarikat Pelanchongan Pangkor Laut Sendirian Berhad	Subsidiary company of the holding company of major unitholder	Lease rental of investment property	**8,664**	8,400

Entity	Relationship	Nature of transaction	Group 2017 RM'000	Group 2016 RM'000
Niseko Village K.K.	Subsidiary company of the major unitholder	Lease rental of investment property	**15,954**	15,755

NOTES TO THE FINANCIAL STATEMENTS

31. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Entity	Relationship	Nature of transaction	Trust 2017 RM'000	Trust 2016 RM'000
Starhill Hospitality REIT (Australia) Sdn. Bhd.	Subsidiary company	Shareholder loan interests	**102,054**	94,888
Starhill REIT Niseko G.K.	Subsidiary company	Shareholder loan interests	**9,408**	8,548
YTL REIT MTN Sdn. Bhd.	Subsidiary company	Interest expenses	**873**	53
		Administrative charges	**645**	142
		Advances	**65,000**	10,000

The Manager is of the opinion that these transactions are conducted in the normal course of business and have been established on terms and conditions negotiated by the related parties.

32. CAPITAL COMMITMENTS AND OPERATING LEASE ARRANGEMENT

(a) Capital commitments

	Group 2017 RM'000	Group 2016 RM'000
Authorised but not contracted for	**-**	35,914
Contracted but not provided for	**380,000**	-
	380,000	35,914

The above commitments mainly comprise refurbishment of Sydney Harbour Marriott hotel property and acquisition of investment property (Note 39 of financial statements).

32. CAPITAL COMMITMENTS AND OPERATING LEASE ARRANGEMENT (CONTINUED)

(b) Operating lease arrangement

The Group leases out its investment properties as follows:-

(i) for JW Marriott Hotel Kuala Lumpur and The Ritz-Carlton, Kuala Lumpur - Suite Wing (previously known as The Residences at The Ritz-Carlton, Kuala Lumpur), the lease term are twenty and twenty five years respectively; and

(ii) for other investment properties, the average tenure is a lease term of fifteen years.

All lease arrangements are provided with a step-up rate of 5% every five years and an option to grant the respective lessees to renew the lease for a further term similar to the original lease agreements.

The future minimum lease payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, are analysed as follows:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Not later than 1 year	**121,492**	114,740	**105,176**	98,811
Later than 1 year and not later than 5 years	**618,697**	589,621	**535,888**	507,628
Later than 5 years	**446,469**	536,983	**386,504**	459,886
	1,186,658	1,241,344	**1,027,568**	1,066,325

33. FINANCIAL RISK MANAGEMENT

The Group's and the Trust's operations are subject to the following risks:-

(a) Credit risk;
(b) Liquidity risk;
(c) Interest rate risk; and
(d) Foreign currency exchange risk.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk of a financial loss to the Group and the Trust if a lessee or counterparty to a financial instrument fails to meet its contractual obligations. The Group's and the Trust's exposure to credit risk arise principally from its receivables from lessees or other financial assets (including cash & bank balances), the Group and the Trust minimise credit risk by dealing with high credit rating counterparties.

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally security deposits are obtained and credit evaluations are performed on customers requiring credit over a certain amount.

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.

Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. The Group and the Trust use 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.

The exposure of credit risk for trade receivables as at the end of the reporting period by geographic region was:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Domestic	**4,071**	2,608	**4,071**	2,608
Australia	**8,387**	8,278	**-**	-
	12,458	10,886	**4,071**	2,608

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Inter-company balances

The Trust provides unsecured advances to subsidiaries and where necessary makes payments for expenses on behalf of its subsidiaries. The Trust monitors the results of the subsidiaries regularly. As at 30 June 2017, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position.

Management has taken reasonable steps to ensure that inter-company receivables are stated at the realisable values. As at 30 June 2017, there was no indication that the advances extended to the subsidiaries are not recoverable.

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Trust will encounter difficulty in meeting its financial obligations due to shortage of fund. The Group's and the Trust's exposure to liquidity risk arise principally from its various payables, loans and borrowings.

The Group and the Trust maintain 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.

The table below summarises the maturity profile of the Group's and the Trust's financial liabilities as at the end of the reporting period based on contractual undiscounted repayment obligations:-

	2017			
	Contractual cash flows	Under 1 year	1 - 2 years	2 - 5 years
	RM'000	RM'000	RM'000	RM'000
Group				
Financial liabilities				
Borrowings	1,450,626	460,066	34,983	955,577
MTNs	92,064	3,806	13,752	74,506
Trade payables	5,120	5,120	-	-
Other payables	50,798	50,798	-	-
	1,598,608	519,790	48,735	1,030,083
Trust				
Financial liabilities				
Borrowings	1,450,626	460,066	34,983	955,577
Other payables	8,353	8,353	-	-
Subsidiary	92,064	3,806	13,752	74,506
	1,551,043	472,225	48,735	1,030,083

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	2016			
	Contractual cash flows	Under 1 year	1 - 2 years	2 - 5 years
	RM'000	RM'000	RM'000	RM'000
Group				
Financial liabilities				
Borrowings	1,783,914	71,780	856,845	855,289
MTNs	11,515	522	523	10,470
Trade payables	7,703	7,703	–	–
Other payables	40,753	39,917	836	–
	1,843,885	119,922	858,204	865,759
Trust				
Financial liabilities				
Borrowings	1,783,914	71,780	856,845	855,289
Other payables	5,158	5,158	–	–
Subsidiary	11,515	522	523	10,470
	1,800,587	77,460	857,368	865,759

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table below analyses the derivative financial instruments of the Group and the Trust for which contractual maturities are essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2017		
	Under 1 year	1 - 2 years	2 - 5 years
	RM'000	RM'000	RM'000
Group/Trust			
Derivative			
Net settled			
– interest rate swaps			
– cash flow hedges			
– net cash outflows	**8,333**	**8,333**	**8,333**

	2016		
	Under 1 year	1 - 2 years	2 - 5 years
	RM'000	RM'000	RM'000
Group/Trust			
Derivative			
Net settled			
– interest rate swaps			
– cash flow hedges			
– net cash outflows	5,966	5,966	11,931

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and of the Trust's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Trust's exposure to interest rate risk arise primarily from their floating rate bonds and borrowings, which is partially offset by the deposits held at variable rates. The Group and the Trust manage their cash flow interest rate risk by using a mix of fixed and variable rate debts. Derivative financial instruments are used, where appropriate, to generate the desired interest rate profile.

The Group's and the Trust's floating rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

The interest rate profile of the Group's and the Trust's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:-

	Group		Trust	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fixed rate instruments				
Financial assets				
Shareholders loan	**-**	-	**1,357,497**	1,248,723
Financial liabilities				
Subsidiary	**-**	-	**75,000**	10,000
MTNs	**75,000**	10,000	**-**	-
Floating rate instruments				
Financial assets				
Deposits with licensed financial institutions	**51,051**	31,190	**30,975**	15,825
Financial liabilities				
Borrowings	**1,337,394**	1,603,734	**1,337,394**	1,603,734

The Group and the Trust does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect income statement.

At the reporting date, if the interest rates had been 50 basis points lower/higher, with all other variables held constant, the Group's and the Trust's profit after tax would be higher/lower by approximately RM2.1 million (2016: RM4.1 million) as a result of lower/higher interest expense on borrowings.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (continued)

The excess funds of the Group and of the Trust are invested in bank deposits and other short term instruments. The Group and the Trust manage their liquidity risks by placing such excess funds on short term maturities to match its cash flow needs. If interest deposit rates increased/decreased by 50 basis points, interest income of the Group and of the Trust for the financial year would increase/decrease by RM0.3 million (2016: RM0.1 million) and RM0.2 million (2016: RM0.1 million), respectively.

In order to protect the Group's earnings from the volatility in interest rates and provide stability to unitholders' returns, the Group may hedge a portion of its interest rate exposure within the short to medium term by using fixed rate debt and interest rate derivatives.

During the current financial year, the Group hedged its exposure to changes in interest rates on its variable rate borrowings by entering into interest rate swaps.

(d) Foreign currency exchange risk

The Group is exposed to foreign currency risk arising from Japanese Yen ("JPY") and Australian Dollar ("AUD"). The Group has investment in foreign operations whose net assets are exposed to foreign currency translation risk.

The table illustrates the impact on the other comprehensive income and profit after tax resulting from currency sensitivities (on the basis all other variables remain constant).

	Group		Trust	
	Increase/ (Decrease) in other comprehensive income	Increase/ (Decrease) in profit after tax	Increase/ (Decrease) in other comprehensive income	Increase/ (Decrease) in profit after tax
	RM'000	RM'000	RM'000	RM'000
2017				
5% changes on JPY exchange rate	**7,668**	**-**	**-**	**5,602**
5% changes on AUD exchange rate	**200,611**	**(154,760)**	**-**	**16,287**
2016				
5% changes on JPY exchange rate	12,685	-	-	9,365
5% changes on AUD exchange rate	42,676	(39,597)	-	13,474

NOTES TO THE FINANCIAL STATEMENTS

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

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

- Loans and receivables ("L&R");
- Derivative used for hedging ("DH"); and
- Other financial liabilities measured at amortised cost ("OL").

	Note	Carrying amount RM'000	L&R RM'000	DH RM'000
Group - 2017				
Financial assets				
Current				
Trade receivables	17	**12,458**	**12,458**	**-**
Other receivables & deposits	18	**15,586**	**15,586**	**-**
Cash and cash equivalents	19	**142,462**	**142,462**	**-**
		170,506	**170,506**	**-**

	Note	Carrying amount RM'000	OL RM'000	DH RM'000
Financial liabilities				
Non-current				
Borrowings	22	**915,830**	**915,830**	**-**
MTNs	23	**74,007**	**74,007**	**-**
Other payables	24	**1,195**	**1,195**	**-**
Derivative financial instruments	26	**13,873**	**-**	**13,873**
Current				
Borrowings	22	**414,753**	**414,753**	**-**
Trade payables	25	**5,120**	**5,120**	**-**
Other payables	24	**49,603**	**49,603**	**-**
		1,474,381	**1,460,508**	**13,873**

34. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	Note	Carrying amount RM'000	L&R RM'000	DH RM'000
Trust - 2017				
Financial assets				
Non-current				
Amount due from subsidiaries	14	**1,357,497**	**1,357,497**	**-**
Current				
Trade receivables	17	**4,071**	**4,071**	**-**
Other receivables & deposits	18	**3,011**	**3,011**	**-**
Amount due from subsidiaries	14	**99,524**	**99,524**	**-**
Cash and cash equivalents	19	**31,863**	**31,863**	**-**
		1,495,966	**1,495,966**	**-**

	Note	Carrying amount RM'000	OL RM'000	DH RM'000
Financial liabilities				
Non-current				
Borrowings	22	**915,830**	**915,830**	**-**
Derivative financial instruments	26	**13,873**	**-**	**13,873**
Amount due to a subsidiary	14	**75,000**	**75,000**	**-**
Current				
Borrowings	22	**414,753**	**414,753**	
Other payables	24	**8,353**	**8,353**	**-**
		1,427,809	**1,413,936**	**13,873**

NOTES TO THE FINANCIAL STATEMENTS

34. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	Note	Carrying amount RM'000	L&R RM'000	DH RM'000
Group - 2016				
Financial assets				
Current				
Trade receivables	17	10,886	10,886	–
Other receivables & deposits	18	16,570	16,570	–
Cash and cash equivalents	19	119,563	119,563	–
		147,019	147,019	–

	Note	Carrying amount RM'000	OL RM'000	DH RM'000
Financial liabilities				
Non-current				
Borrowings	22	1,590,422	1,590,422	–
MTNs	23	8,554	8,554	–
Other payables	24	836	836	–
Derivative financial instruments	26	23,724	–	23,724
Current				
Trade payables	25	7,703	7,703	–
Other payables	24	39,917	39,917	–
		1,671,156	1,647,432	23,724

34. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	Note	Carrying amount	L&R	DH
		RM'000	RM'000	RM'000
Trust - 2016				
Financial assets				
Non-current				
Amount due from subsidiaries	14	1,248,723	1,248,723	–
Current				
Trade receivables	17	2,608	2,608	–
Other receivables & deposits	18	201	201	–
Amount due from subsidiaries	14	95,390	95,390	–
Cash and cash equivalents	19	16,354	16,354	–
		1,363,276	1,363,276	–

	Note	Carrying amount	OL	DH
		RM'000	RM'000	RM'000
Financial liabilities				
Non-current				
Borrowings	22	1,590,422	1,590,422	–
Derivative financial instruments	26	23,724	–	23,724
Amount due to a subsidiary	14	10,000	10,000	–
Current				
Other payables	24	5,158	5,158	–
		1,629,304	1,605,580	23,724

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables approximate fair values due to the relatively short term nature of these financial instruments.

The carrying amounts of other financial liabilities approximate the fair value as there is no change in the market interest rate for similar financing facilities. The following summarises the methods used in determining the fair value of financial instruments reflected in the above table.

When measuring the fair value of an asset or a liability, the Group and the Trust use 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 the Group and the Trust can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

Refer Note 12 for disclosure of the investment properties that are measured at fair value. Refer Note 13 for disclosure of the property, plant and equipment that are measured at fair value. Refer Note 26 for disclosure of the derivative financial instruments that are measured at fair value.

There were no transfer between Level 1, Level 2 and Level 3 fair value measurements.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. These investments are classified as Level 2 and comprise debt investments and derivative financial instruments.

34. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Offsetting financial liabilities

The Group has the following financial instruments subject to enforceable master netting arrangements or similar agreement as follows:-

	Group/Trust					
	Related amount set off in the statements of financial position			Related amount not set off in statements of financial position		
	Gross amounts - financial liabilities	Gross amounts - financial assets	Net amounts	Financial assets/ (liabilities)	Financial collateral pledged	Net amounts
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
Derivative financial liabilities	**230**	**(190)**	**40**	**-**	**-**	**-**
2016						
Derivative financial liabilities	208	(194)	14	-	-	-

35. PORTFOLIO TURNOVER RATIO ("PTR")

	Group		Trust	
	2017 %	2016 %	2017 %	2016 %
PTR	**-**	-	**-**	-

PTR is the ratio of the average of acquisitions and disposals of investments for the financial year to the average net asset value of the Group and the Trust during the financial year calculated on a quarterly basis.

There is no acquisitions and disposals during the year.

NOTES TO THE FINANCIAL STATEMENTS

36. MANAGEMENT EXPENSE RATIO ("MER")

	Group		Trust	
	2017 %	2016 %	2017 %	2016 %
MER	**0.54**	0.68	**0.54**	0.59

MER is calculated based on the total of all the fees and expenses incurred by the Group and the Trust in the financial year and deducted directly from the income (including the manager's fees, the trustee's fees, the auditors' remuneration and other professional fees and expenses) and all the expenses not recovered from and/or charged to the Group and the Trust (including the costs of printing, stationery and postage), to the average net asset value of the Group and the Trust during the financial year calculated on a quarterly basis.

Since the basis of calculating MER can vary among real estate investment trusts, there is no sound basis for providing an accurate comparison of the Group's and the Trust's MER against other real estate investment trusts.

37. SEGMENTAL REPORTING

The Group's two operating segments operate in three main geographical areas:-

(i) Malaysia
(ii) Japan
(iii) Australia

The Group comprises the following reportable segments:-

(i) Property rental – leasing of hotel properties
(ii) Hotel – operating hotel business

The Manager monitors the operating results of its business units separately to make strategic decision.

37. SEGMENTAL REPORTING (CONTINUED)

The Group's segmental result for the financial year ended 30 June 2017 is as follows:-

	Property rental		Hotel	
	Malaysia	Japan	Australia	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	100,993	15,954	332,736	449,683
Operating expenses	(5,748)	(3,834)	(230,485)	(240,067)
Net property income	95,245	12,120	102,251	209,616
Finance income				3,077
Fair value gain on investment properties				34,794
Revaluation gain on property				49
Other income				5,966
Total income				253,502
Trust and administration expenses				(16,656)
Unrealised loss on foreign exchange				(83,537)
Depreciation				(83,444)
Finance costs				(79,084)
Loss before tax				(9,219)

	Property rental		Hotel	
	Malaysia	Japan	Australia	Total
	RM'000	RM'000	RM'000	RM'000
Non-current assets	1,663,500	274,147	1,924,577	3,862,224
Current assets	41,220	24,293	111,469	176,982
Total assets	1,704,720	298,440	2,036,046	4,039,206
Non-current liabilities	1,003,710	-	1,195	1,004,905
Current liabilities	456,018	1,041	46,251	503,310
Total liabilities	1,459,728	1,041	47,446	1,508,215
Additions to non-current assets	65,140	-	43,572	108,712

NOTES TO THE FINANCIAL STATEMENTS

37. SEGMENTAL REPORTING (CONTINUED)

The Group's segmental result for the financial year ended 30 June 2016 is as follows:-

	Property rental		Hotel	
	Malaysia	Japan	Australia	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	98,122	15,755	312,415	426,292
Operating expenses	(5,749)	(2,749)	(218,854)	(227,352)
Net property income	92,373	13,006	93,561	198,940
Finance income				1,704
Fair value gain on investment properties				19,192
Other income				3,364
Total income				223,200
Trust and administration expenses				(16,043)
Unrealised loss on foreign exchange				(21,744)
Revaluation loss on property				(30,915)
Depreciation				(75,123)
Finance costs				(83,163)
Loss before tax				(3,788)

	Property rental		Hotel	
	Malaysia	Japan	Australia	Total
	RM'000	RM'000	RM'000	RM'000
Non-current assets	1,586,000	257,183	1,625,991	3,469,174
Current assets	21,124	22,214	109,406	152,744
Total assets	1,607,124	279,397	1,735,397	3,621,918
Non-current liabilities	1,622,700	-	836	1,623,536
Current liabilities	33,525	990	41,464	75,979
Total liabilities	1,656,225	990	42,300	1,699,515
Additions to non-current assets	1,262	-	13,436	14,698

37. SEGMENTAL REPORTING (CONTINUED)

The following are major customers with revenues equal or more than 10 percent of the Group's total revenue:-

	Group Revenue 2017 RM'000	Group Revenue 2016 RM'000
Common control companies:-		
under the major unitholder	**81,147**	79,227
under the holding company of major unitholder	**28,581**	27,650
	109,728	106,877

38. CAPITAL MANAGEMENT

The Manager optimises YTL REIT's capital structure and cost of capital within the borrowing limits prescribed by the REIT Guidelines via a combination of debt and equity funding for future acquisitions and improvement works at the Properties.

The capital management strategy for the Group and the Trust involves:-

(a) adopting and maintaining an optimal gearing level; and

(b) adopting an active interest rate management strategy to manage risks associated with changes in interest rates while maintaining flexibility in YTL Hospitality REIT's capital structure to meet future investment and/or capital expenditure requirements.

The REIT Guidelines require that the total borrowings of a real estate investment trust (including borrowings through issuance of debt securities) should not exceed 50% of its total asset value at the time the borrowings are incurred, pursuant to Clause 8.37 of the REIT Guidelines. At the meeting of unitholders held on 11 February 2015, the borrowing limit had been increased to 60% of the Group's total assets to provide the Group with the flexibility of funding larger acquisition opportunities through borrowing in the future.

The Manager reviews the capital structure of the Group on a regular basis and monitors capital using a gearing ratio, which is total borrowings divided by total assets.

NOTES TO THE FINANCIAL STATEMENTS

38. CAPITAL MANAGEMENT (CONTINUED)

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Borrowings (Note 22)	**1,337,394**	1,603,734	**1,337,394**	1,603,734
MTNs (Note 23)	**75,000**	10,000	**-**	-
Total borrowings	**1,412,394**	1,613,734	**1,337,394**	1,603,734
Total assets	**4,039,206**	3,621,918	**3,559,345**	3,304,565
Gearing Ratio (%)	**34.97**	44.56	**37.57**	48.53

The Trust is not subject to externally imposed capital requirements for the financial years ended 30 June 2017 and 30 June 2016.

39. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) On 16 December 2016, the Trust completed the placement exercise with the issuance of 380,000,000 new units at an issue price of RM1.06 per unit and the fund size increased from 1,324,388,889 units to 1,704,388,889 units.

(b) On 5 May 2017, the Trustee of YTL Hospitality REIT ("Lessor") entered into supplemental lease agreements ("Supplemental Agreements") with the lessees of The Ritz-Carlton, Kuala Lumpur – Hotel Wing (previously known as The Ritz-Carlton, Kuala Lumpur) and The Ritz-Carlton, Kuala Lumpur – Suite Wing (previously known as The Residences at the Ritz-Carlton, Kuala Lumpur) ("Lessees") for the rental increase of RM4.56 million per annum ("Additional Rentals").

Pursuant to the Supplemental Agreements, the Lessees have agreed to pay the Additional Rentals as the Lessor has agreed to reimburse the Lessees for the renovation costs totaling RM65.14 million. The reimbursement date was completed on 23 May 2017 and the commencement dates of the Additional Rentals for the Suite Wing and Hotel Wing are 1 and 15 June 2017, respectively.

(c) During the current financial year, the Trust entered into a sale and purchase agreement for the acquisition of The Majestic Hotel Kuala Lumpur from YTL Majestic Hotel Sdn. Bhd. for a cash consideration of RM380,000,000.

The acquisition of The Majestic Hotel Kuala Lumpur has yet to be completed as at 30 June 2017.

The acquisition is expected to be funded by borrowings.

40. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors of Pintar Projek Sdn. Bhd. in accordance with a resolution of the Directors on 4 August 2017.

SUPPLEMENTARY INFORMATION

on the Disclosure of Realised and Unrealised Profits or Losses

The breakdown of the undistributed income of the Group and the Trust as at 30 June 2017, into realised and unrealised profits, pursuant to the directive issued by Bursa Malaysia Securities Berhad ("Bursa Securities") on 25 March 2010 and 20 December 2010 is as follows:-

	Group		Trust	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Total undistributed income of the Trust and its subsidiaries				
– Realised	**(212,035)**	(128,119)	**183,699**	183,749
– Unrealised	**261,929**	198,771	**237,999**	195,482
	49,894	70,652	**421,698**	379,231
Add: Consolidation adjustments	**(48,815)**	65,238	**-**	-
Total undistributed income	**1,079**	135,890	**421,698**	379,231

The determination of realised and unrealised profits is complied based on the Guidance of Special Matter No.1 "Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Main Market Listing Requirements" issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely complying with the disclosure requirement stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

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FORM OF PROXY

I/We *(full name as per NRIC/company name in block letters)* ______________________________

____

NRIC/Company No. *(New NRIC No.)* ______________________ *(Old NRIC No.)* ______________________

CDS Account No. *(for nominee companies only)* ______________________ Telephone No. ______________________

of *(full address)* ______________________________

being a unitholder of **YTL Hospitality REIT** hereby appoint *(full name as per NRIC in block letters)* ______________________

____

NRIC No. *(New NRIC No.)* ______________________ *(Old NRIC No.)* ______________________

of *(full address)* ______________________________

or failing him/her, the Chairman of the meeting as my/our proxy to attend on my/our behalf at the Fifth Annual General Meeting of YTL Hospitality REIT to be held at Mayang Sari Grand Ballroom, Lower Level 3, JW Marriott Hotel Kuala Lumpur, 183 Jalan Bukit Bintang, 55100 Kuala Lumpur on Friday, 20 October 2017 at 3.00 p.m. or at any adjournment thereof.

ORDINARY BUSINESS

To lay before the meeting the Audited Financial Statements for the financial year ended 30 June 2017 together with the Reports attached thereon.

Number of units held

Signed this ____________ day of ____________________ 2017 Signature ______________________

Notes:-

1. *A unitholder entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him. A proxy may, but need not, be a unitholder of YTL Hospitality REIT. A unitholder other than an authorised nominee shall not be entitled to appoint more than one proxy to attend and vote at the same meeting and where such unitholder appoints more than one proxy to attend and vote at the same meeting, such appointment shall be invalid.*
2. *Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy (but not more than two proxies) in respect of each securities account it holds in units standing to the credit of the said securities account. Where the unitholder appoints two proxies, the appointment will be invalid unless the unitholder specifies the proportions of his holdings to be represented by each proxy.*
3. *Where a unitholder is an exempt authorised nominee which holds units in YTL Hospitality REIT for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.*
4. *This original Form of Proxy and the Power of Attorney or other authority (if any) under which it is signed or notarially certified copy thereof must be lodged at the office of Pintar Projek Sdn Bhd ("Manager") at 11th Floor, Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, not less than 48 hours before the time appointed for the meeting or at any adjournment thereof.*
5. *In the case of a corporation, this Form of Proxy should be executed under its common seal or under the hand of an officer or attorney who has been duly authorised by the corporation.*
6. *For the purpose of determining the unitholders who shall be entitled to attend the meeting, the Manager shall request Bursa Malaysia Depository Sdn Bhd, in accordance with Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 12 October 2017. Only a depositor whose name appears on the General Meeting Record of Depositors as at 12 October 2017 shall be entitled to attend the said meeting or appoint proxy to attend on his behalf.*

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Then fold here

AFFIX
STAMP

THE MANAGER
PINTAR PROJEK SDN BHD
11th Floor, Yeoh Tiong Lay Plaza
55 Jalan Bukit Bintang
55100 Kuala Lumpur

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YTL HOSPITALITY REIT

managed by
PINTAR PROJEK SDN BHD
314009-W

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