

YTL HOSPITALITY REIT

Established in Malaysia

**Interim Financial Report
30 September 2017**

YTL HOSPITALITY REIT

Interim Financial Report 30 September 2017

	Page No.
Condensed Income Statements	1 - 2
Condensed Statements of Comprehensive Income	3
Condensed Statements of Financial Position	4 - 5
Condensed Statements of Changes in Net Asset Value	6 - 9
Condensed Consolidated Statement of Cash Flows	10 - 11
Notes to the Interim Financial Report	12 - 25

YTL HOSPITALITY REIT**INTERIM FINANCIAL REPORT**

Interim financial report on results for the financial period ended 30 September 2017.

The figures have not been audited.

CONDENSED INCOME STATEMENTS FOR THE PERIOD

	GROUP		TRUST	
	CURRENT	PRECEDING	CURRENT	PRECEDING
	YEAR	YEAR	YEAR	YEAR
	CORRESPONDING	CORRESPONDING	CORRESPONDING	CORRESPONDING
	QUARTER	QUARTER	QUARTER	QUARTER
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
NET REVENUE	120,515	101,106	26,614	24,688
PROPERTY OPERATING EXPENSES	(65,397)	(53,614)	(1,446)	(1,431)
NET PROPERTY INCOME	55,118	47,492	25,168	23,257
OTHER INCOME	1,869	1,308	30,446	27,642
MANAGER'S FEES	(2,130)	(1,877)	(2,130)	(1,877)
TRUSTEE'S FEES	(309)	(278)	(309)	(278)
ADMINISTRATION EXPENSES	(23,723)	(20,948)	(399)	(157)
FINANCE COSTS	(18,925)	(21,204)	(18,902)	(21,181)
INCOME BEFORE UNREALISED ITEM	11,900	4,493	33,874	27,406
UNREALISED ITEM: - Unrealised (loss)/gain on foreign exchange	(1,292)	(45,658)	(1,934)	28,618
PROFIT/(LOSS) BEFORE TAX	10,608	(41,165)	31,940	56,024
INCOME TAX EXPENSE	(504)	(615)	(233)	(242)
PROFIT/(LOSS) FOR THE PERIOD	10,104	(41,780)	31,707	55,782

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

CONDENSED INCOME STATEMENTS FOR THE PERIOD – continued

	GROUP		TRUST	
	CURRENT YEAR QUARTER 30.09.2017 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30.09.2016 RM'000	CURRENT YEAR QUARTER 30.09.2017 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30.09.2016 RM'000
PROFIT/(LOSS) FOR THE PERIOD	10,104	(41,780)	31,707	55,782
DISTRIBUTION ADJUSTMENTS:				
- Depreciation	21,854	19,537	-	-
- Unrealised foreign translation differences	1,292	45,658	1,934	(28,618)
- Net income from foreign operations	391	5,508	-	1,759
	-----	-----	-----	-----
INCOME AVAILABLE FOR DISTRIBUTION / TOTAL DISTRIBUTABLE INCOME	33,641	28,923	33,641	28,923
PROVISION FOR INCOME DISTRIBUTION	(33,640)	(27,187)	(33,640)	(27,187)
	-----	-----	-----	-----
UNDISTRIBUTED DISTRIBUTABLE INCOME	1	1,736	1	1,736
	=====	=====	=====	=====
DISTRIBUTABLE INCOME PER UNIT (Sen)	1.9738	2.1839	1.9738	2.1839
	=====	=====	=====	=====
GROSS DISTRIBUTION PER UNIT (Sen)	1.9737	2.0528	1.9737	2.0528
	=====	=====	=====	=====

The Condensed Income Statements should be read in conjunction with the audited annual financial statements for the year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD

	GROUP		TRUST	
	CURRENT YEAR QUARTER 30.09.2017 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30.09.2016 RM'000	CURRENT YEAR QUARTER 30.09.2017 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30.09.2016 RM'000
PROFIT/(LOSS) FOR THE PERIOD	10,104	(41,780)	31,707	55,782
OTHER COMPREHENSIVE INCOME/(EXPENSE):-				
<i>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO INCOME STATEMENT:-</i>				
CASH FLOW HEDGE	2,570	(4,485)	2,570	(4,485)
CURRENCY TRANSLATION DIFFERENCES	(159)	108,918	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	12,515	62,653	34,277	51,297
PROFIT/(LOSS) FOR THE PERIOD IS MADE UP AS FOLLOWS:-				
REALISED PROFIT	33,250	23,415	33,641	27,164
UNREALISED (LOSS) /PROFIT	(23,146)	(65,195)	(1,934)	28,618
	10,104	(41,780)	31,707	55,782
EARNINGS/(LOSS) PER UNIT (Sen)	0.59	(3.15)	1.86	4.21

The Condensed Statements of Comprehensive Income should be read in conjunction with the audited annual financial statements for the year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

CONDENSED STATEMENTS OF FINANCIAL POSITION

	GROUP		TRUST	
	UNAUDITED AS AT 30.09.2017 RM'000	AUDITED AS AT 30.06.2017 RM'000	UNAUDITED AS AT 30.09.2017 RM'000	AUDITED AS AT 30.06.2017 RM'000
ASSETS				
Non-current Assets				
Investment properties	1,931,529	1,937,647	1,663,500	1,663,500
Property, plant and equipment	1,908,638	1,921,844	-	-
Investment in subsidiaries	-	-	396,657	396,657
Amount due from subsidiaries	-	-	1,357,656	1,357,497
Deferred tax assets	2,901	2,733	-	-
	-----	-----	-----	-----
	3,843,068	3,862,224	3,417,813	3,417,654
	-----	-----	-----	-----
Current Assets				
Inventories	825	860	-	-
Trade and other receivables	39,547	33,660	13,246	10,304
Amount due from subsidiaries	-	-	102,730	99,524
Deposits with licensed financial institutions	46,534	51,051	26,764	30,975
Cash at banks	95,835	91,411	130	888
	-----	-----	-----	-----
	182,741	176,982	142,870	141,691
	-----	-----	-----	-----
TOTAL ASSETS	4,025,809	4,039,206	3,560,683	3,559,345
	=====	=====	=====	=====
UNITHOLDERS' FUNDS				
Unitholders' capital	1,690,806	1,690,806	1,690,806	1,690,806
Undistributed (loss)/income	(22,457)	1,079	419,765	421,698
Reserves	841,517	839,106	(11,303)	(13,873)
	-----	-----	-----	-----
Net Asset Value	2,509,866	2,530,991	2,099,268	2,098,631
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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

CONDENSED STATEMENTS OF FINANCIAL POSITION – continued

	GROUP		TRUST	
	UNAUDITED AS AT 30.09.2017 RM'000	AUDITED AS AT 30.06.2017 RM'000	UNAUDITED AS AT 30.09.2017 RM'000	AUDITED AS AT 30.06.2017 RM'000
LIABILITIES				
Non-current Liabilities				
Borrowings	1,140,350	989,837	1,066,212	915,830
Other payables	-	1,195	-	-
Derivative financial instruments	11,303	13,873	11,303	13,873
Amount due to a subsidiary	-	-	75,000	75,000
	-----	-----	-----	-----
	1,151,653	1,004,905	1,152,515	1,004,703
	-----	-----	-----	-----
Current Liabilities				
Borrowings	265,981	414,753	265,981	414,753
Trade and other payables	63,379	54,723	9,279	8,353
Income tax liabilities	1,290	929	-	-
Provision for income distribution	33,640	32,905	33,640	32,905
	-----	-----	-----	-----
	364,290	503,310	308,900	456,011
	-----	-----	-----	-----
TOTAL LIABILITIES	1,515,943	1,508,215	1,461,415	1,460,714
	-----	-----	-----	-----
TOTAL UNITHOLDERS' FUNDS & LIABILITIES	4,025,809	4,039,206	3,560,683	3,559,345
	=====	=====	=====	=====
Net asset value (RM'000)	2,509,866	2,530,991	2,099,268	2,098,631
	=====	=====	=====	=====
Number of units in circulations ('000)	1,704,389	1,704,389	1,704,389	1,704,389
	=====	=====	=====	=====
Net asset value per unit (RM)				
- before income distribution	1.492	1.557	1.251	1.303
- after income distribution	1.473	1.485	1.232	1.231
	=====	=====	=====	=====

The Condensed Statements of Financial Position should be read in conjunction with the audited annual financial statements for the year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

**CONDENSED STATEMENTS OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

GROUP	Unitholders' Capital RM'000	Distributable Undistributed Realised Income RM'000	<-----Non distributable----->				Cash Flow Hedge Reserve RM'000	Total Unitholders' Funds RM'000
			Unrealised Loss RM'000	Currency Translation Reserves RM'000	Revaluation Reserve RM'000			
At 1 July 2017	1,690,806	182,215	(181,136)	30,535	822,444	(13,873)	2,530,991	
Operations for the period								
Profit/(Loss) for the period	-	33,250	(23,146)	-	-	-	10,104	
Other comprehensive (Loss)/income	-	-	-	(3,144)	2,985	2,570	2,411	

Increase/(Decrease) in net assets resulting from operations	-	33,250	(23,146)	(3,144)	2,985	2,570	12,515	
Unitholders' transactions								
Distribution paid	-	-	-	-	-	-	-	
Provision for income distribution	-	(33,640)	-	-	-	-	(33,640)	

Increase/(Decrease) in net assets resulting from Unitholders' transaction	-	(33,640)	-	-	-	-	(33,640)	

At 30 September 2017	1,690,806	181,825	(204,282)	27,391	825,429	(11,303)	2,509,866	
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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

**CONDENSED STATEMENTS OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017 - continued**

	Unitholders' Capital RM'000	Distributable	<-----Non distributable----->	Cash Flow Hedge Reserve RM'000	Total Unitholders' Funds RM'000
		Undistributed Realised Income RM'000	Unrealised Income RM'000		
TRUST					
At 1 July 2017	1,690,806	184,699	236,999	(13,873)	2,098,631
Operations for the period					
Profit for the period	-	33,641	(1,934)	-	31,707
Other comprehensive income	-	-	-	2,570	2,570
Increase in net assets resulting from operations	-	33,641	(1,934)	2,570	34,277
Unitholders' transactions					
Distribution paid	-	-	-	-	-
Provision for income distribution	-	(33,640)	-	-	(33,640)
Increase/(Decrease) in net assets resulting from Unitholders' transaction	-	(33,640)	-	-	(33,640)
At 30 September 2017	1,690,806	184,700	235,065	(11,303)	2,099,268

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

**CONDENSED STATEMENTS OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016**

GROUP	Unitholders' Capital RM'000	Distributable Undistributed Realised Income RM'000	<-----Non distributable----->				Total Unitholders' Funds RM'000
			Unrealised Loss RM'000	Currency Translation Reserves RM'000	Revaluation Reserve RM'000	Cash Flow Hedge Reserve RM'000	
At 1 July 2016	1,291,395	184,836	(48,946)	(73,393)	592,235	(23,724)	1,922,403
Operations for the period							
Profit/(Loss) for the period	-	23,415	(65,195)	-	-	-	(41,780)
Other comprehensive income/ (expense)	-	-	-	74,590	34,328	(4,485)	104,433
Increase/(Decrease) in net assets resulting from operations	-	23,415	(65,195)	74,590	34,328	(4,485)	62,653
Unitholders' transactions							
Provision for income distribution	-	(27,187)	-	-	-	-	(27,187)
Decrease in net assets resulting from Unitholders' transaction	-	(27,187)	-	-	-	-	(27,187)
At 30 September 2016	1,291,395	181,064	(114,141)	1,197	626,563	(28,209)	1,957,869

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

**CONDENSED STATEMENTS OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016 - continued**

	Unitholders' Capital RM'000	Distributable Undistributed Realised Income RM'000	<-----Non distributable----> Unrealised Income 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 period					
Profit for the period	-	27,164	28,618	-	55,782
Other comprehensive expense	-	-	-	(4,485)	(4,485)
	-----	-----	-----	-----	-----
Increase/(Decrease) in net assets resulting from operations	-	27,164	28,618	(4,485)	51,297
Unitholders' transactions					
Provision for income distribution	-	(27,187)	-	-	(27,187)
	-----	-----	-----	-----	-----
Decrease in net assets resulting from Unitholders' transaction	-	(27,187)	-	-	(27,187)
	-----	-----	-----	-----	-----
At 30 September 2016	<u>1,291,395</u>	<u>184,674</u>	<u>223,152</u>	<u>(28,209)</u>	<u>1,671,012</u>

The Condensed Statements of Changes in Net Asset Value should be read in conjunction with the audited annual financial statements for the year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

YTL HOSPITALITY REIT**INTERIM FINANCIAL REPORT****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

	3 MONTHS ENDED	
	30.09.2017	30.09.2016
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before tax	10,608	(41,165)
Adjustments for:-		
Amortisation of transaction costs	1,801	1,762
Depreciation of property, plant and equipment	21,854	19,537
Interest income	(350)	(351)
Interest expense	17,046	19,371
Loss/(Gain) on disposal of equipment	69	(34)
Unrealised loss on foreign currency exchange	1,292	45,658
	-----	-----
Operating profit before changes in working capital	52,320	44,778
Net changes in current assets	(7,148)	1,497
Net changes in current liabilities	7,314	(296)
	-----	-----
Cash generated from operations	52,486	45,979
Income tax paid	(72)	(258)
	-----	-----
Net cash from operating activities	52,414	45,721
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	118	109
Proceed from disposal of equipment	42	76
Acquisition of property, plant and equipment	(1,415)	(5,614)
	-----	-----
Net cash used in investing activities	(1,255)	(5,429)
	-----	-----

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YTL HOSPITALITY REIT**INTERIM FINANCIAL REPORT****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017 - continued**

	3 MONTHS ENDED	
	30.09.2017	30.09.2016
	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(15,684)	(19,371)
Distribution paid	(32,905)	(28,359)
Proceed from borrowing	-	3,516
Transaction costs paid	(1,360)	(62)
	-----	-----
Net cash used in financing activities	(49,949)	(44,276)
	-----	-----
Net increase/(decrease) in cash and cash equivalents	1,210	(3,984)
Effect on exchange rate changes	(1,303)	4,803
Cash and cash equivalents at beginning of financial period	142,462	119,563
	-----	-----
Cash and cash equivalents at end of financial period (note a)	142,369	120,382
	=====	=====

Note (a)

Cash and cash equivalents

	As At	As At
	30.09.2017	30.09.2016
	RM'000	RM'000
Deposits with licensed financial institutions	46,534	36,412
Cash at banks	95,835	83,970
	-----	-----
	142,369	120,382
	=====	=====

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited annual financial statements for the year ended 30 June 2017 and the accompanying explanatory notes attached to the interim financial statements.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes :

Disclosure requirement pursuant to MFRS 134

The condensed interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 30 June 2017.

A1. Accounting Policies and Methods of Computation

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134: “Interim Financial Reporting”, and Chapter 9, Part M3 paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The accounting policies and methods of computation adopted by the Group and the Trust in the interim financial report are consistent with those adopted in the latest audited annual financial statements.

The adoption of MFRS and amendments to MFRSs, which were effective for the financial period beginning 1 July 2017, do not have significant financial impacts on the interim financial report of the Group and of the Trust.

A2. Seasonality or Cyclicity of Operations

Save for Sydney Harbour Marriott, Brisbane Marriott and Melbourne Marriott (“Australian Properties”), the business operations of the Group and of the Trust are not materially affected by any seasonal or cyclical factors.

A3. Unusual Items

For the current financial year to date, there was no item of an unusual nature that affects the assets, liabilities, equity, net income or cash flows of the Group and of the Trust.

A4. Changes in estimates of amounts reported

There was no significant change in estimates of amounts reported in prior interim periods or prior financial years.

A5. Changes in Debt and Equity Securities

There was no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current financial quarter and financial year to date. The outstanding debts are disclosed in Note B15.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

A6. Income Distribution

The following distribution payment (which were tax exempt at the Trust level under the amended Section 61A, Income Tax Act, 1967) was made during the financial period ended 30 September 2017:-

RM'000

In respect of the three months ended 30 June 2017:-

A final distribution of 1.9306 sen per unit each paid on
30 August 2017

32,905

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A7. Segment Information

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

	< ---Property rental--->		< --Hotel-- >	
	Malaysia	Japan	Australia	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	26,614	4,082	89,819	120,515
Operating expenses	(1,446)	(826)	(63,125)	(65,397)
	-----	-----	-----	-----
Net property income	25,168	3,256	26,694	55,118
	-----	-----	-----	
Other income				1,869

Total income				56,987
Trust and administration expenses				(26,162)
Unrealised loss on foreign exchange				(1,292)
Finance costs				(18,925)

Profit before tax				10,608
				=====
Total assets	1,702,828	292,103	2,030,878	4,025,809
	=====	=====	=====	=====

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

A7. Segment Information - continued

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

	< ---Property rental--->		< --Hotel-- >	Total
	Malaysia RM'000	Japan RM'000	Australia RM'000	RM'000
External revenue	24,688	3,892	72,526	101,106
Operating expenses	(1,431)	(762)	(51,421)	(53,614)
Net property income	23,257	3,130	21,105	47,492
Other income				1,308
Total income				48,800
Trust and administration expenses				(23,103)
Unrealised loss on foreign exchange				(45,658)
Finance costs				(21,204)
Loss before tax				(41,165)
Total assets	1,609,907	291,963	1,812,139	3,714,009

A8. Events after the interim period

There was no material event during the period from the end of the quarter under review to the date of this report, save for the following:

The acquisition of The Majestic Hotel Kuala Lumpur was completed on 3 November 2017 following the sale and purchase agreement entered into with YTL Majestic Hotel Sdn. Bhd on 26 May 2017 for a cash consideration of RM380 million.

A9. Changes in the Composition of the Group

There was no change in the composition of the Group and of the Trust for the current financial period ended 30 September 2017 and the fund size stood at 1,704,388,889.

A10. Changes in Contingent Liabilities

There were no contingent liabilities to be disclosed.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes :

Disclosure requirements pursuant to Part M3 paragraph 9.44 of Chapter 9 of the Main Market Listing Requirements of Bursa Securities

B1. Review of Performance

Comparison with Preceding Year Corresponding Quarter

	Current Quarter 30.09.2017 RM'000	Preceding Year Corresponding Quarter 30.09.2016 RM'000	Changes %
Revenue	120,515	101,106	19.20
Net Property Income	55,118	47,492	16.06
Profit/(Loss) Before Tax	10,608	(41,165)	125.77
Income Available For Distribution	33,641	28,923	16.31

The income available for distribution in the current financial quarter increased to RM33.641 million from RM28.923 million recorded in preceding year corresponding quarter, representing an increase of 16.31%, after adjustment for non-cash items, mainly due to the increase in net property income in the current financial quarter and reduction in finance costs as a result of the prepayment of borrowings in Dec 2016.

For the current financial quarter ended 30 September 2017, the Group recorded a revenue of RM120.515 million, representing an increase of 19.20% as compared to RM101.106 million recorded in the preceding year corresponding quarter while the Group recorded a net property income of RM55.118 million, representing an increase of 16.06% as compared to RM47,492 million recorded in the preceding year corresponding quarter.

Australian Properties contributed 74.53% of total revenue, or RM89.819 million in the current financial quarter, 23.84% higher as compared to RM72.526 million recorded in the preceding year corresponding quarter. Net property income for Australian Properties was RM26.694 million, an increase of 26.48% as compared to RM21.105 million recorded in the preceding year corresponding quarter. The increase in revenue and net property income in the current financial quarter were due substantially to the increase in room sales subsequent to the completion of a refurbishment exercise and the appreciation of the Australian Dollar in the current financial quarter ended 30 September 2017.

Malaysian Properties contributed 22.08% of total revenue, or RM26.614 million in the current financial quarter, 7.80% higher as compared to RM24.688 million recorded in the preceding year corresponding quarter. Net property income for Malaysian Properties was RM25.168 million, an increase of 8.22% from RM23.257 million recorded in the preceding year corresponding quarter. The increase in revenue and net property income were mainly due to the step-up lease rental income of 5% every five years from the commencement of lease agreement. The additional rentals from The Ritz Carlton Suite and Hotel Wing following the completion of the refurbishment in May 2017 also contributed to the increase in revenue and net property income.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B1. Review of Performance - continued

Hilton Niseko Village contributed 3.39% of total revenue, or RM4.082 million in the current financial quarter, 4.88% higher than that recorded in the preceding year corresponding quarter. Net property income for the current quarter was RM3.256 million, an increase of 4.03% from the preceding year corresponding quarter.

The Group recorded a profit before tax of RM10.608 million for the current financial quarter ended 30 September 2017, an increase of 125.77%, as compared to a loss before tax of RM41.165 million recorded in the preceding year corresponding quarter. The preceding year corresponding quarter recorded a higher unrealised foreign currency translation loss of RM45.658 million on the Australian Dollar denominated term loan as compared to RM1.29 million loss recorded in the current financial quarter.

Comparison with Preceding Quarter

	Current Quarter 30.09.2017 RM'000	Preceding Quarter 30.06.2017 RM'000	Changes %
Revenue	120,515	111,133	8.44
Net Property Income	55,118	47,805	15.30
Profit Before Tax	10,608	61,230	(82.68)
Income Available For Distribution	33,641	30,659	9.73

The income available for distribution increased to RM33.641 million recorded in current financial quarter from RM30.659 million recorded in preceding financial quarter ended 30 June 2017, representing an increase of 9.73%, after adjustment for non-cash items, mainly due to the increase in net property income in the current financial quarter. .

For the current financial quarter, Group revenue increased by 8.44% while net property income increased by 15.30% as compared to the preceding financial quarter ended 30 June 2017.

Revenue and net property income from Australian Properties at RM89.819 million and RM26.694 million, respectively in the current financial quarter increased 10.79% and 32.68%, respectively as compared to RM81.069 million and RM20.119 million, respectively recorded in the preceding quarter. The increase in revenue and net property income were mainly due to the reasons set out above.

Revenue from Malaysian Properties at RM26.614 million increased by 3.25% as compared to that in the preceding quarter of RM25.776 million. Net property income for Malaysian Properties was RM25.168 million, an increase of 3.50% from RM24.318 million recorded in the preceding quarter. The increase in revenue and net property income was mainly due to the additional rentals recorded from The Ritz Carlton Suite and Hotel Wing following the recent refurbishment completed in May 2017.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B1. Review of Performance - continued

Revenue and net property income from Hilton Niseko Village at RM4.082 million and RM3.256 million, respectively in the current financial quarter decreased 4.80% and 3.33% as compared to the revenue and net property income recorded in the preceding quarter of RM4.288 million and RM3.368 million, respectively.

The Group's profit before tax for the current financial quarter ended 30 September 2017 decreased by RM50.622 million as compared to the preceding quarter ended 30 June 2017. The following factors contributed to the decrease:

- (i) an unrealised foreign currency translation gain of RM20.772 million on the Australian Dollar denominated term loan was recognised in the preceding quarter; and
- (ii) recognition of the fair value gain of RM34.794 million from the annual revaluation exercise conducted in May 2017.

B2. Audit Report of the preceding financial year ended 30 June 2017

The Auditor's Report on the financial statements of the financial year ended 30 June 2017 did not contain any qualification.

B3. Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group and the Trust for the financial period under review.

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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B4. Portfolio Composition

As at 30 September 2017, YTL Hospitality REIT's composition of investment portfolio is as follows:

	Fair Value As At 30.09.2017 RM'000	% Of Fair Value To NAV As At 30.09.2017 %	
<u>Real Estate - Commercial</u>			
<u>Malaysian Properties</u>			
(i)	JW Marriott Hotel Kuala Lumpur	411,000	16.4
(ii)	The Ritz-Carlton, Kuala Lumpur - Suite Wing	301,000	12.0
(iii)	The Ritz-Carlton, Kuala Lumpur - Hotel Wing	341,000	13.6
(iv)	Vistana Kuala Lumpur Titiwangsa	128,300	5.1
(v)	Vistana Penang Bukit Jambul	117,000	4.7
(vi)	Pangkor Laut Resort	116,100	4.6
(vii)	Tanjong Jara Resort	101,100	4.0
(viii)	Vistana Kuantan City Centre	88,000	3.5
(ix)	Cameron Highlands Resort	60,000	2.4
<u>Japanese Property</u>			
(x)	Hilton Niseko Village*	268,029	10.7
<u>Australian Properties</u>			
(xi)	Sydney Harbour Marriott^	1,373,734	54.7
(xii)	Brisbane Marriott^	277,873	11.0
(xiii)	Melbourne Marriott^	257,031	10.2
	-----	-----	
	3,840,167	152.9	
Deposits with licensed financial institutions	46,534	1.9	
	-----	-----	
	3,886,701	154.8	
	=====	=====	

Note :

* Translated on 29 September 2017 at the exchange rate of JPY100 : RM3.7539

^ Translated on 29 September 2017 at the exchange rate of AUD1 : RM3.3184

There was no change to the portfolio composition of the Group and the Trust for the financial period under review.

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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B5. Change in Net Asset Value (“NAV”)

The total NAV and NAV per unit of the Group as at 30 September 2017 were RM2,509,867,345 and RM1.4726, respectively. The decrease in total NAV was mainly due to the unrealised loss items recorded in respect of the investments in the Japanese and Australian subsidiaries. The unrealised loss items, which are non-distributable, include depreciation and foreign translation differences.

	Current Quarter 30.09.2017 RM	Preceding Quarter 30.06.2017 RM
NAV	2,509,867,345	2,530,992,580
NAV per unit	1.4726	1.4850

B6. Change in Market Value

On 30 September 2017, YTL Hospitality REIT’s market value closed at RM1.20 per unit, an increase of 1.69% as compared to the closing market value of RM1.18 per unit on 30 June 2017.

B7. Prospects

The Manager, after considering the strength of the real estate portfolio invested, expects the Group to achieve satisfactory performance for the financial year ending 30 June 2018.

B8. Utilisation of Proceeds Raised from Issuance of New Units

There was no issuance of new units during the current financial period ended 30 September 2017.

B9. Circumstances Affecting Interest of Unitholders

There were no unusual circumstances which materially affected any interest of the unitholders.

B10. Material Litigation

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

B11. Maintenance Costs and Major Capital Expenditure

During the financial period ended 30 September 2017, the Australian Properties incurred RM1,414,935 for the refurbishment works and property repair and maintenance.

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B12. Soft Commission

During the financial period, the Manager did not receive any soft commission (i.e. goods and services) from its broker, by virtue of transactions conducted by the Group or by the Trust.

B13. Taxation

Taxation comprises the following:-

	Current Quarter 30.09.2017 RM'000
Malaysian income tax	234
Foreign income tax	108
Deferred tax	162

	504
	=====

Trust level

It is the policy of the Trust to distribute at least 90% of the total income to unitholders for each financial year. Income of the Trust shall be exempted from tax if it distributes 90% or more of its taxable income for that year of assessment, in accordance with the amended Section 61A, Income Tax Act, 1967, thus no Malaysian income tax is payable by the Trust for the financial period ended 30 September 2017.

Unitholders' level

Pursuant to the amended Section 109D(2) of the Income Tax Act, 1967 under the Finance Act 2009 which was gazetted on 8 January 2009, the following withholding tax rates would be applicable on distribution of income which is tax exempt at YTL Hospitality REIT's level:-

Category of unitholders	Withholding tax rate
Resident and non-resident individuals	10%
Resident and non-resident institutions	10%
Resident companies	No withholding tax. Subject to tax at the prevailing corporate tax rate.
Non-resident companies	24%

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B14. Corporate Development

As at the date of this report, there is no corporate proposal announced and pending completion.

B15. Borrowings and Debt Securities

The Group's borrowings as at 30 September 2017 are as follows:

	Short term RM'000	Long term RM'000	Total RM'000
Term Loan – secured	266,800	1,071,899 [^]	1,338,699
Medium Term Notes - secured	-	75,000	75,000
	-----	-----	-----
Total borrowings	266,800	1,146,899	1,413,699
Capitalised transaction costs	(819)	(6,549)	(7,368)
	-----	-----	-----
	265,981	1,140,350	1,406,331
	=====	=====	=====
Gearing ratio (%)			35.12
			=====

Note :

[^] Translated on 29 September 2017 at the exchange rate of AUD1 : RM3.3184

In order to protect the Group's distributable income from the volatility in interest rates and provide stability to unitholder's returns, the Group hedged its exposure to changes in the variable interest rates by entering into interest rate swaps. The above includes a term loan denominated in Australian Dollar of AUD323,016,856 (RM1,071,899,135[^]). The interest rate on the term loan was largely hedged using interest rate swaps fixed at 4.76% per annum.

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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B16. Derivative Financial Instruments

The Group's outstanding derivatives as at 30 September 2017 were as follows:-

Type of Derivative	Contract/ Notional Value RM'000	Fair Value RM'000
Interest rate swap contracts - 1 to 5 years	871,209^	(11,303)
	=====	=====

Note :

^ Translated on 29 September 2017 at the exchange rate of AUD1 : RM3.3184

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.

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 profit or loss.

The fair value of interest rate swap recognised in other comprehensive income for the current financial quarter amounted to a gain of RM2.570 million.

The Group's derivative financial instruments are classified in Level 2 of the fair value hierarchy.

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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B17. Income Distribution

The Board of Pintar Projek Sdn. Bhd. has declared an interim distribution of 1.9737 sen per unit of which 1.9737 sen is taxable in the hands of unitholders, totaling RM33,639,524 (which is tax exempt at the Trust level under the amended Section 61A of the Income Tax Act 1967), representing approximately 100% of the total distributable income for the financial quarter ended 30 September 2017. The book closure and payment dates in respect of the interim distribution will be fixed on 8 and 29 December 2017, respectively.

The interim income distributions are from the following sources:-

	Current Quarter 30.09.2017 RM'000
Profit after taxation	10,104
Distribution adjustments:-	
Depreciation	21,854
Unrealised foreign translation differences	1,292
Net income from foreign operations	391

Income available for distribution/Total distributable income	33,641
Less: Income distribution	(33,640)

	1
	=====

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YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B18. Unitholding by the Manager and Parties Related to the Manager

As at 30 September 2017, the Manager did not hold any units in YTL Hospitality REIT. The units held by the parties related to the Manager are as follows:-

	Number Of Units '000	Market Value RM'000
YTL Corporation Berhad	937,464	1,124,957
YTL Power International Berhad	43,090	51,708
Business & Budget Hotels (Kuantan) Sdn Bhd	18,750	22,500
Megahub Development Sdn Bhd	18,250	21,900
East-West Ventures Sdn Bhd	62,500	75,000
Syarikat Pelanchongan Pangkor Laut Sendirian Berhad	24,250	29,100
Tanjong Jara Beach Hotel Sdn Bhd	1,750	2,100
Tan Sri Dato' (Dr) Francis Yeoh Sock Ping	870	1,044
Dato' Yeoh Seok Kah	2,000	2,400
Dato' Hj. Mohamed Zainal Abidin Bin Hj. Abdul Kadir	100	120

The market value of the units held by the parties related to the Manager is based on the closing market price of YTL Hospitality REIT at RM1.20 per unit as at 29 September 2017.

B19. Realised and Unrealised Retained Profits/Undistributed Income

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

	As At 30.09.2017 RM'000	As At 30.06.2017 RM'000
Total undistributed income of the Trust and its subsidiaries		
- Realised	(234,428)	(212,035)
- Unrealised	260,157	261,929
	-----	-----
	25,729	49,894
Add: Consolidation adjustments	(48,186)	(48,815)
	-----	-----
Total group undistributed (loss)/income	(22,457)	1,079
	=====	=====

YTL HOSPITALITY REIT

INTERIM FINANCIAL REPORT

Notes : - continued

B20. Statement by the Directors of the Manager

In the opinion of the Directors of the Manager, this quarterly report has been prepared in accordance with MFRS 134: "Interim Financial Reporting", and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Securities so as to give a true and fair view of the financial position of YTL Hospitality REIT as at 30 September 2017 and of its financial performance and cash flows for the financial period ended on that date.

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By Order of the Board
HO SAY KENG
Secretary
Pintar Projek Sdn Bhd
Company No : 314009-W
(As the Manager of YTL Hospitality REIT)

Kuala Lumpur
Dated: 22 November 2017