

Hotel Property Investments (HPI)

Report for the Year Ended 30 June 2018

Comprising Hotel Property Investments Trust (ARSN 166 484 377) and Hotel Property Investments Limited (ABN 25 010 330 515) and their controlled entities

**Hotel Property Investments
Report for the Year Ended 30 June 2018**

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Hotel Property Investments Report for the year ended 30 June 2018 Directors' Report

The directors of Hotel Property Investments Limited as Responsible Entity (the "Responsible Entity") for the Hotel Property Investments Trust ("the Trust") present the consolidated financial report of Hotel Property Investments Trust, Hotel Property Investments Limited ("the Company") and their controlled entities (together "the HPI Group") for the year ended 30 June 2018.

The units in the Trust and the shares in the Company are stapled and cannot be traded or dealt with separately.

The Responsible Entity is incorporated and domiciled in Australia. The registered office of the Responsible Entity is Suite 2, Level 17, IBM Centre, 60 City Road, Southbank, Victoria, 3006.

Corporate Governance

A copy of HPI Group's Corporate Governance Statement is available on HPI Group's website at www.hpitrust.com.au/cms/corporate_governance.

1. Directors and officers

The members of the Board of Directors and the Officers of the Company in office during the year and since the end of the year are:

Name and position	Experience
Michael Tilley <i>Independent non-executive Chairman</i>	<i>Appointed 19 November 2013</i> Michael Tilley is a highly experienced executive having spent over 30 years advising and managing leading companies in financial services, life insurance and funds management in Australasia. He has served as Managing Director and Chief Executive Officer of Challenger Financial Services, Chairman and Chief Executive Officer of Merrill Lynch Australasia, and as a partner at Deloitte Touche Tohmatsu. Michael was a non-executive Director at Orica Ltd from November 2003 until January 2014 where he was the Chairman of Orica's Safety, Health & Environment Committee and a member of the Audit and Risk and Corporate Governance and Nominations Committees. Michael is a former member of the Takeovers Panel and has previously served as a non-executive Director of Incitec Ltd. He holds a Post Graduate Diploma in Business Administration from Swinburne University and is a Fellow of The Australian Institute of Company Directors.
Raymond Gunston <i>Independent non-executive Director</i>	<i>Appointed 19 November 2013</i> Raymond Gunston has over 30 years of corporate and financial services experience in the public and private sectors, specialising in finance, treasury, mergers and acquisitions, and accounting. Raymond is currently a non-executive Director of Sigma Pharmaceuticals Limited, where he is also a member of the Remuneration and Nomination Committee and Chairman of the Risk Management and Audit Committee. He was formerly Chief Financial Officer of Tatts Group Limited and Director of many of the Tatts Group's subsidiary and associate companies. He is currently General Manager – Infrastructure, Major Projects and Investment at the Australian Football League. Raymond has a Bachelor of Commerce (Honours) from the University of Melbourne and a Diploma of Education. Raymond is a Fellow Certified Practising Accountant, and a Graduate Member of the Australian Institute of Company Directors. Raymond is Chairman of HPI Group's Board Audit and Risk Committee and the Responsible Entity Compliance Committee.

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Directors' Report

1. Directors and officers (continued)

Name and position	Experience
Lachlan Edwards <i>Independent non-executive Director</i>	<p><i>Appointed 19 November 2013</i></p> <p>Lachlan Edwards is the founder of the advisory business Faraday Associates, having been the Co-Head of the advisory businesses at Lazard in Australia from 2013 until June 2018. Lachlan has extensive experience in capital markets and has been a senior level advisor to Governments, boards, executive teams and creditors in Australia and Europe. He has previously held board positions including as a Director of NM Rothschild & Sons, a Governor of the English National Ballet in London, and at the University & Schools Club in Sydney.</p> <p>Lachlan was a Managing Director of Goldman Sachs between 2006 and 2013 and was previously at Rothschild in both Sydney and London for 15 years.</p> <p>Lachlan currently serves on the board of the Bell Shakespeare Company and as Chairman of the Turnaround Management Association in Australia.</p> <p>Lachlan has a Bachelor of Economics degree from the University of Sydney and a Graduate Diploma in Applied Finance & Investments from the Securities Institute of Australia, and is a Member of the Australian Institute of Company Directors.</p> <p>Lachlan is a member of the HPI Group's Board Audit and Risk Committee and the Human Resources Committee.</p>
John Russell <i>Independent non-executive Director</i>	<p><i>Appointed 23 May 2013</i></p> <p>John Russell has a broad range of senior management experience in large and small public and private companies, including an extensive background in the hospitality and gaming industries. He was most recently Chief Executive Officer of Redcape Group Limited and has enjoyed senior executive roles at Australian Leisure and Hospitality Group Limited (ALH) and Tabcorp Holdings Limited.</p> <p>John joined Redcape Group from Customers Limited where he was Managing Director & Chief Executive Officer. Previously he was Chief Financial Officer of ALH and has served as General Manager Strategy & Operations at AWB Limited and Group General Manager Operations at Tabcorp.</p> <p>John holds an Honours Degree in Economics and a Master of Business Administration from the University of Adelaide and is a Graduate Member of the Australian Institute of Company Directors.</p> <p>John is the Chairman of HPI Group's Human Resources Committee.</p>
Giselle Collins <i>Independent non-executive Director</i>	<p><i>Appointed 19 April 2017</i></p> <p>Giselle Collins is a company Director with significant executive experience in property, tourism and financial services.</p> <p>Giselle has previously chaired the boards of Aon Superannuation Pty Ltd (as Trustee for Aon Master Trust), The Travelodge Hotel Group and the Heart Research Institute, and served on the boards of Big4 Holiday Parks and Minjerribah Camping.</p> <p>Giselle is currently Chairman of Darwin Hotel Pty Ltd, as nominee for Indigenous Business Australia. Giselle also sits on the board of the Royal Australian Institute of Architects and chairs their Finance, Audit and Risk Committee.</p> <p>Giselle has a Bachelor of Economics degree from the University of Sydney and a Graduate Diploma in Applied Finance & Investments from the Securities Institute of Australia, and is a Graduate Member of the Australian Institute of Company Directors.</p> <p>Giselle is a member of HPI Group's Board Audit and Risk Committee and the Human Resources Committee.</p>

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Directors' Report

1. Directors and officers (continued)

Name and position	Experience
David Charles Managing Director & Chief Executive Officer	<i>Appointed 1 July 2016 as Managing Director & Chief Executive Officer</i> David Charles was appointed Managing Director and CEO of HPI in July 2016, having been Fund Manager since November 2013. From April 2009 to November 2013 David was Chief Financial Officer at the Redcape Group, HPI's former owner. Before joining the Redcape Group Limited, David served at Coles Group for 5 years, including 4 years within the Liquor and Hotels division in senior finance and business management roles. He is a Chartered Accountant with over 25 years' experience in property, retail and hospitality, financial services, and accounting and audit. David holds a Bachelor of Economics from Monash University, is a member of Chartered Accountants in Australia and New Zealand, and a Graduate member of the Australian Institute of Company Directors.
Blair Strik Chief Financial Officer and Company Secretary	<i>Appointed 26 April 2017 as Chief Financial Officer and 19 May 2017 as Company Secretary</i> Blair Strik joined HPI Group in April 2017 as Chief Financial Officer and has over 15 years' experience in the property industry, professional services and treasury. Prior to joining the HPI Group, Blair held senior finance positions with the Industry Superannuation Property Trust for over 9 years, building on experience from previous roles at Rio Tinto and KPMG. Blair holds a Bachelor of Business from Swinburne University of Technology and is a member of Chartered Accountants in Australia and New Zealand.

2. Principal activities

The principal activity of the HPI Group consists of real estate investment in the freehold pub sector in Australia. There has been no significant change in the nature of the principal activity during the year.

3. Significant changes in state of affairs

There are no significant changes to the state of affairs of the HPI Group.

4. Distributions and dividends

For the year ended 30 June 2018 the HPI Group paid an interim distribution of 9.8 cents per stapled security for the half year ended 31 December 2017 and has declared a final income distribution of 9.8 cents per stapled security to be paid on 6 September 2018. The aggregate income distribution of 19.6 cents per security from trading operations is consistent with the aggregate income distribution for the prior corresponding period.

5. Matters subsequent to the end of the financial year

On 2 August 2018 the Group exchanged an unconditional contract to divest The Wickham Hotel for \$14 million. The sale is scheduled to settle on 17 September 2018.

No other item, transaction or event has occurred subsequent to 30 June 2018 that is likely in the opinion of the directors of the Responsible Entity to significantly affect the operations of the HPI Group, the results of those operations, or the state of affairs of the HPI Group in future financial periods.

6. Review and results of operations

The HPI Group is an Australian Real Estate Investment Trust ("AREIT") and listed on the ASX on 10 December 2013. Its principal activity is real estate investment in freehold properties in Australia, comprising primarily pubs.

Current year performance

The HPI Group recorded a total profit after tax for the year of \$48.4 million. Operating revenues and expenses included rental income from investment properties of \$46.2 million, property cost recoveries of \$4.1 million, property outgoing costs of \$6.7 million, other trust and management costs of \$3.1 million, and financing costs of \$13.2 million. Additionally, there was a fair value gain on investment property of \$21.2 million.

At 30 June 2018, the Investment Properties have been valued by Directors. In accordance with the HPI Group policy, Directors valuations have been determined by reference to the current net income, including allowance for contracted rental growth for each property and the specific circumstances of each property. Half of the 44 properties were independently valued in December 2017 and the remaining properties were independently valued in December 2016. Market capitalisation rates applied at 30 June 2018 remained constant at their previous independent valuation level. The current average capitalisation rate is 6.50%.

Adjusting profit after tax for fair value adjustments, non-cash finance costs and other minor items, the distributable earnings of the HPI Group were \$29.0 million. Adjusting further for maintenance capex of \$0.4 million the Adjusted Funds from Operations (AFFO) was \$28.6 million.

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Directors' Report

6. Review and results of operations (continued)

Financial position

At 30 June 2018 the HPI Group's net assets were \$406.7 million representing net assets per stapled security of \$2.79 (June 2017: \$2.65). Major assets and liabilities included cash on hand of \$1.2 million, investment property of \$700.2 million, receivables and other current assets of \$0.7 million, borrowings of \$275.6 million and a provision for payment of distributions of \$14.3 million. During the period investment property values increased by \$41.5 million resulting mainly from fair value gains of \$21.2 million and asset acquisitions of \$20.2 million. Loans have increased by \$20.8 million.

At 30 June 2018, the HPI Group's total borrowing facilities of \$304.0 million were drawn to \$277.5 million, including \$230.0 million under the US Private Placement ("USPP") and \$47.5 million under the Common Terms Deed ("CTD") facility, of which \$130 million or 46.8% of drawn debt is on fixed interest terms.

Risk management

The HPI Group's business of investing directly in freehold property exposes it to certain risks which the HPI Group actively monitors and seeks to manage. The Company's Board Audit and Risk Committee ("BARC") assists the Board in fulfilling its responsibilities relating to the oversight of the HPI Group's risk profile. During the period the BARC and the Company's Board reviewed and updated the Risk Management framework, including the risk matrix. Interest rate risk and regulatory risk are considered the key risks for the HPI Group.

Further material risks include credit availability, tenant credit risk, valuation risk, property liquidity risk, succession planning, and the possible adverse impacts of inflation. The Company's Board concluded that the material risks to which the HPI Group is exposed remain consistent with those previously identified, and continues to maintain a level of fixed rate debt or interest rate hedging to mitigate interest rate risk, and to continually monitor the Queensland regulatory environment.

Business strategies and prospects

The HPI Group's key financial goal is to improve cash distributions to stapled security holders whilst maintaining the key attributes of the HPI Group business. Distribution growth may be achieved organically from contracted annual rent increases across the portfolio and by prudent management of financing charges, management fees and other costs of the Trust. Further distribution growth may arise from development opportunities undertaken on surplus land or with Coles Group as it pursues its retail liquor and hotels strategy, or through accretive acquisitions.

The HPI Group will continue to pursue acquisition opportunities which meet its investment criteria, namely that target properties be in good condition, in key regional or metropolitan locations with potential for long term growth, and leased to experienced tenants on favourable lease terms.

The HPI Group expects to improve the quality of its existing property portfolio by diligently managing those properties in co-operation with its tenants and trading out of lesser quality properties in the portfolio as markets create value opportunities over time.

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Directors' Report

6. Review and results of operations (continued)

Distributions

For the year ended 30 June 2018 the HPI Group will distribute 100% of its Adjusted Funds From Operations ("AFFO"), calculated as profit for the year adjusted for fair value movements, other one off and non-cash items, tax, and maintenance capital expenditure.

The following statement reconciles the profit after income tax to the AFFO.

	2018
	\$'000
Profit after income tax for the year	48,387
Plus/(Less): Adjustments for non-cash items	
Net fair value increments to investment properties	(21,172)
Straight line lease adjustment	303
Non-cash finance costs	1,458
Income tax expense	7
Total adjustments for non-cash items	(19,404)
Distributable earnings	28,983
Less maintenance capital expenditure	(408)
Adjusted funds from operations	28,575
Distribution paid or provided for	28,604
	2018
	Cents
Earnings and distribution per stapled security:	
Basic and diluted earnings	33.2
Earnings available for distribution per security	19.6
Interim distribution per security	9.8
Final distribution per security	9.8
Special distribution per security	-
Total distribution per security	19.6

7. Directors' information

Directorships of listed entities within the last three years

The following Company Directors held directorships of other listed entities within the last three years and from the date appointed up to the date of this report unless otherwise stated:

Director	Directorships of listed entities	Type	Appointed	Resigned
Raymond Gunston	Sigma Pharmaceuticals Limited	Non-executive	July 2010	-

Special responsibilities of Directors

The following are the special responsibilities of each Director:

Michael Tilley is Chairman of the Board

Raymond Gunston is Chairman of the BARC and the Responsible Entity Compliance Committee (RECC)

John Russell is Chairman of the Human Resources Committee (HRC)

Lachlan Edwards and Giselle Collins are members of the BARC and HRC

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7. Directors' information (continued)

Directors' interests in stapled securities

The following Directors and their associates held or currently hold the following stapled security interests in the HPI Group:

Name	Role	Number held at 1 July 2017	Net Movement	Number held at 30 June 2018
Michael Tilley	Independent non-executive Chairman	1,100,714	-	1,100,714
Raymond Gunston	Independent non-executive Director	125,714	-	125,714
Lachlan Edwards	Independent non-executive Director	172,510	-	172,510
John Russell	Independent non-executive Director	56,450	-	56,450
Giselle Collins	Independent non-executive Director	-	20,000	20,000
David Charles	Managing Director and Chief Executive Officer	34,998	-	34,998

Meetings of Directors

The meeting of the Board and the Board Committees, and the attendance at these meetings is as follows:

	Board		BARC		RECC		HRC	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Michael Tilley	12	11	-	-	-	-	-	-
Raymond Gunston	12	12	4	4	4	4	-	-
Lachlan Edwards	12	12	4	4	-	-	2	2
John Russell	12	12	-	-	-	-	2	2
Giselle Collins	12	11	4	4	-	-	2	2
David Charles	12	11	-	-	-	-	-	-

8. Remuneration report - Audited

This report provides details on the remuneration structure, decisions and outcomes for the year ended 30 June 2018 for Key Management Personnel ("KMP") of the HPI Group. KMP includes the non-executive directors, the Managing Director & Chief Executive Officer ("CEO") and the Chief Financial Officer & Company Secretary ("CFO").

Remuneration governance

The remuneration arrangements for non-executive directors are distinct and separate from those for executives. The Board determines the fees payable to non-executive directors within the aggregate amount approved by Securityholders, currently set at a maximum of \$900,000 per annum, and which can only be increased by the passing of an ordinary resolution of Securityholders.

The Human Resources Committee ("HRC") assists the Board by recommending to the Board policies and practices which enable the HPI Group to attract, develop, retain and motivate high calibre directors and executives. The HRC reviews and makes recommendations on policies for remuneration, development, retention and termination of KMPs.

The Board appoints members to the HRC from time to time and reviews the composition of the HRC annually. The HRC consists of at least three directors and is comprised solely of non-executive directors with a majority being independent (including the Chairman).

The HRC facilitates a Board performance assessment and review annually, and makes recommendations to the Board on remuneration packages and policies applicable to KMPs.

The number of meetings held by the HRC and the members' attendance is set out above.

Executive remuneration philosophy and link to business strategy objectives

The Board's overall objective is to ensure that executive remuneration is effective in attracting, motivating and retaining high calibre executives to allow the HPI Group to generate sustainable growth in value for Securityholders, and that in doing so reflects the Group's risk culture and organisational values.

More specifically, the executive remuneration framework is intended to:

- Provide fair remuneration outcomes for executives having regard to relevant market remuneration levels and their ability, experience and contribution to the HPI Group's sustainable long-term performance;
- Be sufficiently closely linked to the HPI Group's sustained growth performance to provide alignment with the interests of Securityholders;
- Ensure that remuneration and remuneration outcomes are determined on a clear and transparent basis; and
- Take account of specific circumstances applying to the HPI Group to achieve the right balance between fixed and variable remuneration and the right timeframes and performance measures used to assess variable remuneration outcomes.

A mix of fixed and performance-related remuneration is provided to achieve these objectives. Under the current business model, the Board considers it appropriate that all performance-based rewards be provided through the equity-based long-term incentive plan ("LTI"), with no annual bonus or short-term incentive ("STI"). The weighting to fixed pay is reflective of the steady and predictable nature of HPI's current business.

8. Remuneration report - Audited (continued)

Services from remuneration consultants

No advice was sought from remuneration consultants by the HRC during the year.

In 2017 the HRC engaged remuneration consultants, Willis Towers Watson to assist the Board review the amount and elements of KMP remuneration. The principles and philosophies remain unchanged.

Executive remuneration strategy and structure

Fixed remuneration

Fixed remuneration is the guaranteed salary component for executives and includes superannuation. Fixed remuneration is set having regard to the employee's responsibilities, experience, skills and performance, as well as to the external market and internal relativities.

The Board has set fixed remuneration at a level that it believes is reasonable in relation to the market. The remuneration of the CEO and CFO was benchmarked against both comparable ASX-listed real estate investment trusts and similar sized ASX-listed general market companies.

Variable remuneration

Variable remuneration is intended to provide a link between total remuneration outcomes of KMPs and the HPI Group's achieved performance reflecting, in particular, the value created for Securityholders.

The Board considered whether a short-term incentive should be included in executive remuneration and determined that the interests of Securityholders is currently best served if all of the performance-based remuneration are focused on longer-term outcomes. This determination was made due to the nature of the current HPI business model, with its long-term leases and built-in annual rental adjustments, meaning that available financial performance metrics are largely too predictable for a STI based on such measures to provide a meaningful incentive.

The Board has therefore determined that 100% of executive variable remuneration be in the form of a LTI.

Performance - based remuneration - HPI Rights Plan

Under the LTI Plan, participants receive annual grants of Rights over HPI Securities. Each Right may be exercised to provide one HPI Security if the performance conditions attached to that Right are satisfied and the executive remains employed with the HPI Group until the vesting outcomes have been determined. To further maximise the alignment of interests between executives and Securityholders, for the period between vesting and exercise of a Right, the Company will remunerate the executive an amount equivalent to the distributions paid on a Security over that same period for each Right that vests.

The Board has determined that HPI's relative Total Shareholder Return ("TSR"), as assessed over 3-year performance periods, and in relation to a comparator group consisting of comparable ASX-listed real estate investment trusts will be the only performance metric used in the LTI plan. The comparator grouping is selected to align with the complexity, size and nature of operations of the Group.

To maximise alignment with the returns experienced by Securityholders, the Board has imposed a gateway requirement that the HPI Group's TSR over each 3-year performance period be positive before any Rights are able to vest under the LTI plan. This ensures that Rights cannot vest to executives when Securityholders have lost value over a performance period, even where HPI's relative TSR against the comparator group would otherwise result in some or all Rights vesting.

The number of Rights to be granted to executives under annual LTI grants is determined by dividing the annual LTI component of the executive's remuneration by the weighted average closing price for HPI Securities over the 20 trading days following release of HPI's audited statutory accounts for the prior financial year. No consideration is payable by executives to acquire or exercise Rights granted under the LTI plan. In the event of a capital reconstruction, the Board may adjust the rights attaching to Rights, including the number of Securities that may be acquired on exercise of the Rights on any basis it sees fit and at its absolute discretion. Rights expire on the earlier of five years after grant date (or the next business day) and the occurrence of any earlier lapsing or forfeiture event.

Rights granted under the LTI Plan will vest if the following vesting conditions are met:

- HPI's Total Shareholder Return (TSR) measured over the three years (the Performance Period) is positive;
- HPI's TSR measured over the Performance Period is ranked at or above the 50th percentile of the comparator group of ASX-listed real estate investment trusts; and
- The executive remains continuously employed by the Company from the Grant Date until the date on which the Board makes a determination as to whether the Vesting Conditions applicable to those Rights have been met.

The proportion of the Rights that vest will then be determined according to HPI's relative TSR percentile ranking against the comparator group companies over the Performance Period, as follows:

- Below the 50th percentile of the peer group: no Rights in the grant vest
- At the 50th percentile of the peer group: 50% of the Rights in the grant vest;
- Between the 50th and 75th percentile of the peer group: Rights vest on a straight- line basis between 50% and 100%; and
- At or above the 75th percentile of the peer group: 100% of the Rights in the grant vest;

Rights will be forfeited if they do not vest or upon cessation of employment, except in the case where a participant ceases employment with the HPI Group for reasons including ill-health, total and permanent disability, death, redundancy, retirement or sale of the business, in which case unvested rights will vest pro rata according to the extent to which the relevant performance period has been completed at the date employment ceases, and having regard to the extent to which performance conditions have been achieved, as determined by the Board.

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8. Remuneration report - Audited (continued)

For participants whose employment are terminated by the HPI Group all rights, entitlements, and interests in any Rights, including vested but unexercised Rights will be forfeited. For participants leaving for any other reason the Board has the discretion to permit some or all of the unvested Rights held by an executive to vest.

Executives may only deal with Rights in accordance with the HPI Group's Securities Trading Policy and are not permitted to hedge or otherwise deal with Rights prior to vesting.

Details of rights granted to Executives

	Number of rights granted during the year ended 30 June 2018	Grant date	Fair value per right at grant date	Expiry date
David Charles	64,837	18 October 2017	\$1.40	18 October 2022
Blair Strik	32,419	18 October 2017	\$1.40	18 October 2022

	Number of rights granted during the year ended 30 June 2017	Grant date	Fair value per right at grant date	Expiry date
David Charles	65,107	17 November 2016	\$0.77	17 November 2021

Executive service agreements

The details of executive service agreements as at 30 June 2018 are:

Executive	CEO – David Charles
Contract Duration	No fixed date*
Remuneration	Fixed remuneration \$425,000 p.a. (including superannuation) LTI annual grant value \$200,000 delivered in Rights over Securities and based on performance and continued service
Total Remuneration	\$625,000 p.a. (68% fixed; 32% at-risk)
Termination by Executive	12 month notice
Termination by Company for cause	No notice
Termination by Company (other circumstances)	12 month notice
Post - employment restraints	12 month non-compete

* On 21 November 2017 Mr Charles gave notice of his intention to retire from the Group in November 2018.

Executive	CFO – Blair Strik
Contract Duration	No fixed date
Remuneration	Fixed remuneration \$325,000 p.a. (including superannuation) LTI annual grant value \$100,000 delivered in Rights over Securities and based on performance and continued service
Total Remuneration	\$425,000 p.a. (76% fixed; 24% at-risk)
Termination by Executive	3 month notice
Termination by Company for cause	No notice
Termination by Company (other circumstances)	3 month notice
Post - employment restraints	6 month non-compete

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8. Remuneration report - Audited (continued)

Remuneration of the company's directors

During the year the Chairman of the Company elected not to receive director's fees. Each independent non-executive Director received \$75,000 plus statutory superannuation contributions. The Chairman of the Company's Board Audit and Risk Committee (BARC) received \$20,000 plus statutory superannuation contributions for that role and BARC members received \$10,000 plus statutory superannuation contributions for their service to the BARC.

No fees were paid to members of the Human Resources Committee during the year.

Directors of the Company may also be reimbursed for all reasonable travel and other expenses properly incurred in attending Board meetings or any meetings of committees of directors of the Company, in attending general meetings of the Company, and otherwise in connection with the Company's business.

Consequences of performance on shareholder wealth

The following indicators will be considered when assessing the HPI Group's performance and benefits for shareholder wealth.

	2018	2017	2016	2015	2014 ¹
Distributable profit (\$m)	28.6	28.6	26.7	23.8	11.7
Distributions paid or payable (\$m)	28.6	46.9	26.7	23.8	11.7
Distributions per stapled Security from trading operations (cents)	19.6	19.6	18.3	16.3	8.8
Distributions per stapled Security from trust capital (cents)	-	12.5	-	-	-
Change in share price (cents)	16.0	2.3	51.7	49.8	-1.9
Total Securityholder return (percent)	12%	11%	28%	34%	3%

¹ 2014 results are part year only

Key management personnel transactions - audited

Movements in securities

The movement during the year in the number of Securities in Hotel Property Investments Limited held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 1 July 2017	Received on exercise of options	Other changes*	Held at 30 June 2018
David Charles	34,998	-	-	34,998
Blair Strik	-	-	1,000	1,000

* Other changes represent shares that were purchased or sold during the year.

Details of non-executive directors' Security holdings are included in section 7 of the Directors' report.

Movements in options and rights

	Opening performance rights	Granted as remuneration	Forfeited / lapsed	Vested	Closing
David Charles	65,107	64,837	-	-	129,944
Blair Strik	-	32,419	-	-	32,419

Mr Charles has retired from the HPI Group and is due to leave in November 2018. Due to the circumstances of Mr Charles' departure from the HPI Group, the Board has a discretion to permit some or all of the unvested Rights held by him to vest.

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8. Remuneration report - Audited (continued)

Details of remuneration

Details of the remuneration of the KMPs for the current year and the comparative year are set out in the tables below.

Remuneration details 1 July 2017 to 30 June 2018

	Short term				Post - employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
	Salary & Fees \$	STI cash bonus \$	Non-monetary benefits \$	Total \$	Superannuation benefits \$	\$	\$	Options and rights \$	\$		
Independent non-executive Director											
Michael Tilley (Chairman)	-	-	-	-	-	-	-	-	-	-	-
Raymond Gunston	95,000	-	-	95,000	9,025	-	-	-	104,025	-	-
Lachlan Edwards	85,000	-	-	85,000	8,075	-	-	-	93,075	-	-
John Russell	74,174	-	-	74,174	7,038	-	-	-	81,212	-	-
Giselle Collins	85,000	-	-	85,000	8,075	-	-	-	93,075	-	-
CEO											
David Charles	404,951	-	8,475	413,426	20,049	-	-	37,705	471,180	-	8.0%
CFO											
Blair Strik	248,701	-	8,475	257,176	20,049	-	-	11,997	289,222	-	4.1%
	992,826	-	16,950 ²	1,009,776	72,311	-	-	49,702 ¹	1,131,789	-	-

¹ The value of option and rights reflects the amounts recognised in the consolidated statement of profit or loss and other comprehensive income at fair value for the year. Refer to the share-based payment accounting policy in note 3.

² Non-monetary benefits relates to car parking

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8. Remuneration report - Audited (continued)

Remuneration details 1 July 2016 to 30 June 2017

	Short term				Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
	Salary & Fees \$	STI cash bonus \$	Non-monetary benefits \$	Total \$	Superannuation benefits \$	\$	\$	Options and rights \$	\$		
Independent non-executive Director											
Michael Tilley (Chairman)	173,516	-	-	173,516	16,484	-	-	-	190,000	-	-
Raymond Gunston	95,000	-	-	95,000	9,025	-	-	-	104,025	-	-
Lachlan Edwards	85,000	-	-	85,000	8,075	-	-	-	93,075	-	-
John Russell	85,000	-	-	85,000	8,075	-	-	-	93,075	-	-
Giselle Collins	16,782	-	-	16,782	1,594	-	-	-	18,376	-	-
CEO											
David Charles	406,693	-	7,970	414,663	19,616	-	-	16,711	450,990	-	3.7%
CFO											
Blair Strik (current)	41,056	-	1,350	42,406	3,269	-	-	-	45,675	-	-
Jenny Romeo (former)	114,595	37,000	3,920	155,515	9,808	-	-	-	165,323	22.4%	-
	1,017,642	37,000	13,240²	1,067,882	75,946	-	-	16,711¹	1,160,539		

¹ The value of option and rights reflects the amounts recognised in the consolidated statement of profit or loss and other comprehensive income at fair value for the year. Refer to the share-based payment accounting policy in note 3.

² Non-monetary benefits relates to car parking

Hotel Property Investments Report for the year ended 30 June 2018 Directors' Report

9. Indemnification and insurance of officers and auditors

The Constitution of the Company provides that subject to and to the extent permitted by the Corporations Act, the Company must indemnify or enter into and pay premiums on a contract insuring any current or former Officer of the Company and/or its Related Bodies Corporate against any liability incurred by that person in that capacity, including legal costs. The Company has agreed to indemnify the following current Non-executive directors of the Company; Michael Tilley, Raymond Gunston, Lachlan Edwards, John Russell and Giselle Collins.

During the financial year, the HPI Group paid an insurance premium of \$203,689 (2017: \$118,509) in respect of the Directors and Officers of the Company.

No insurance premiums were paid out of the HPI Group with regards to insurance cover for the auditors of the HPI Group. As long as the Directors and Officers of the Responsible Entity and its Compliance Committee act in accordance with the Constitution and Corporations Act, they remain indemnified out of the assets of the HPI Group against losses incurred while acting on behalf of the HPI Group. The auditors of the HPI Group are in no way indemnified out of the assets of the HPI Group.

10. Non-audit services

During the year KPMG, the HPI Group's auditor has performed certain other services in addition to the audit and review of the financial statements, including the audit of the scheme's compliance plan and the Australian Financial Services Licence ("AFSL") held by the Company.

The Company's Board has considered these services provided by the auditor as audit services and in accordance with advice provided by resolution of the BARC, is satisfied that the provision of those services by the auditor is compatible with, and did not compromise the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid or payable to the auditor of the HPI Group, KPMG for all services provided during the year are set out below.

	\$
Audit and review of financial statements	177,043
AFSL audit	9,738
Compliance Plan audit	9,328
Total payable to KPMG	<u>196,109</u>

11. Likely developments

The HPI Group will continue to review the portfolio with a view to increasing distributions, whether by divesting assets and recycling the proceeds into higher returning assets, or by acquiring new assets at appropriate prices.

12. Lead auditor's independence declaration

A copy of the Lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15 and forms part of the Directors' Report for the year ended 30 June 2018.

13. Environmental regulation

Whilst the HPI Group is not subject to significant environmental regulation in respect of its property activities, the Directors are satisfied that adequate systems are in place for the management of its environmental responsibility and compliance with the various license requirements and regulations. Further, the Directors are not aware of any material breaches of these requirements.

14. Rounding of amounts

The HPI Group is of a kind referred to in Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the rounding of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest one thousand dollars, in accordance with that Instrument, except where otherwise indicated.

Signed in accordance with a resolution of the directors of Hotel Property Investments Limited.



Michael Tilley

Director

Melbourne

Dated this 22nd day of August 2018



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Hotel Property Investments Limited, being the responsible entity of the Hotel Property Investments Trust

I declare that, to the best of my knowledge and belief, in relation to the audit of Hotel Property Investments Limited, being the responsible entity for Hotel Property Investments Trust for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Dean Waters
Partner

Melbourne
22 August 2018

Hotel Property Investments
Report for the year ended 30 June 2018
Consolidated statement of profit or loss and other comprehensive income

		2018 \$'000	2017 \$'000
REVENUE			
Rent from investment properties		46,117	44,659
Revenue from outgoings recovered		4,136	4,068
Total revenue		50,253	48,727
Other income			
Fair value adjustment to investment properties	14	21,172	69,501
Gain on sale of investment properties		-	1,530
Amortisation of Derivatives		-	593
Finance revenue		9	15
Sundry income		20	44
Total other income		21,201	71,683
Total income from operating activities		71,454	120,410
OPERATING EXPENSES			
Investment property outgoings and expenses		(6,687)	(6,589)
Other expenses	8	(3,124)	(3,249)
Total expenses from operating activities		(9,811)	(9,838)
Profit from operating activities		61,643	110,572
Non operating expenses			
Realised loss on derivative financial instruments		(45)	(702)
Change in fair value of derivative financial instruments		-	(531)
Finance costs	9	(13,204)	(10,438)
Total non operating expenses		(13,249)	(11,671)
Profit before tax		48,394	98,901
Tax expense	15	(7)	(2)
Profit for the year		48,387	98,899
Other comprehensive income			
Items that are or may be reclassified to profit or loss		-	706
Cash flow hedges - effective portion of changes in fair value		-	1,231
Total comprehensive income		48,387	100,836
Profit / (loss) for the year attributable to:			
Unitholders of the Trust		50,902	101,568
Shareholders of the Company		(2,515)	(2,669)
		48,387	98,899
Basic and diluted earnings per security (cents)	25	33.15	67.71

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Hotel Property Investments
Report for the year ended 30 June 2018
Consolidated statement of financial position

		2018	2017
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	1,240	1,135
Trade and other receivables	11	353	225
Other current assets	12	299	421
Total current assets		1,892	1,781
Non-current assets			
Investment property	14	700,220	658,675
Plant and equipment		250	316
Other non-current assets	12	-	1,346
Deferred tax assets	15	93	103
Total non-current assets		700,563	660,440
TOTAL ASSETS		702,455	662,221
LIABILITIES			
Current liabilities			
Trade and other payables	16	5,615	4,423
Employee benefit liabilities	17	159	165
Provisions	20	14,302	14,458
Total current liabilities		20,076	19,046
Non-current liabilities			
Loans and borrowings	18	275,644	254,834
Employee benefit liabilities	17	7	4
Derivative financial instruments	19	-	1,135
Deferred tax liability	15	-	2
Total non-current liabilities		275,651	255,975
TOTAL LIABILITIES		295,727	275,021
NET ASSETS		406,728	387,200
EQUITY			
Contributed equity	21	262,640	262,640
Retained earnings	22	144,512	124,729
Reserves	23	(424)	(169)
TOTAL EQUITY		406,728	387,200

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Hotel Property Investments
Report for the year ended 30 June 2018
Consolidated statement of changes in equity

		Contributed Equity	Retained Earnings	Reserves	Total Equity
	Note	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2017		262,640	124,729	(169)	387,200
Total comprehensive income for the year					
Profit for the year		-	48,387	-	48,387
Total comprehensive income for the year		-	48,387	-	48,387
Transactions with owners in their capacity as owners recognised directly in equity					
Distribution to stapled security holders	22	-	(14,302)	-	(14,302)
Provision for distribution to stapled security holders	22	-	(14,302)	-	(14,302)
Share-based payment transactions	23	-	-	49	49
Purchase of Treasury shares	23	-	-	(304)	(304)
Total transactions with owners		-	(28,604)	(255)	(28,859)
Balance at 30 June 2018		262,640	144,512	(424)	406,728
Balance at 1 July 2016		262,640	72,709	(1,937)	333,412
Total comprehensive income for the year					
Profit for the year		-	98,899	-	98,899
Derivative reserve movement		-	-	1,937	1,937
Total comprehensive income for the year		-	98,899	1,937	100,836
Distribution to stapled security holders	22	-	(32,421)	-	(32,421)
Provision for distribution to stapled security holders	22	-	(14,458)	-	(14,458)
Share-based payment transactions	23	-	-	17	17
Purchase of Treasury shares	23	-	-	(186)	(186)
Total transactions with owners		-	(46,879)	(169)	(47,048)
Balance at 30 June 2017		262,640	124,729	(169)	387,200

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Hotel Property Investments
Report for the year ended 30 June 2018
Consolidated statement of cash flows

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Rent and outgoings from investment properties		55,483	53,982
Payments to suppliers		(13,380)	(14,930)
Interest receipts		9	13
Income tax paid		(57)	(78)
Other income from investment properties		20	-
Net cash from operating activities	32	42,075	38,987
Cash flows from investing activities			
Payment for acquisition of investment properties		(20,243)	-
Proceeds from disposal of investment properties		-	9,833
Payment for additions to investment properties		(486)	(448)
Payment for Plant and Equipment additions		(3)	(348)
Payment for Treasury Shares		(304)	(186)
Net cash (used in) / from investing activities		(21,036)	8,851
Cash flows from financing activities			
Proceeds from borrowings		284,200	41,000
Repayments of borrowings		(262,750)	(31,623)
Payment of borrowing costs		(12,444)	(10,788)
Payment for swap termination		(1,180)	(1,552)
Payment of distributions		(28,760)	(46,009)
Net cash used in financing activities		(20,934)	(48,972)
Net increase/(decrease) in cash held		105	(1,134)
Cash and cash equivalents at the beginning of the year		1,135	2,269
Cash and cash equivalents at the end of the year	10	1,240	1,135

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements

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Hotel Property Investments

Report for the year ended 30 June 2018

Notes to the consolidated financial statements

Note 1 Reporting entity

The consolidated financial report of Hotel Property Investments as at and for the year ended 30 June 2018 comprises Hotel Property Investments Trust (the "Trust"), Hotel Property Investments Limited (the "Company") and their controlled entities (together "the HPI Group"). The Trust is a registered managed investment scheme under the Corporations Act 2001. The Company is a company limited by shares under the Corporations Act 2001. The responsible entity of the Trust is Hotel Property Investments Limited (the "Responsible Entity").

The units of the Trust and the shares of the Company are stapled such that the units and shares cannot be traded separately.

The Trust is a limited life trust which terminates on 31 December 2061 unless it has been terminated prior to that date by the Responsible Entity under the provisions contained in the constitution.

As a result of the stapling of the Trust and the Company and the public quoting of the HPI Group on the Australian Securities Exchange (ASX) with new stapled security holders on 10 December 2013, the HPI Group has been determined to be a disclosing and reporting entity.

The principal activity of the HPI Group consists of real estate investment in the freehold pub sector in Australia. There has been no significant change in the nature of the principal activity during the year.

In accordance with clause 5.1 of the Stapling Deed, the Trust and the Company each agree to provide financial accommodation to all members of the HPI Group.

The HPI Group is a for profit entity.

Note 2 Basis of preparation

a) Compliance statement

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report also complies with the International Financial Reporting Standards (IFRS) and the interpretations adopted by the International Accounting Standards Board (IASB).

b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following that are measured at fair value:

- investment property, including investment property held for sale at reporting date;
- share-based payment arrangements;
- trade receivables; and
- derivative financial instruments.

The methods used to measure fair values are discussed further within the relevant notes.

The consolidated financial report as at and for the year ended 30 June 2018 was approved by the directors on 22 August 2018.

c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the HPI Group's functional currency.

The HPI Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

d) Use of estimates

In preparing these consolidated financial statements, management has made estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

Estimation uncertainties

Information about estimation uncertainties and assumptions that have a significant risk of resulting in a material adjustment in the year ended 30 June 2018 are described in the following notes:

Note 4(a) and Note 14 - investment property

Note 3(l) and Note 31 - financial instruments

e) Working capital

As at 30 June 2018, the HPI Group had an excess of current liabilities over current assets of \$18.2 million. Notwithstanding this the financial report has been prepared on a going concern basis as the directors believe the HPI Group will continue to generate operating cash flows sufficient to meet current liability obligations, and has sufficient undrawn committed debt facilities.

Hotel Property Investments

Report for the year ended 30 June 2018

Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Trust or the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the HPI Group. The HPI Group controls an entity when it is exposed to, or has rights to, variable returns through its power over the entity. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase price is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The accounting standards require that an acquirer is identified in a business combination. In a stapling transaction, judgement is applied to determine the acquirer as outlined in Note 6. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the HPI Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue recognised but not received at balance date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income from operating leases is recognised on a straight-line basis for those leases with fixed annual rent increases. An asset is recognised to represent the portion of operating lease revenue in a reporting year relating to fixed increases in operating lease rentals in future periods. This receivable is considered to be a component of the relevant property investment carrying value.

Finance revenue

Interest revenue is recognised on an effective interest rate method as it accrues.

Outgoings and other revenue

Outgoings recoverable from tenants and other revenue are recognised when the right to receive the revenue has been established.

c) Finance income and finance costs

Finance revenue comprises interest income on bank deposits.

Finance costs comprise interest expense, interest rate swaps, amortised borrowing costs and write off of deferred borrowing costs and other costs associated with unused debt facilities.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

d) Tax

Under current Australian income tax legislation, the HPI Trust is not liable to income tax, provided:

- unit holders are presently entitled to all the Trust's income at each year end; and
- the Trust only invests in land primarily for the purpose of deriving rental income or units that invest in land primarily for the purpose of deriving rental income.

The Company and its wholly owned subsidiaries are liable to corporate income tax, have formed a tax consolidated group and will be subject to tax at the current corporate income tax rate of 30% (2017: 30%)

The HPI Rights Plan Trust, a subsidiary of the Company, is subject to income tax at the top marginal tax rate. For the year ending 30 June 2018 this rate is 47% (2017: 49%).

e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies (continued)

f) Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

g) Share-based payment transactions

The initial fair value of a share-based payment is established at grant date. The awards granted to employees are recognised as an expense, with a corresponding increase in the share-based payment reserve over the year during which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance are expected to be met.

h) Repurchase and reissue of ordinary shares (treasury shares)

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transactions is presented within contributed equity.

i) Investment property

Investment property is property held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for using the fair value model. Under the fair value model, investment properties are measured initially at cost. Transaction costs are included in the initial measurement. Subsequent to initial recognition, investment properties are stated at fair value, which is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and reflects market conditions at the reporting date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

The HPI Group policy is to independently value at least one third of all properties each financial year. A greater number of valuations may be sought if the Board determines that circumstances have arisen that warrant it. The remainder of properties will be valued by the directors. Where external valuation capitalisation rates have deteriorated, the directors will apply the average market capitalisation expansion to the market capitalisation rates of the remaining investment properties in determining the directors' valuations. Where external valuation market capitalisation rates have improved, the directors will maintain the existing capitalisation rate and use the present net rent in determining the directors' valuations. The directors will also take into consideration any property nuances, specific market factors, property location, and change in weighted average lease expiry before deciding on the final directors' valuation.

j) Assets held for sale

Properties that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. These assets are reclassified from investment property to assets held for sale at the fair value as at the previous reporting year. Any subsequent gains or losses on re-measurement are recognised in profit or loss.

k) Plant & equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within other income in the consolidated statement of profit or loss and other comprehensive income.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

l) Financial instruments

Non-derivative financial assets

The HPI Group initially recognises receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the HPI Group becomes a party to the contractual provisions of the instrument.

The HPI Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained is recognised as a separate asset or liability.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies (continued)

l) Financial instruments (continued)

Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the HPI Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The HPI Group has the following non-derivative financial assets:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held at year end that are subject to an insignificant risk of changes in their fair value, and are used by the HPI Group in the management of its short-term commitments.

Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the HPI Group becomes a party to the contractual provisions of the instrument. The HPI Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the HPI Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The HPI Group's non-derivative financial liabilities are loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Derivative financial instruments

The HPI Group elected to adopt hedge accounting from 1 July 2015 in accordance with *AASB 139 Financial Instruments: Recognition and Measurement*. The HPI Group has held derivative financial instruments to hedge its interest rate risk exposure. Embedded derivatives were separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss, unless designated in a hedging relationship.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income (OCI) and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Issued units and issued shares

Issued units in the Trust are classified as equity. Incremental costs directly attributable to the issue of units are recognised as a deduction from equity. Issued shares in the Company are classified as equity.

m) Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due on terms that the HPI Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through the profit or loss.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies (continued)

m) Impairment (continued)

Non-financial assets

The carrying amounts of the HPI Group's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018, and have not been applied in preparing these financial statements.

AASB 9 – Financial Instruments

AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group will apply AASB 9 initially on 1 July 2018.

The HPI Group has assessed the effect of the new standard based on the Group's current position and determined that there will be no impact on recognition of financial instruments.

AASB 15 – Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and associated interpretations. AASB 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The HPI Group has assessed the effect of the new standard based on the Group's current position and determined that there will be no impact on revenue generated by leases and no impact of the standard on other revenue sources.

AASB 16 – Leases

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

AASB 16 replaces existing leases guidance including AASB 117 Leases and associated pronouncements and is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 Revenue from Contracts with Customers at or before the date of initial application of AASB 16.

The HPI Group has assessed the impact of AASB 16 on its consolidated financial statements. On initial adoption on 1 July 2019 the HPI Group will recognise a Right of Use asset and lease liability of \$227,950. In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. For the first year of adoption of AASB 16 the expected depreciation charge is \$94,897 and the expected interest expense is \$7,164, resulting in total expenses of \$102,061. This compares with \$93,767 that would have been recognised under AASB 117.

Note 4 Determination of fair values

A number of the HPI Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Investment property

Independent valuations of investment properties which the HPI Group intends to hold are obtained from suitably qualified independent valuers as discussed in notes 3 (i) and 14.

Where properties have not been independently valued at reporting date, properties will be valued by Directors of the Company by capitalising the assessed net rent at the appropriate market capitalisation rate.

The valuations of individual properties are prepared inclusive of liquor and gaming licences owned by the HPI Group. The fair value of investment properties is based on the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Valuations for properties are determined by reference to the net rent for each property and an applicable market capitalisation rate. Selection of an appropriate market capitalisation rate is based on multiple criteria including risk associated with achieving the net rent cash flows into the future, and observed market based rates for similar properties where they are available. Valuations reflect the creditworthiness of the tenant including market perceptions of the tenant's creditworthiness, the responsibility and division of property holding costs between the lessor and the lessee, the remaining economic life of the property and having regard to specific current market conditions at each location. Properties held for sale are valued at the fair value as at the previous reporting period. Any subsequent gains or losses on re-measurement are recognised in profit or loss.

b) Share-based payment transactions

The fair value of the share based payments as at the grant date is determined independently using a Monte Carlo simulation. Service and non-market performance conditions attached to the arrangements are not taken into account in measuring fair value.

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Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 4 Determination of fair values (continued)

c) Trade receivables

The fair values of trade receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

d) Derivatives

The fair value of interest rate derivatives is based on market prices, which is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar derivative at the measurement date and represent the estimated amount that the HPI Group would receive or pay to terminate the derivatives at the reporting date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the HPI Group or the counter party, when appropriate.

Note 5 Financial risk management

The HPI Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market (price) risk

This note presents information about the HPI Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Company has overall responsibility for the establishment and oversight of the risk management framework.

The Company has established and maintains risk management policies and procedures to identify and analyse the risks faced by the HPI Group, sets appropriate risk limits, and monitors risks and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and the HPI Group's activities.

a) Credit risk

Credit risk is the risk of financial loss to the HPI Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the HPI Group's receivables from tenants.

Rental and outgoing receivables

The HPI Group's exposure to credit risk is influenced mainly by the individual characteristics of its tenants. The HPI Group has sought to reduce this tenancy risk by establishing leases with reputable tenants of multiple properties. These are considered to be experienced operators in the pub industry with a strong financial position. Approximately 94.58% of the HPI Group's rental revenue is attributable to one major tenant, the Coles Group.

In the event of rental defaults by any of the HPI Group's pub tenants or if a lease comes to an end the liquor and gaming licenses where owned, will revert to the HPI Group which will therefore have a business capable of immediate sale. Should there be any intervening period of time between surrender and sale of the new lease, then the lease can be operated on behalf of the HPI Group by another operator.

Derivatives

The HPI Group currently has no derivative interest rate contracts.

b) Liquidity risk

Liquidity risk is the risk that the HPI Group will not be able to meet its financial obligations as they fall due. The HPI Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the HPI Group's reputation. The HPI Group maintains a prudent level of gearing (targeting a 40-50% range) to mitigate liquidity risk associated with refinancing.

c) Market (price) risk

Market risk is the risk that changes in market prices, such as interest rates will affect the HPI Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

Interest rate risk for the HPI Group arises from borrowings on which interest is charged on a variable rate basis. This risk is mitigated by a portion of fixed rate debt. Interest rate risk also exists for interest earned on cash and cash equivalents.

Property valuation risk

The HPI Group owns a number of investment properties. Those property valuations may increase or decrease from time to time. The HPI Group's CTD, entered into in August 2017 contains financial covenants which include a Gearing Ratio covenant. The HPI Group monitors the risk of breach of these covenants by regularly performing sensitivity analysis.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 5 Financial risk management (continued)

d) Capital management

The HPI Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. Capital consists of ASX listed stapled securities. The HPI Group monitors the return on capital as well as capitalisation rates on the property portfolio.

The HPI Group considers its borrowings as part of its capital management strategy. The borrowing agreements contain financial covenants within which the HPI Group must always operate, and includes a Gearing covenant, an Interest Cover Ratio (ICR) covenant and a net assets covenant. The Board monitors compliance with the financial covenants through forward projections to ensure that the HPI Group is unlikely to breach the covenants into the future. The HPI Group complied with the covenants for the year ended 30 June 2018.

The HPI Group refinanced its borrowings in August 2017, issuing A\$230 million into the US Private Placement (USPP) market, comprising three tranches of unsecured, Australian Dollar denominated notes:

- A\$100 million fixed with an 8 year tenor, maturing August 2025;
- A\$30 million fixed with a 10 year tenor, maturing August 2027; and
- A\$100 million floating with a 10 year tenor, maturing August 2027.

The issuance coincided with a restructuring of the CTD facility, reducing the facility to \$55 million (inclusive of a \$4 million guarantee facility). Subsequently the CTD facilities have been increased to \$78.1 million.

The HPI Group has targeted a gearing ratio in the range of 40% to 50% in the normal course of business, which has been determined as an appropriate range given the nature of the business. However, gearing may be higher if the HPI Board consider the circumstances warrant a short-term increase and it is prudent to increase gearing. The targeted gearing ratio range is lower than the covenant in the borrowing agreements, which requires the HPI Group to have a Gearing covenant of less than 60%.

The distribution policy of the HPI Group has been established taking into consideration the covenants of the borrowing agreements and may be adapted to maintain gearing within the range of 40-50% in the normal course of business.

Note 6 Stapling

The stapling of the units of the Trust and the shares of the Company occurred on 10 December 2013 for the purpose of the public quotation of the HPI Group on the ASX. Australian Accounting Standards require an acquirer to be identified in a business combination. In relation to the stapling of the Company and the Trust, the Trust has been identified as the acquirer due to its large relative size to the Company.

In a business combination achieved as a consequence of stapling, the acquirer receives no equity interests in the acquiree. Therefore 100% of the acquiree's equity is attributable to the shareholders of the Company and is accounted for as non-controlling interests. Also, as a result no goodwill is recognised.

As the Trust has not acquired an equity interest in the Company, no consideration was transferred in connection with the stapling. The Company had no assets at the time of stapling.

Note 7 Auditor's remuneration

	2018	2017
	\$	\$
<i>KPMG Australia</i>		
Audit of financial reports	177,043	177,043
Audit of AFSL	9,738	9,738
Audit of compliance plan	9,328	9,328
	196,109	196,109

Note 8 Other expenses

	2018	2017
	\$'000	\$'000
Advisory and legal fees	58	60
Auditor's remuneration	196	196
Directors' fees	339	511
Employment expenses	1,285	1,263
Insurance	221	237
All other expenses	1,025	982
	3,124	3,249

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 9 Finance costs

	2018 \$'000	2017 \$'000
Interest expense	11,661	8,406
Interest rate swaps	5	1,137
Amortised borrowing costs	332	301
Borrowing costs written off	1,129	542
Other finance costs	77	52
	13,204	10,438

Note 10 Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash at bank and on hand	1,240	1,135

Note 11 Trade and other receivables

	2018 \$'000	2017 \$'000
Trade receivables	350	223
Less: Allowance for impairment	-	-
Net trade receivables	350	223
Other receivables	3	2
	353	225

Note 12 Other current / non current assets

	2018 \$'000	2017 \$'000
Other current assets	299	421
Other non-current assets	-	1,346
	299	1,767

Other non-current assets held at 30 June 2017 comprised costs paid in relation to raising of debt in the US Private Placement market which were subsequently capitalised on drawdown of the debt.

Note 13 Assets held for sale

	2018 \$'000	2017 \$'000
Investment properties held for sale	-	-
	-	-
Movements		
Carrying amount at the beginning of the year	-	8,290
Disposals	-	(8,290)
Carrying amount at the end of the year	-	-

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 14 Investment property

All investment properties are freehold and 100% owned by the Company as appointed sub-custodian of the Trust, with the exception of the Crown Hotel and Quest Griffith, which are owned by wholly owned subsidiaries. Investment properties are comprised of land, buildings, fixed improvements and liquor and gaming licenses. Plant and equipment is held by the tenant.

Reconciliation of movements

	2018	2017
	\$'000	\$'000
Investment property	700,220	658,675
Carrying amount at the beginning of the year	658,675	588,310
Acquisition of investment properties	20,243	-
Capital additions on investment properties	433	817
Straight line lease adjustment	(303)	47
Fair value adjustments	21,172	69,501
Carrying amount at the end of the year	700,220	658,675

Leasing arrangements

The investment properties are each leased to their respective tenants inclusive of any liquor and gaming licenses attached to these properties under long-term operating leases with rentals payable monthly. The HPI Group has incurred no lease incentive costs to date.

Remaining lease terms for all properties are on average 5 years, excluding options for lease extensions upon completion of the lease term. Rents have increased at an average of 3.5% per annum on most properties in accordance with the leases.

Valuation of investment properties

The valuations of individual properties are prepared inclusive of liquor and gaming licenses owned by the HPI Group. The fair value of investment properties is based on the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Valuations for properties are determined by reference to the net rent for each property, and an applicable capitalisation rate.

Selection of an appropriate capitalisation rate is based on multiple criteria, including risk associated with achieving the net rent cash flows into the future, and observed market based capitalisation rates for similar properties in the same location, condition, and subject to similar lease terms, where they are available. Valuations reflect the creditworthiness of the tenant including market perceptions of the tenant's creditworthiness, the responsibility and division of property costs between the lessor and the lessee, the remaining economic life of the property and having regard to specific current market conditions at each location.

Fair value adjustments at 30 June 2018

Independent valuations were obtained for 22 investment properties as at 31 December 2017. These valuations were completed by CBRE Hotels Valuation & Advisory Services and Urbis Valuations Pty Ltd.

At 30 June 2018 all investment properties within the portfolio were valued by the directors of the Company in accordance with the HPI Group policy.

	2018	2017
Market capitalisation rate range at last independent valuation	5.75% - 8.0%	5.75% - 8.0%

Fair value hierarchy

The fair value measurement for investment property of \$700.2 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The table above shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 14 Investment property (continued)

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value measurement
Capitalisation of rent allowing for the following adjustments:	Net rent	The estimated fair value would increase (decrease) if:
• Additional land	Capitalisation rates	Net rent was higher (lower)
• Capital allowance	Additional land	Capitalisation rates were lower (higher)
• Other property specific factors	Capital allowance	Additional land was higher (lower) in value
	Other property specific factors	Capital allowance was (smaller) larger

Assets owned as at 30 June 2018.

Property	Location	2018		2017	
		Cap'n rate ¹	Fair value \$'000	Cap'n rate ¹	Fair value \$'000
Barron River Hotel ³	Stratford QLD	7.00%	7,710	7.00%	7,430
Beenleigh Tavern ²	Eagleby QLD	6.50%	12,600	6.50%	12,500
Berserker Tavern ³	Rockhampton QLD	7.00%	9,960	7.00%	9,600
Bonny View Tavern ³	Bald Hills QLD	7.00%	13,330	7.00%	12,830
Boomerang Motor Hotel ³	West Mackay QLD	8.00%	9,220	8.00%	8,880
Bribie Island Hotel ³	Bellara QLD	6.75%	16,810	6.75%	16,070
Brighton Hotel ²	Brighton QLD	6.75%	12,360	6.75%	11,850
Brighton Metro Hotel ²	Brighton SA	5.75%	17,580	5.75%	16,860
Caboolture Sundowner Hotel Motel ²	Caboolture QLD	6.75%	11,900	6.75%	11,440
Chancellors Tavern ²	Sippy Downs QLD	6.00%	14,900	6.25%	13,830
Cleveland Sands Hotel ²	Cleveland QLD	6.00%	30,100	6.00%	28,930
Cleveland Tavern ³	Cleveland QLD	6.25%	16,210	6.25%	15,610
Club Hotel ²	Gladstone QLD	7.00%	4,400	7.00%	7,510
Coomera Lodge Hotel ³	Oxenford QLD	6.50%	4,720	6.50%	4,540
Crown Hotel ²	Lutwyche QLD	6.50%	37,100	6.50%	35,570
Diamonds Tavern ²	Kallangur QLD	7.00%	9,740	6.75%	9,350
Dunwoodys Tavern ²	Cairns QLD	6.75%	23,090	6.75%	22,140
Everton Park Hotel ³	Everton Park QLD	6.25%	26,290	6.25%	25,140
Ferry Rd Tavern ²	Southport QLD	6.00%	31,700	6.00%	29,870
Fitzys Loganholme ³	Loganholme QLD	6.50%	23,290	6.50%	22,350
Fitzys Waterford ²	Waterford QLD	6.50%	18,500	6.75%	17,225
Grafton Hotel ²	Edmonton QLD	7.00%	5,750	7.00%	5,750
Grand Junction Hotel ²	Pennington SA	6.25%	10,830	6.25%	10,360
Hotel HQ ²	Underwood QLD	6.00%	25,780	6.00%	24,640
Hotel Wickham ³	Fortitude Valley QLD	6.50%	12,030	6.50%	11,490
Kings Beach Tavern ²	Caloundra QLD	6.25%	18,280	6.25%	17,500
Kooyong Motor Hotel ³	North Mackay QLD	8.00%	6,550	8.00%	6,550
Leichhardt Hotel ³	Rockhampton QLD	7.75%	9,220	7.75%	8,880
Lord Stanley Hotel ³	East Brisbane QLD	6.25%	11,590	6.25%	11,120

¹ Capitalisation rate at last independent valuation

² Independent valuation obtained as at 31 December 2017

³ Independent valuation obtained as at 31 December 2016

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 14 Investment property (continued)

Property	Location	2018		2017	
		Cap'n rate ¹	Fair value \$'000	Cap'n rate ¹	Fair value \$'000
Magnums Tavern ³	Airlie Beach QLD	6.50%	23,700	6.50%	22,940
Mi Hi Tavern ²	Brassal QLD	6.50%	18,550	6.75%	17,040
New Inala Hotel ³	Inala QLD	6.50%	12,370	6.50%	11,900
Palm Cove Tavern ³	Palm Cove QLD	6.50%	8,360	6.50%	8,050
Royal Hotel Townsville ²	West End QLD	7.50%	3,600	7.50%	5,350
Royal Mail Hotel ³	Tewantin QLD	6.50%	19,910	6.50%	19,180
Quest Griffith	Griffith NSW	7.44%	15,250	n/a	n/a
Q Sports Bar ²	Cairns QLD	6.50%	9,300	6.50%	8,940
The Hotel Allen ²	Northward QLD	8.00%	7,720	8.00%	7,750
The Regatta ³	Toowong QLD	6.00%	47,590	6.00%	41,980
The Wallaby Hotel ²	Mudgeeraba QLD	6.25%	13,100	6.25%	12,620
Tom's Tavern ³	Aitkenvale QLD	6.75%	22,720	6.75%	22,280
Trinity Beach Tavern ³	Trinity Beach QLD	6.75%	17,420	6.75%	16,820
Waterloo Tavern ³	Paralowie SA	6.25%	20,690	6.25%	19,950
Woodpecker Tavern ²	Burpengary QLD	6.50%	8,400	6.50%	8,060
Total Investment Property		6.50%	700,220	6.50%	658,675

¹ Capitalisation rate at last independent valuation

² Independent valuation obtained as at 31 December 2017

³ Independent valuation obtained as at 31 December 2016

Note 15 Taxes

Tax expense

(a) Tax expense recognized in profit or loss

	2018 \$'000	2017 \$'000
Current tax expense	-	35
Deferred tax expense	7	(33)
Tax expense attributable to profit from continuing operations	7	2

(b) Numerical reconciliation between tax expense and pre-tax accounting profit

	2018 \$'000	2017 \$'000
Profit before tax	48,394	98,901
Income tax expense calculated at 30%	14,518	29,670
Trust income not subject to tax	(14,430)	(29,611)
Effect of permanent differences	(80)	(92)
Difference due to tax rate differential	(1)	35
Tax expense on profit before tax	7	2

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 15 Taxes (continued)

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Accrued revenue	-	-	-	(2)	-	(2)
Plant & equipment	8	3	-	-	8	3
Accrued expenses	22	47	-	-	22	47
Employee liabilities	50	51	-	-	50	51
Recognition of tax losses	13	2	-	-	13	2
	93	103	-	(2)	93	101

(d) Movements in deferred tax balances during the year

	2018 \$'000	2017 \$'000
Balance at the beginning of the year	101	68
Recognised in profit and loss	(8)	33
	93	101
Balance represented as follows:		
Deferred tax asset	93	103
Deferred tax liability	-	(2)
	93	101

Note 16 Trade and other payables

	2018 \$'000	2017 \$'000
<i>Current</i>		
Trade payables	49	173
Accrued interest	2,995	202
Other payables	2,571	4,048
	5,615	4,423

Note 17 Employee benefit liabilities

	2018 \$'000	2017 \$'000
Employee benefit liabilities	166	169
<i>Represented as follows:</i>		
Current liabilities	159	165
Non-current liabilities	7	4
	166	169

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 18 Loans and borrowings

	2018	2017
	\$'000	\$'000
<i>Non-current</i>		
USPP Notes	228,596	-
Bank loans	47,048	254,834
	275,644	254,834

U.S. Private Placement ("USPP") Notes

USPP - drawn	230,000	-
Borrowing costs capitalised	(1,553)	-
Amortisation of borrowing costs	149	-
	228,596	-

The USPP Note Purchase Agreement was executed on 8 August 2017 and funding occurred on 11 August 2017, with the proceeds used to repay loans outstanding under the existing Common Terms Deed facilities.

The USPP issue comprises three tranches of unsecured, Australian Dollar denominated notes:

- A\$100 million fixed interest loan with an 8-year tenor, maturing in August 2025;
- A\$30 million fixed interest loan with a 10-year tenor, maturing in August 2027; and
- A\$100 million floating interest loan with a 10-year tenor, maturing in August 2027.

Bank Loans

Common Terms Deed ("CTD") - December 2016

CTD - drawn	-	256,000
Borrowing costs capitalised	(1,166)	(1,352)
Amortisation of borrowing costs	37	186
Borrowing costs written off	1,129	-
	-	254,834

Common Terms Deed ("CTD") – from August 2017

CTD - drawn	47,450	-
Borrowing costs capitalised	(544)	-
Amortisation of borrowing costs	142	-
	47,048	-
Total CTD Loans	47,048	254,834

Coinciding with the USPP raising, HPI sought and agreed amendments to the CTD and associated facility agreements with its banks. These changes were effective 11 August 2017. Notable changes include moving the CTD to an unsecured basis, and reducing the CTD facility limits by the amount of the USPP raising, from \$285 million to \$55 million. The Commonwealth Bank facility limit was reduced by \$100 million to \$55 million (inclusive of a \$4 million letter of credit facility) maturing 11 August 2020, and the Westpac Bank facility of \$130 million has been fully repaid and cancelled.

In February 2018 the CTD facilities were further increased by \$23.1 million to \$78.1 million, inclusive of the \$4.1 million guarantee facility.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 18 Loans and borrowings (continued)

Facility limits

The available facilities and the amounts drawn are summarised below:

2018	USPP \$'000	CTD \$'000	Guarantee \$'000	Total \$'000
Facility limit	230,000	74,000	4,078	308,078
Drawn	(230,000)	(47,450)	(4,078)	(281,528)
Available	-	26,550	-	26,550

2017	USPP \$'000	CTD \$'000	Guarantee \$'000	Total \$'000
Facility limit	-	281,000	4,000	285,000
Drawn	-	(256,000)	(4,000)	(259,000)
Available	-	25,000	-	25,000

Note 19 Derivative financial instruments

	2018 \$'000	2017 \$'000
Derivative financial instruments - non current liability	-	1,135
	-	1,135
Derivative financial instruments at the beginning of the year	(1,135)	(3,985)
Fair value loss for the year:		
- Cancelled derivatives	(45)	441
- Open derivatives	-	857
Close out of cancelled derivatives	1,180	1,552
Fair value of derivative financial instruments at end of the year	-	(1,135)

Under the revised debt facilities of the HPI Group (refer note 18), \$130 million of the \$304 million borrowing facilities are on fixed interest terms. Accordingly, the HPI Group cancelled its \$62.5 million interest rate swap on 19 July 2017, at a payout cost of \$1.18 million.

Note 20 Provisions

	2018 \$'000	2017 \$'000
<i>Provision for distribution</i>		
Balance at the beginning of the year	14,458	13,588
Provisions made during the year	28,604	46,879
Provisions used during the year	(28,760)	(46,009)
Balance at the end of the year	14,302	14,458

Distribution

The provision for distribution relates to distributions to be paid to stapled security holders on 6 September 2018. This distribution will be funded via drawdown on the existing CTD loan facility.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 21 Contributed equity

	No. of securities	\$'000
On issue at 30 June 2018 – fully paid	146,105,439	262,640
On issue at 30 June 2017 – fully paid	146,105,439	262,640
On issue at 30 June 2017 – fully paid	146,105,439	262,640
On issue at 30 June 2016 – fully paid	146,105,439	262,640

Stapled securities

The units in the Trust are stapled to the shares in the Company and are referred to as "stapled securities". The stapled securities entitle the holder to participate in distributions and dividends and the proceeds on winding up of the HPI Group in proportion to the number of stapled securities held. On a show of hands every stapled security holder present at a meeting in person or by proxy, is entitled to one vote.

A unit confers on its holder an undivided absolute, vested and indefeasible beneficial interest in the Trust as a whole, subject to Trust liabilities, not in parts or single assets. All units confer identical interests and rights. Each member registered at the record date has a vested and indefeasible interest in a share of the distribution in proportion to the number of units held by them. All issued units are fully paid.

Treasury shares

Contributed equity reflects the number of stapled securities on market at balance date, exclusive of the effect of treasury shares held. (Refer to note 23.)

Note 22 Retained earnings

	2018 \$'000	2017 \$'000
Balance at the beginning of the year	124,729	72,709
Profit for the year	48,387	98,899
Distribution to stapled security holders	(14,302)	(32,421)
Provision for distribution to stapled security holders	(14,302)	(14,458)
Balance at the end of the year	144,512	124,729

Note 23 Reserves

	Cashflow hedge reserve \$'000	Treasury share reserve \$'000	Share based payment reserve \$'000	Total \$'000
Opening balance at 1 July 2017	-	(186)	17	(169)
Acquisition of shares	-	(304)	-	(304)
Recognition of share based payment expense	-	-	49	49
Closing balance at 30 June 2018	-	(490)	66	(424)
Opening balance at 1 July 2016	(1,937)	-	-	(1,937)
Effective portion of changes in fair value	706	-	-	706
Transfer to profit or loss	1,231	-	-	1,231
Acquisition of shares	-	(186)	-	(186)
Recognition of share based payment expense	-	-	17	17
Closing balance at 30 June 2017	-	(186)	17	(169)

Hedging reserve

The hedging reserve comprise the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition in profit in loss as the hedged cash flows or items affect the profit or loss. The interest swap held by the Group was cancelled 19 July 2017.

Treasury share reserve

The Treasury share reserve comprise the cost of the HPI Group's securities which were purchased on-market, and are held by the HPI Rights Plan Trust. At 30 June 2018, the HPI Group held 162,363 of the Company's securities (30 June 2017: 65,107).

Share based payment reserve

The share based payments reserve comprises amounts recognised under the long-term incentive plan for executive employees and is the portion of the fair value of the total cost recognised of the unissued securities, which remain conditional on employment with the HPI Group at the relevant vesting date and certain market based performance hurdles being obtained.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 24 Net assets per stapled security

	2018	2017
Number of stapled securities on issue as at the end of the year	146,105,439	146,105,439
Less treasury securities	(162,363)	(65,107)
Adjusted number of stapled securities on issue as at the end of the year	145,943,076	146,040,332
Net assets at balance date	\$406,728,264	\$387,200,144
Net assets per stapled security	\$2.79	\$2.65

Note 25 Earnings per stapled security

	2018	2017
	\$	\$
Profit for the year	48,387,000	98,899,000
Weighted average number of stapled securities		
On issue at the beginning of the year	146,105,439	146,105,439
Effect of treasury shares held*	(139,732)	(33,891)
Weighted average number of stapled securities	145,965,707	146,071,548
Basic and diluted earnings per stapled security – cents	33.15	67.71

* The effect of treasury shares held is the weighted average of 162,363 (2017: 65,107) shares held from date of acquisition to the end of the year.

Note 26 Distributions

Number of stapled securities on issue as at the end of the year

	Total distribution \$'000	No. of stapled securities	Distribution per stapled securities (cents)
2018			
1 July 2017 to 31 December 2017	14,302	145,943,076	9.80
1 January 2018 to 30 June 2018	14,302	145,943,076	9.80
	28,604		19.60
2017			
1 July 2016 to 31 December 2016	32,421	146,040,332	22.20
1 January 2017 to 30 June 2017	14,458	146,040,332	9.90
	46,879		32.10

Distributions are shown exclusive of expected distributions payable on treasury securities.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 27 Operating leases

The HPI Group leases out its investment properties under operating leases (see note 14). The future minimum lease receipts under non-cancelable leases are as follows:

	2018	2017
	\$'000	\$'000
<i>Leases as lessor</i>		
Less than one year	48,289	44,894
Between one and five years	143,477	164,624
More than five years	70,251	92,343
	262,017	301,861
<i>Leases as lessee</i>		
Less than one year	92	87
Between one and five years	239	331
More than five years	-	-
	331	418

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Note 28 Group entities

Subsidiaries	Country of incorporation	Ownership interest
The C.H. Trust	Australia	100%
HPI Hold Trust No. 1	Australia	100% ¹
HPI Retail Fund No. 1	Australia	100% ¹
HPI Vic Sub Trust No. 1	Australia	100% ¹
HPI NSW Sub Trust No.1	Australia	100% ¹
Hotel Property Investments Limited	Australia	100% ²
C.H. Properties Pty Ltd	Australia	100% ²
HPI LTIP Pty Ltd	Australia	100% ²
HPI Holdings No.1 Pty Ltd	Australia	100% ^{1,2}
HPI Retail Fund No. 1 Pty Ltd	Australia	100% ^{1,2}
HPI Sub Fund No. 1 Pty Ltd	Australia	100% ^{1,2}
HPI Rights Plan Trust	Australia	³

¹ Established in February 2018.

² Hotel Property Investments Limited is not a subsidiary of the Trust, Hotel Property Investments Limited is stapled to the Trust. C.H. Properties Pty Ltd, HPI Holdings No. 1 Pty Ltd, HPI Retail Fund No. 1 Pty Ltd, HPI Sub Fund No. 1 Pty Ltd and HPIL LTIP Pty Ltd are 100% subsidiaries of Hotel Property Investments Ltd.

³ The HPI Rights Plan Trust is deemed to be controlled by the HPI Group and is therefore classified as a subsidiary for financial reporting purposes.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 29 Parent entity

As at and throughout the financial year ended 30 June 2018 the parent entity of the HPI Group was the Trust.

	2018	2017
	\$'000	\$'000
Results of the parent entity		
Profit for the year	47,461	101,568
Other comprehensive income	-	1,937
Total comprehensive income	47,461	103,505
Financial position of the parent entity at year end		
Current assets	26,539	10,033
Total assets	676,889	661,503
Current liabilities	21,169	18,396
Total liabilities	296,813	274,365
Net assets	380,076	387,138
Total equity of the parent entity comprising of:		
Contributed equity	262,642	262,642
Retained earnings	117,434	124,496
Total equity	380,076	387,138

The parent's contingent assets and commitments are the same as those of the HPI Group as disclosed in notes 33 and 35. The parent's contingent liabilities comprises of a bank guarantee, as disclosed in note 34.

Note 30 Related parties

Key management personnel

The key management personnel of the HPI Group during the year were the non-executive directors of the Company, the Chief Executive Officer & Managing Director and the Chief Financial Officer & Company Secretary.

Key management personnel compensation

Key management personnel compensation during the year comprised the following:

	2018	2017
	\$	\$
Short-term employee benefits	1,009,776	1,067,882
Post-employment benefits	72,311	75,946
Share-based payments	49,702	16,711
	1,131,789	1,160,539

Post-employment benefits relate to defined contribution superannuation benefits.

No other related party transactions were entered into during the year.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 31 Financial instruments

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information of financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value			
	Fair value hedging instruments \$'000	Loans and receivables \$'000	Other financial liabilities \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2018								
Financial assets not measured at fair value								
Trade and other receivables	-	353	-	353	-	-	-	-
Cash and cash equivalents	-	1,240	-	1,240	-	-	-	-
	-	1,593	-	1,593	-	-	-	-
Financial liabilities not measured at fair value								
Loans and borrowings	-	-	(275,644)	(275,644)	-	-	-	-
Trade and other payables	-	-	(5,615)	(5,615)	-	-	-	-
	-	-	(281,259)	(281,259)	-	-	-	-

	Carrying amount				Fair value			
	Fair value hedging instruments \$'000	Loans and receivables \$'000	Other financial liabilities \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2017								
Financial assets not measured at fair value								
Trade and other receivables	-	225	-	225	-	-	-	-
Cash and cash equivalents	-	1,135	-	1,135	-	-	-	-
	-	1,360	-	1,360	-	-	-	-
Financial liabilities measured at fair value								
Interest rate derivatives	(1,135)	-	-	(1,135)	-	(1,135)	-	(1,135)
	(1,135)	-	-	(1,135)	-	(1,135)	-	(1,135)
Financial liabilities not measured at fair value								
Loans and borrowings	-	-	(254,834)	(254,834)	-	-	-	-
Trade and other payables	-	-	(4,423)	(4,423)	-	-	-	-
	-	-	(259,257)	(259,257)	-	-	-	-

Credit risk

Exposure to credit risk

The carrying amount of the HPI Group's financial assets represents the maximum credit risk exposure. The HPI Group's maximum exposure to credit risk at the reporting date was:

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	1,240	1,135
Trade receivables	350	223
	1,590	1,358

There was no credit risk exposure to regions other than Australia.

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 31 Financial instruments (continued)

Concentrations of credit risk

The HPI Group's maximum exposure to credit risk for aged trade receivables as at the reporting date by type of customer was as follows:

		Gross 2018 \$'000	Impairment 2018 \$'000	Gross 2017 \$'000	Impairment 2017 \$'000
Hotel tenants	Not past due	156	-	140	-
	Past due 0 – 30 days	110	-	3	-
	Past due 31 – 120 days	7	-	3	-
		273	-	146	-
Specialty tenants	Not past due	41	-	28	-
	Past due 0 – 30 days	16	-	20	-
	Past due 31 – 120 days	20	-	29	-
		77	-	77	-
	350	-	223	-	

Impairment losses

The HPI Group believes that the unimpaired amounts that are past due by more than 30 days are still collectable, based on historical payment behavior. Based on historic default rates, the HPI Group believes that no impairment allowance is necessary in respect of trade receivables past due.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
2018							
Loans and borrowings	277,450	377,924	6,555	6,661	13,325	81,367	270,016
Trade and other payables	5,615	5,615	5,615	-	-	-	-
Provision for distribution	14,302	14,302	14,302	-	-	-	-
	297,367	397,841	26,472	6,661	13,325	81,367	270,016
2017							
Loans and borrowings	256,000	291,896	4,431	4,406	9,297	273,761	-
Trade and other payables	4,423	4,423	4,423	-	-	-	-
Provision for distribution	14,458	14,458	14,458	-	-	-	-
	274,881	310,777	23,312	4,406	9,297	273,761	-

The following table indicates the periods in which the cash flows associated with derivatives are expected to impact profit or loss:

	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
2018							
Interest rate derivative	-	-	-	-	-	-	-
2017							
Interest rate derivative	1,135	1,135	170	618	347	-	-

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 31 Financial instruments (continued)

Market risk

Interest rate risk

Interest rate profile of the HPI Group's interest-bearing financial instruments:

	2018	2017
	\$'000	\$'000
Variable rate instruments		
Financial assets	1,240	1,135
Financial liabilities	(147,450)	(257,135)
	<u>(146,210)</u>	<u>(256,000)</u>

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Carrying amount \$'000	+ 100 bps of AUD IR Profit/(Loss) \$'000	+ 100 bps of AUD IR Equity \$'000	- 100 bps of AUD IR Profit/(Loss) \$'000	- 100 bps of AUD IR Equity \$'000
2018					
Cash at bank	1,240	12	-	(12)	-
Loans and borrowings	(147,450)	(1,475)	-	1,475	-
	<u>(146,210)</u>	<u>(1,463)</u>	<u>-</u>	<u>1,463</u>	<u>-</u>
2017					
Cash at bank	1,135	11	-	(11)	-
Loans and borrowings	(256,000)	(2,560)	-	2,560	-
Interest rate derivatives	(1,135)	771	-	(784)	-
	<u>(256,000)</u>	<u>(1,778)</u>	<u>-</u>	<u>1,765</u>	<u>-</u>

The notional value of interest rate swaps (derivative liabilities) at 30 June 2018 was \$Nil (2017: \$62.5 million).

Fair values

The fair values of financial assets and liabilities approximate their carrying values.

Interest rate derivative financial instruments are carried at fair value (note 19). Under the "Fair value hierarchy", the valuation method relevant to interest derivatives is Level 2, defined as: "inputs, other than quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)".

Hotel Property Investments
Report for the year ended 30 June 2018
Notes to the consolidated financial statements (continued)

Note 32 Statement of cash flows – additional information

	2018 \$'000	2017 \$'000
<i>Reconciliation of cash flows from operating activities with profit attributable to the stapled security holders</i>		
Profit for the year	48,387	98,899
Fair value adjustment to investment property	(21,172)	(69,501)
Gain on sale of investment property	-	(1,530)
Fair value adjustment of derivative financial instruments	-	(62)
Fair value loss on cancelled derivatives	45	702
Interest paid	12,444	9,369
Amortisation of borrowing costs	1,458	844
Depreciation of Plant and Equipment	69	32
Share-based payments	49	-
Straight lining of income	303	(47)
Tax expense	7	2
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(128)	437
Decrease/(Increase) in Other current assets	149	(325)
Increase/(decrease) in trade and other payables	467	(240)
Increase/(decrease) in provisions	(3)	407
Net cash from operating activities	42,075	38,987

Note 33 Contingent assets

The HPI Group is not aware of any contingent assets as at 30 June 2018 which may materially affect the operation of the business (2017: nil).

Note 34 Contingent liabilities

The HPI Group has issued a bank guarantee as security over the office premises for \$78,304 (2017: \$78,304).

The parent has issued a bank guarantee of \$4 million to the Company in its capacity of Responsible Entity (2017: \$4 million).

The HPI Group is not aware of any other contingent liabilities at 30 June 2018 which may materially affect the operation of the business (2017: nil).

Note 35 Commitments

The HPI Group is not aware of any commitments at 30 June 2018 which may materially affect the operation of the business. (2017: nil).

Note 36 Segment information

The HPI Group operates wholly within Australia and derives rental income, as a freehold hotel owner and lessor.

Revenues from Coles Group represented approximately \$43.7 million (2017: \$40.8 million) of the HPI Group's total revenues.

Note 37 Subsequent events

On 2 August 2018 the Group exchanged an unconditional contract to divest The Wickham Hotel for \$14 million. The sale is scheduled to settle on 17 September 2018.

No other item, transaction or event has occurred subsequent to 30 June 2018 that is likely in the opinion of the directors to significantly affect the operations of the HPI Group, the results of those operations, or the state of affairs of the HPI Group in future financial periods.

Hotel Property Investments
Report for the year ended 30 June 2018
Directors' Declaration

In the opinion of the directors of Hotel Property Investments Limited, as Responsible Entity for the Hotel Property Investments Trust:

1. the consolidated financial statements and notes, set out on pages 16 to 42, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the Hotel Property Investments Group financial position as at 30 June 2018 and of its performance for the twelve months ended on that date; and
 - (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
2. There are reasonable grounds to believe that the Hotel Property Investments Trust will be able to pay its debts as and when they become due and payable.

The directors draw attention to note 2 to the consolidated financial statements, which includes the statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors of Hotel Property Investments Limited



Michael Tilley
Director
Melbourne

Dated this 22nd day of August 2018



Independent Auditor's Report

To the stapled security holders of Hotel Property Investments

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Hotel Property Investments (the Stapled Group Financial Report).

In our opinion, the accompanying Stapled Group Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Stapled Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Stapled Group comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Stapled Group** consists of Hotel Property Investments Trust and Hotel Property Investments Limited and the entities they controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Stapled Group, Hotel Property Investments Trust and Hotel Property Investments Limited (the Responsible Entity) in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified for the Stapled Group are:

- Valuation of Investment Properties
- Recognition of rental income

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investment Properties (\$700.2m)

Refer to Note 14 to the Financial Report

The key audit matter

The valuation of investment properties was a key audit matter as it constituted 99.7% of the Stapled Group's total assets as at 30 June 2018, we exercised auditor judgement and we are required to evaluate the experts engaged by the Stapled Group.

The fair value of the investment properties was assessed by the Board of Directors based on a combination of external valuations conducted by CBRE and internally prepared valuations. Half of the investment property portfolio was independently valued by external valuers as at 31 December 2017.

We focused on the Stapled Group's capitalised income projections for internally valued investment properties. Capitalised income projections are based upon a property's estimate net market income, and application of a capitalisation rate in accordance with Stapled Group policy.

How the matter was addressed in our audit

Our audit procedures included:

- Determined if the inputs used by the directors for the computation of the fair value of the properties are reasonable, with reference to the market update report completed by CBRE, to ensure that the inputs used by the directors are consistent with the reports furnished;
- Obtaining the final signed external valuations conducted during the financial year and evaluating the appropriateness of the valuation methodologies and key assumptions used by the Stapled Group's external valuer in accordance with market practice and the accounting standards.
- Assess the scope, competence and objectivity of the external valuer engaged by the Stapled Group.
- Re-performing a sample of valuations using the capitalised income projections method by applying forecast rental income (obtained from the rental agreements that have effect into the forecast period) and capitalisation rate (sourced in accordance with Stapled Group policy criteria), and assessing the consistency of our calculations to the internally prepared valuations; and
- Checking the valuation methodology adopted, in particular the relevant capitalisation rate, for consistency with the Stapled Group's valuation policy, accounting standards and industry practice.

Recognition of Rental Income (\$50.3m)

Refer to Note 3(b) to the Financial Report

The key audit matter

The recognition of rental income was a key audit matter as it represents a significant portion of total income, which is distributed to stapled security holders and necessitates significant audit effort given the high volume of rental agreements.

Additionally, the Stapled Group entered into new rental agreements with existing tenants, raising our audit effort.

Rental income is recognised on a straight-line basis over the life of the rental agreement for leases where the rental income under the lease terms is fixed and measurable. For leases where the rent is determined with reference to current market information or inflationary measures e.g. the Consumer Price Index, the revenue is not straight-lined and is recognised in accordance with the rental agreement applicable for the accounting period.

How the matter was addressed in our audit

Our procedures included:

- Checking a sample of monthly rental invoices and agreeing to the original signed lease contracts and cash receipts;
- Created an expectation to compare to actual revenue reported by management by adjusting last year's audited revenue balance for any disposals or acquisitions and applying the weighted average annual increase;
- For new, cancelled or variations to leases, we checked the lease terms to the Stapled Group's straight line schedule used to recognise revenue on a straight line basis; and
- Performing a recalculation of the straight line adjustment to property revenue by using the fixed revenue over the lease term from the new or amended lease terms from the signed lease contract and comparing this to the Stapled Group's straight line schedule.

Other Information

Other Information is financial and non-financial information in Hotel Property Investment's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of the Responsible Entity are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report of Hotel Properties Investments Limited

The information below is a reproduction of our opinion on the Remuneration Report of Hotel Property Investments Limited (the Company) as the Responsible Entity of Hotel Properties Investment Trust.

Opinion

In our opinion, the Remuneration Report of Hotel Property Investments Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of Hotel Property Investments Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 8 to 13 of the Directors' Report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Dean Waters
Partner

Melbourne
22 August 2018

Hotel Property Investments
Report for the year ended 30 June 2018
Security holder information

Substantial Security Holders

The number of stapled securities held by the HPI Group's substantial security holders as at 20 July 2018 is as follows:

Name	Stapled Securities
J P Morgan Nominees Australia Limited	31,401,627
HSBC Custody Nominees (Australia) Limited	26,982,897
National Nominees Limited	9,550,452
Citicorp Nominees Limited	9,453,740

20 Largest Security Holders

As at 20 July 2018

	Number of Stapled Securities held	Percentage of Total Stapled Securities
1 J P Morgan Nominees Australia Limited	31,401,627	21.49
2 HSBC Custody Nominees (Australia) Limited	26,982,897	18.47
3 National Nominees Limited	9,550,452	6.54
4 Citicorp Nominees Pty Limited	9,453,740	6.47
5 Citicorp Nominees Pty Limited	2,160,662	1.48
6 Netwealth Investments Limited	1,669,951	1.14
7 BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Limited	1,568,473	1.07
8 BNP Paribas Noms Pty Ltd	1,463,750	1.00
9 Oxleigh Pty Limited	800,713	0.55
10 Neweconomy Com Au Nominees Pty Limited	670,688	0.46
11 Mr David Calogero Loggia	556,613	0.38
12 BNP Paribas Nominees Pty Limited	506,396	0.35
13 Powerwrap Limited	417,117	0.29
14 Mr David Stewart Field	405,000	0.28
15 Pershing Australia Nominees Pty Limited	325,000	0.22
16 Becjohn Pty Limited	306,666	0.21
17 Tennessee Investments Pty Limited	300,000	0.21
18 Bell Potter Nominees Limited	268,500	0.18
19 Mr Andrew Larke & Mrs Polly Amanda Larke	261,895	0.18
20 CS Fourth Nominees Pty Limited	255,063	0.17
Total	89,325,203	61.14

Distribution of Security Holders

As at 20 July 2018

<i>Range</i>	Total Holders	Stapled Securities	Percentage of Total Stapled Securities
1 - 1,000	1,970	1,105,596	0.76
1,001 - 5,000	3,061	8,623,450	5.90
5,001 - 10,000	1,350	10,389,373	7.11
10,001 - 100,000	1,337	31,455,291	21.53
100,001 and over	55	94,531,729	64.70
Total	7,773	146,105,439	100.00

As at 20 July 2018, there were 146,105,439 fully-paid stapled securities held by 7,773 individual security holders. The number of securityholders holding less than a marketable parcel of stapled securities is 149.

Hotel Property Investments
Report for the year ended 30 June 2018
Corporate Directory

Hotel Property Investments

Hotel Property Investments Limited
ABN 25 010 330 515
Hotel Property Investments Trust
ARSN 166484377
Level 17, IBM Centre, 60 City Road
Southbank VIC 3006 Australia

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Share Registry

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Fax: +61 2 9287 0303

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Custodian

The Trust Company Limited
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123 Pitt Street
Sydney NSW 2001 Australia

Auditor

KPMG
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Collins Square
727 Collins Street
Melbourne VIC 3008 Australia

Responsible Entity

Hotel Property Investments Limited
ABN 25 010 330 515
Level 17, IBM Centre, 60 City Road
Southbank VIC 3006 Australia

Company Secretary

Hotel Property Investments Limited
Blair Strik