

**Appendix 4D  
Half Year Report  
Six Months Ended  
31 December 2019**

Name of entity

**HOTEL PROPERTY INVESTMENTS (HPI)**

ABN or equivalent company reference

**Hotel Property Investments Trust (ARSN 166 484 377) and Hotel Property Investments Limited (ABN 25 010 330 515)**

| Half yearly | Preliminary final | Reporting Period   |
|-------------|-------------------|--|
| ✓           |                   | 1 July 2019 to 31 December 2019<br>(previous corresponding period 1 July 2018 to 31 December 2018) |

**Results for announcement to the market**

|   | <b>Six Months Ended<br/>31 December 2019</b> | <b>Six Months Ended<br/>31 December 2018</b> | <b>Variance %</b> |
|---|--|--|-------------------|
| Rent revenue from investment properties (A\$'000)   | 24,683                                       | 22,602                                       | 9.21%             |
| Total income from operating activities (A\$'000)  | 32,110                                       | 33,271                                       | -3.49%            |
| Profit / (loss) for the period from operating activities after tax attributable to stapled security holders (A\$'000) | 26,141                                       | 27,626                                       | -5.38%            |
| Profit / (loss) for the period attributable to stapled security holders (A\$'000)                                     | 20,359                                       | 21,129                                       | -3.64%            |
| Interim trust distribution amount per stapled security (cents)  | 10.3   | 9.8  | 5.10%             |
| Interim dividend amount per stapled security (cents)  | 0.0  | 0.0  | 0.00%             |
| Total distribution payable for half year (A\$'000)  | 15,090                                       | 14,302                                       | 5.51%             |
| Record date for determining entitlements to trust distribution  | 31 December 2019                             | 29 December 2018                             |                   |
| Payment date for trust distribution   | 4 March 2020                                 | 6 March 2019                                 |                   |

**Explanation of Results**

- Rent revenue increased by \$2.1 million primarily due to underlying rental income growing by 2.3% and accounting straight-line lease adjustment of approximately \$1.5 million in the prior year.
- Total income decreased by 3.49% primarily due to the lower current period investment fair value gain of \$5.0 million (\$6.9 million in prior year) and prior year gain on sale of the Wickham Hotel (\$1.6 million).
- Total profit attributable to stapled security holders decreased by 3.64% due to the abovementioned lower increase in fair value adjustments and the prior year gain on sale of the Wickham Hotel offset by rental increases and lower finance costs.

**Other Details**

|  | <b>31 December 2019</b> | <b>30 June 2019</b> | <b>Variance %</b> |
|--|-------------------------|---------------------|-------------------|
| Net Tangible Assets per security   | \$2.96                  | \$2.93              | 1.0%              |
| <ul style="list-style-type: none"> <li>▪ No special distribution has been made in the current period.</li> <li>▪ There was a distribution reinvestment plan (DRP) in operation for the period.</li> <li>▪ There were no associates or joint venture entities during the period.</li> </ul> |                         |                     |                   |
| The financial information provided in the Appendix 4D is based on the Half Year Report (attached).   |                         |                     |                   |

**Review**

This report is based on the half-year report which has been reviewed by KPMG. A copy of the Hotel Property Investments Half Year Report is attached.

# **Hotel Property Investments (HPI)**

**Half Year Report for the Six Months Ended 31 December 2019**

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

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**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

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# Hotel Property Investments

## Half Year Report for the six months ended 31 December 2019

### 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 half year ended 31 December 2019.

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 located at 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](http://www.hpitrust.com.au/cms/corporate_governance)

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### 1. Directors and officers

The members of the Board of Directors of the Company in office during the half year ended 31 December 2019.

John Russell  
Raymond Gunston  
Lachlan Edwards  
Giselle Collins  
Don Smith  
Michael Tilley (retired 31 October 2019)

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### 2. Principal activities

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

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### 3. Significant changes in state of affairs

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

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### 4. Distributions and dividends

HPI Group has declared a distribution of 10.3 cents per stapled security for the half year ended 31 December 2019 and has made a provision for the interim distribution of \$15.1 million.

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### 5. Matters subsequent to the end of the financial half year

On 28 January 2020, the HPI Group announced it had entered into an agreement with Queensland Venue Company ("QVC") pursuant to which QVC had agreed to extend 28 leases with HPI Group that were due to expire in June or December 2021.

For 20 of the properties, QVC exercised options to extend its existing leases with HPI Group for a further 15 years. The rent and rent review mechanism remain unchanged for these properties.

For the remaining 8 properties, the base rent has been reset to \$3.0 million lower than the base rent payable under the current leases. For these properties QVC exercised options for a further 10 years. The rent review mechanism remains unchanged. The new rent will commence 1 July 2020.

The HPI Group has under this agreement also committed to a \$30 million capital expenditure program across the portfolio over a two year period commencing in early 2020.

The terms of the agreement have been taken into consideration by the independent valuers and included in the final determination of valuations by Directors included in this December 2019 Half Year Report.

Other than the subsequent event described above, no item, transaction or event has occurred subsequent to 31 December 2019 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.

## **Hotel Property Investments**

### **Half Year Report for the six months ended 31 December 2019**

#### **Directors' Report (continued)**

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## **6. Review and results of operations**

### **Background**

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 pubs in Australia. The HPI Group owns a portfolio of freehold properties, comprising pubs and associated speciality stores located on the pub sites.

### **Half year performance**

The HPI Group profit after tax for the six months ended 31 December 2019 was \$20.4 million. Operating revenues and expenses included rental income from investment properties of \$24.7 million, property cost recoveries of \$2.4 million, property outgoing costs of \$4.0 million, other trust and management costs of \$1.9 million, and financing costs of \$5.8 million. Additionally, there was a fair value gain on investment property of \$5.0 million.

At 31 December 2019, independent valuations were obtained for 36 properties, including all properties affected by the lease extensions described in the Subsequent Events section above (28 properties) and those properties that were last independently valued in December 2017 (8 properties). The remaining properties (7 properties) were valued by the Directors in accordance with the HPI Group policy.

The 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. For properties not subject to independent valuation, market capitalisation rates were maintained constant at their previous independent valuation level. The current average capitalisation rate for the portfolio is 6.10%.

Adjusting profit after tax for fair value adjustments, non-cash finance costs and other minor items, the distributable earnings of the HPI Group were \$15.5 million. Adjusting further for maintenance capex of \$0.4 million the Adjusted Funds from Operations (AFFO) was \$15.1 million.

### **Financial position**

At 31 December 2019 the HPI Group's net assets were \$434.1 million representing net assets per stapled security of \$2.96 (June 2019: \$2.93). Major assets and liabilities included cash on hand of \$0.5 million, investment property of \$714.3 million, receivables and other current assets of \$4.6 million, borrowings of \$263.3 million and a provision for payment of distributions of \$15.1 million. During the period investment property fair value gains of \$5.0 million were recognised.

At 31 December 2019, the HPI Group's total borrowing facilities of \$303.0 million were drawn to \$264.7 million including \$230.0 million under the USPP and \$34.7 million under the Common Terms Deed.

### **Risk management**

Other than the positive effect of lease extensions of 28 hotel leases described in the Subsequent Events section above, there has not been a material change in the HPI Group's risk profile since 30 June 2019. Details of the HPI Group's risk profile are outlined in the Directors' report for the year ended 30 June 2019.

### **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 with our tenants 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.

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Directors' Report (continued)**

**Distributions**

At 31 December 2019 the HPI Group made a provision of \$15.1 million for its interim distribution of 10.3 cents per stapled security. For the full year the HPI Group intends to distribute at least 100% of its full year AFFO which is calculated as profit for the year adjusted for fair value movements, losses or gains on hedging, other non-cash items, tax, and maintenance capital expenditure.

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

|  | <b>31 December<br/>2019</b> |
|--|-----------------------------|
|  | <b>\$'000</b>               |
| <b>Profit after income tax for the period</b>                    | 20,359                      |
| <b>Plus/(Less): Adjustments for non-cash items</b>               |                             |
| Fair value (increments)/decrements to investment properties      | (4,981)                     |
| Straight line lease expense                                      | (37)                        |
| Share based payments expense                                     | 36                          |
| Finance costs - non-cash   | 112                         |
| Income tax expense/(benefit)                                     | 18                          |
| <b>Total adjustments for non-cash items</b>                      | <b>(4,852)</b>              |
| <b>Distributable earnings</b>                                    | <b>15,507</b>               |
| <b>Less maintenance capital expenditure</b>                      | <b>(415)</b>                |
| <b>Adjusted funds from operations</b>                            | <b>15,092</b>               |
| <b>Interim Distribution from trading operations provided for</b> | <b>15,090</b>               |
|  |                             |
|  | <b>Cents</b>                |
| <b>Earnings and distribution per stapled security:</b>           |                             |
| Basic and diluted earnings                                       | 13.9                        |
| Earnings available for distribution per security                 | 10.3                        |
| Interim distribution per security                                | 10.3                        |

**7. Likely developments**

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

**8. Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8 and forms part of the Directors' report for the half year ended 31 December 2019.

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Directors' Report (continued)**

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**9. Environmental regulation**

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

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**10. 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.



John Russell  
Director  
Melbourne  
Dated this 19<sup>th</sup> day of February 2020



# 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 for the Hotel Property Investments Trust

I declare that, to the best of my knowledge and belief, in relation to the review of for the half-year ended 31 December 2019 there have been:

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

KPMG

Rachel Milum

*Partner*

Melbourne

19 February 2020



**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Consolidated statement of profit or loss and other comprehensive income**

|  | Note | 31 December<br>2019<br>\$'000 | 31 December<br>2018<br>\$'000 |
|--|------|-------------------------------|-------------------------------|
| <b>REVENUE</b>   |      |                               |                               |
| Rent from investment properties  |      | 24,683                        | 22,602                        |
| Revenue from outgoings recovered   |      | 2,442                         | 2,216                         |
| <b>Total revenue</b>   |      | <b>27,125</b>                 | <b>24,818</b>                 |
| <b>Other income</b>  |      |                               |                               |
| Fair value adjustment to investment properties                                 | 11   | 4,981                         | 6,858                         |
| Gain on sale of investment properties  |      | -                             | 1,586                         |
| Finance revenue  |      | 4                             | 9                             |
| <b>Total other income</b>  |      | <b>4,985</b>                  | <b>8,453</b>                  |
| <b>Total income from operating activities</b>                                  |      | <b>32,110</b>                 | <b>33,271</b>                 |
| <b>OPERATING EXPENSES</b>  |      |                               |                               |
| Investment property outgoings and expenses                                     |      | (4,035)                       | (3,690)                       |
| Other expenses   | 6    | (1,916)                       | (1,967)                       |
| <b>Total expenses from operating activities</b>                                |      | <b>(5,951)</b>                | <b>(5,657)</b>                |
| <b>Profit from operating activities</b>  |      | <b>26,159</b>                 | <b>27,614</b>                 |
| <b>Non-operating expenses</b>  |      |                               |                               |
| Finance costs  | 7    | (5,782)                       | (6,497)                       |
| <b>Total non-operating expenses</b>  |      | <b>(5,782)</b>                | <b>(6,497)</b>                |
| <b>Profit before tax</b>   |      | <b>20,377</b>                 | <b>21,117</b>                 |
| Tax benefit/(expense)  |      | (18)                          | 12                            |
| <b>Profit for the year</b>   |      | <b>20,359</b>                 | <b>21,129</b>                 |
| <b>Total comprehensive income</b>  |      | <b>20,359</b>                 | <b>21,129</b>                 |
| <b>Profit / (loss) for the year attributable to:</b>                           |      |                               |                               |
| Shareholders of the Company  |      | 20,359                        | 21,129                        |
| Total comprehensive income attributable to the stapled security holders of HPI |      | 20,359                        | 21,129                        |
| Basic earnings per security (cents)  | 20   | 13.91                         | 14.48                         |
| Diluted earnings per security (cents)  | 20   | 13.90                         | 14.46                         |

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

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Consolidated statement of financial position**

|                                      | Note | 31 December<br>2019<br>\$'000 | 30 June<br>2019<br>\$'000 |
|--------------------------------------|------|-------------------------------|---------------------------|
| <b>ASSETS</b>                        |      |                               |                           |
| <b>Current assets</b>                |      |                               |                           |
| Cash and cash equivalents            | 8    | 494                           | 586                       |
| Trade and other receivables          | 9    | 1,654                         | 369                       |
| Other current assets                 | 10   | 2,903                         | 404                       |
| <b>Total current assets</b>          |      | <b>5,051</b>                  | <b>1,359</b>              |
| <b>Non-current assets</b>            |      |                               |                           |
| Investment property                  | 11   | 714,250                       | 708,500                   |
| Plant and equipment                  |      | 146                           | 182                       |
| Other non-current assets             | 10   | 86                            | -                         |
| Deferred tax assets                  |      | 74                            | 84                        |
| <b>Total non-current assets</b>      |      | <b>714,556</b>                | <b>708,766</b>            |
| <b>TOTAL ASSETS</b>                  |      | <b>719,607</b>                | <b>710,125</b>            |
| <b>LIABILITIES</b>                   |      |                               |                           |
| <b>Current liabilities</b>           |      |                               |                           |
| Trade and other payables             | 12   | 6,866                         | 5,149                     |
| Employee benefit liabilities         | 13   | 97                            | 94                        |
| Provisions                           | 15   | 15,090                        | 14,740                    |
| <b>Total current liabilities</b>     |      | <b>22,053</b>                 | <b>19,983</b>             |
| <b>Non-current liabilities</b>       |      |                               |                           |
| Loans and borrowings                 | 14   | 263,321                       | 263,234                   |
| Employee benefit liabilities         | 13   | 6                             | 1                         |
| Other non-current liabilities        |      | 88                            | -                         |
| <b>Total non-current liabilities</b> |      | <b>263,415</b>                | <b>263,235</b>            |
| <b>TOTAL LIABILITIES</b>             |      | <b>285,468</b>                | <b>283,218</b>            |
| <b>NET ASSETS</b>                    |      | <b>434,139</b>                | <b>426,907</b>            |
| <b>EQUITY</b>                        |      |                               |                           |
| Contributed equity                   | 16   | 264,735                       | 262,640                   |
| Retained earnings                    | 17   | 169,977                       | 164,708                   |
| Reserves                             | 18   | (573)                         | (441)                     |
| <b>TOTAL EQUITY</b>                  |      | <b>434,139</b>                | <b>426,907</b>            |

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

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Consolidated statement of changes in equity**

|   | Note | Contributed<br>Equity<br>\$'000 | Retained<br>Earnings<br>\$'000 | Reserves<br>\$'000 | Total Equity<br>\$'000 |
|---|------|---------------------------------|--------------------------------|--------------------|------------------------|
| <b>Balance at 1 July 2019</b>   |      | 262,640                         | 164,708                        | (441)              | 426,907                |
| <b>Total comprehensive income for the period</b>  |      |                                 |                                |                    |                        |
| Profit for the period   |      | -                               | 20,359                         | -                  | 20,359                 |
| Total other comprehensive income  |      | -                               | -                              | -                  | -                      |
| <b>Total comprehensive income for the period</b>  |      | -                               | 20,359                         | -                  | 20,359                 |
| <b>Transactions with owners in their capacity as owners recognised directly in equity</b> |      |                                 |                                |                    |                        |
| Provision for distribution to stapled security holders                                    | 21   | -                               | (15,090)                       | -                  | (15,090)               |
| Distribution reinvestment plan  | 16   | 2,095                           | -                              | -                  | 2,095                  |
| Share-based payment transactions  | 18   | -                               | -                              | 36                 | 36                     |
| Purchase of treasury shares   | 18   | -                               | -                              | (168)              | (168)                  |
| <b>Total transactions with owners</b>   |      | 2,095                           | (15,090)                       | (132)              | (13,127)               |
| <b>Balance at 31 December 2019</b>  |      | 264,735                         | 169,977                        | (573)              | 434,139                |
| <b>Balance at 1 July 2018</b>   |      | 262,640                         | 144,512                        | (424)              | 406,728                |
| <b>Total comprehensive income for the period</b>  |      |                                 |                                |                    |                        |
| Profit for the period   |      | -                               | 21,129                         | -                  | 21,129                 |
| Total other comprehensive income  |      | -                               | -                              | -                  | -                      |
| <b>Total comprehensive income for the period</b>  |      | -                               | 21,129                         | -                  | 21,129                 |
| Provision for distribution to stapled security holders                                    | 21   | -                               | (14,302)                       | -                  | (14,302)               |
| Share-based payment transactions  | 18   | -                               | -                              | (45)               | (45)                   |
| <b>Total transactions with owners</b>   |      | -                               | (14,302)                       | (45)               | (14,347)               |
| <b>Balance at 31 December 2018</b>  |      | 262,640                         | 151,339                        | (469)              | 413,510                |

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

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Consolidated statement of cash flows**

|   | Note | 31 December<br>2019<br>\$'000 | 31 December<br>2018<br>\$'000 |
|---|------|-------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>                   |      |                               |                               |
| Rent and outgoings from investment properties (GST inclusive) |      | 28,512                        | 28,135                        |
| Payments to suppliers   |      | (9,528)                       | (9,493)                       |
| Interest receipts - bank deposits                             |      | 4                             | 8                             |
| Income tax paid   |      | (3)                           | -                             |
| <b>Net cash from operating activities</b>                     |      | <b>18,985</b>                 | <b>18,650</b>                 |
| <b>Cash flows from investing activities</b>                   |      |                               |                               |
| Proceeds from disposal of investment properties               |      | -                             | 14,000                        |
| Payment for plant and equipment additions                     |      | (4)                           | (2)                           |
| Payment for additions to investment property                  |      | (393)                         | (427)                         |
| <b>Net cash (used in) / from investing activities</b>         |      | <b>(397)</b>                  | <b>13,571</b>                 |
| <b>Cash flows from financing activities</b>                   |      |                               |                               |
| Proceeds from borrowings                                      |      | 16,600                        | 20,725                        |
| Repayments of borrowings                                      |      | (16,615)                      | (32,175)                      |
| Payment for treasury shares                                   |      | (168)                         | -                             |
| Payment of borrowing costs                                    |      | (5,808)                       | (6,415)                       |
| Payment of leasing liabilities                                |      | (44)                          | -                             |
| Payment of distributions                                      |      | (12,645)                      | (14,302)                      |
| <b>Net cash used in financing activities</b>                  |      | <b>(18,680)</b>               | <b>(32,167)</b>               |
| <b>Net (decrease) / increase in cash held</b>                 |      | <b>(92)</b>                   | <b>54</b>                     |
| Cash and cash equivalents at the beginning of the period      |      | 586                           | 1,240                         |
| <b>Cash and cash equivalents at the end of the period</b>     | 8    | <b>494</b>                    | <b>1,294</b>                  |

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

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Notes to the consolidated financial statements**

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**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements**

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**Note 1 – Reporting entity**

The consolidated financial report of Hotel Property Investments as at and for the half year ended 31 December 2019 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 half 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.

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**Note 2 – Basis of preparation**

**(a) Compliance statement**

The consolidated interim 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 interim 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; and
- trade receivables

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

The consolidated financial report as at and for the half year ended 31 December 2019 was approved by the Directors on 19 February 2020.

**(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 period 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 period ended 31 December 2019 are described in the following notes:

- Note 4(a) and Note 11 - investment property
- Note 4(c) and Note 22 - financial instruments

**(e) Working capital**

As at 31 December 2019, the HPI Group had an excess of current liabilities over current assets of \$17.0 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 and has enough undrawn committed debt facilities to meet current liability obligations, and that the net current deficit does not impact the underlying going concern assumption applied in preparing these financial statements.

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

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**Note 3 – Significant accounting policies**

**(a) Share-based payment transactions**

The initial fair value of share-based payments is established at grant date. The awards granted to employees is recognised as an expense, with a corresponding increase in the share-based payment reserve over the period 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.

**(b) Derivative financial instruments and hedge accounting**

The HPI Group may hold derivative financial instruments to hedge its interest rate risk exposure. Embedded derivatives are 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 Other Comprehensive Income (OCI) and accumulated in the hedging reserve.

**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 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.

**(c) Accounting standards implemented in the period**

**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 previous 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.

The Group has assessed the impact of AASB 16 on its consolidated financial statements. At initial adoption on 1 July 2019 the Group applied a modified retrospective approach applying an incremental borrowing rate to its operating leases. The Group recognised a right-of-use asset and lease liability of \$227,950. The Group depreciates the right-of-use assets on a straight-line basis from the initial adoption date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At initial adoption, the Group measured the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments based on an explicit rate. On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities was 3.8%. On the statement of financial position, right-of-use assets have been included in other current assets and other non-current assets. Lease liabilities have been included in trade and other payables and other non-current liabilities.

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**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 note 11.

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 remeasurement 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 considered in measuring fair value.

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**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.

**Note 5 – 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 6 – Other expenses**

|                         | <b>31 December<br/>2019</b> | <b>31 December<br/>2018</b> |
|-------------------------|-----------------------------|-----------------------------|
|                         | <b>\$'000</b>               | <b>\$'000</b>               |
| Advisory and legal fees | 273                         | 175                         |
| Auditor's remuneration  | 100                         | 106                         |
| Directors' fees         | 266                         | 201                         |
| Employment expenses     | 617                         | 855                         |
| Insurance               | 228                         | 138                         |
| All other expenses      | 432                         | 492                         |
|                         | <b>1,916</b>                | <b>1,967</b>                |

**Note 7 – Finance expenses**

|                           | <b>31 December<br/>2019</b> | <b>31 December<br/>2018</b> |
|---------------------------|-----------------------------|-----------------------------|
|                           | <b>\$'000</b>               | <b>\$'000</b>               |
| Interest expense          | 5,625                       | 6,284                       |
| Amortised borrowing costs | 112                         | 180                         |
| Other finance costs       | 45                          | 33                          |
|                           | <b>5,782</b>                | <b>6,497</b>                |

**Note 8 – Cash and cash equivalents**

|                          | <b>31 December<br/>2019</b> | <b>30 June<br/>2019</b> |
|--------------------------|-----------------------------|-------------------------|
|                          | <b>\$'000</b>               | <b>\$'000</b>           |
| Cash at bank and on hand | 494                         | 586                     |



**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 9 – Trade and other receivables**

|                                | <b>31 December<br/>2019</b> | <b>30 June<br/>2019</b> |
|--------------------------------|-----------------------------|-------------------------|
|                                | <b>\$'000</b>               | <b>\$'000</b>           |
| Trade receivables              | 1,654                       | 369                     |
| Less: Allowance for impairment | -                           | -                       |
| Net trade receivables          | 1,654                       | 369                     |
| Other receivables              | -                           | -                       |
|                                | <b>1,654</b>                | <b>369</b>              |

**Note 10 – Other current / non-current assets**

|                          | <b>31 December<br/>2019</b> | <b>30 June<br/>2019</b> |
|--------------------------|-----------------------------|-------------------------|
|                          | <b>\$'000</b>               | <b>\$'000</b>           |
| Other current assets     | 2,903                       | 404                     |
| Plant and equipment      | 146                         | 182                     |
| Other non-current assets | 86                          | -                       |
| Deferred tax assets      | 74                          | 84                      |
|                          | <b>3,209</b>                | <b>670</b>              |

Current assets held at 31 December 2019 is comprised of prepaid land tax and prepaid insurance. Other non-current assets represent the non-current portion of right-of-use assets.

**Note 11 – Investment property**

|  | <b>31 December<br/>2019</b> | <b>30 June<br/>2019</b> |
|--|-----------------------------|-------------------------|
|  | <b>\$'000</b>               | <b>\$'000</b>           |
| Investment property                            | 714,250                     | 708,500                 |
| <b>Movements</b>                               |                             |                         |
| Carrying amount at the beginning of the period | 708,500                     | 700,220                 |
| Disposals                                      | -                           | (12,030)                |
| Capital additions                              | 732                         | 1,103                   |
| Straight line lease adjustment                 | 37                          | (1,410)                 |
| Fair value adjustments                         | 4,981                       | 20,617                  |
| Carrying amount at the end of the period       | <b>714,250</b>              | <b>708,500</b>          |

**Investment property**

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

**Leasing arrangements**

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

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 11 – Investment property (continued)**

**Fair value adjustments at 31 December 2019**

Independent valuations were obtained for 36 investment properties as at 31 December 2019. These valuations were completed by CBRE Hotels Valuation & Advisory Services and Cushman & Wakefield Valuations Pty Ltd.

The remaining 7 investment properties were valued by the Directors in accordance with the HPI Group policy.

|  | December 2019 | June 2019    |
|--|---------------|--------------|
| Market capitalisation rate range at last independent valuation | 5.50% - 7.50% | 5.75% - 8.0% |

**Fair value hierarchy**

The fair value measurement for investment property of \$714.3 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

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

|  | 31 December 2019 | 30 June 2019 |
|--|------------------|--------------|
|  | \$'000           | \$'000       |
| <b>Reconciliation of fair value gains</b>  |                  |              |
| Fair value as at beginning of the period   | 708,500          | 700,220      |
| Capital additions on investment properties | 732              | 1,103        |
| Straight line lease adjustment             | 37               | (1,410)      |
| Disposals                                  | -                | (12,030)     |
| Carrying amount before revaluations        | 709,269          | 687,883      |
| Fair value as at end of the period         | 714,250          | 708,500      |
| Fair value gain for the period             | 4,981            | 20,617       |

**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 unobservable inputs and fair value measurement |
|---|---------------------------------|---|
| <i>Capitalisation of rent allowing for the following adjustments:</i> | Net rent                        | <i>The estimated fair value would increase (decrease) if:</i>                 |
| - 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)  |
| <i>Components basis</i>   | Gaming authorities              | Gaming authorities were higher (lower)  |
|   | NPV remaining lease             | NPV remaining lease was higher (lower)  |
|   | Comparable land sales           | Comparable land sales were higher (lower)                                     |

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 11 – Investment property (continued)**

| Property                         | Location          | Note | 31 December 2019        |                   | 30 June 2019            |                   |
|----------------------------------|-------------------|------|-------------------------|-------------------|-------------------------|-------------------|
|                                  |                   |      | <sup>1</sup> Cap'n rate | Fair Value \$'000 | <sup>1</sup> Cap'n rate | Fair Value \$'000 |
| Barron River Hotel               | Stratford QLD     | 2    | 6.75%                   | 4,100             | 6.75%                   | 8,400             |
| Beenleigh Tavern                 | Eagleby QLD       | 2    | 6.25%                   | 11,900            | 6.50%                   | 12,800            |
| Berserker Tavern                 | Rockhampton QLD   | 2    | 6.75%                   | 10,400            | 7.00%                   | 10,500            |
| Bonny View Tavern                | Bald Hills QLD    | 2    | 6.25%                   | 7,250             | 7.00%                   | 13,900            |
| Boomerang Motor Hotel            | West Mackay QLD   | 2    | 7.00%                   | 4,900             | 8.00%                   | 9,700             |
| Bribie Island Hotel              | Bellara QLD       | 3    | 6.50%                   | 17,700            | 6.50%                   | 18,200            |
| Brighton Hotel                   | Brighton QLD      | 2    | 6.00%                   | 14,400            | 6.75%                   | 12,900            |
| Brighton Metro Hotel             | Brighton SA       | 2    | 5.75%                   | 15,200            | 5.75%                   | 18,300            |
| Caboolture Sundowner Hotel Motel | Caboolture QLD    | 2    | 6.00%                   | 13,250            | 6.75%                   | 12,300            |
| Chancellors Tavern               | Sippy Downs QLD   | 2    | 6.00%                   | 15,000            | 6.00%                   | 15,500            |
| Cleveland Sands Hotel            | Cleveland QLD     | 2    | 5.75%                   | 33,200            | 6.00%                   | 31,200            |
| Cleveland Tavern                 | Cleveland QLD     | 2    | 6.00%                   | 17,250            | 6.25%                   | 17,100            |
| Club Hotel                       | Gladstone QLD     | 2,4  | 7.00%                   | 4,200             | n/a                     | 3,600             |
| Coomera Lodge Hotel              | Oxenford QLD      | 2    | 6.00%                   | 4,450             | 6.75%                   | 5,600             |
| Crown Hotel                      | Lutwyche QLD      | 2    | 6.00%                   | 41,000            | 6.50%                   | 37,900            |
| Diamonds Tavern                  | Kallangur QLD     | 2    | 6.00%                   | 11,650            | 7.00%                   | 9,800             |
| Dunwoodys Tavern                 | Cairns QLD        | 2    | 5.75%                   | 25,500            | 6.75%                   | 24,000            |
| Everton Park Hotel               | Everton Park QLD  | 2    | 5.75%                   | 30,000            | 6.25%                   | 27,300            |
| Ferry Road Tavern                | Southport QLD     | 2    | 5.75%                   | 33,000            | 6.00%                   | 32,100            |
| Fitzys Loganholme                | Loganholme QLD    | 2    | 5.75%                   | 26,000            | 6.25%                   | 25,200            |
| Fitzys Waterford                 | Waterford QLD     | 2    | 5.50%                   | 21,200            | 6.50%                   | 19,300            |
| Grafton Hotel                    | Edmonton QLD      | 2    | 6.50%                   | 4,400             | 7.00%                   | 5,700             |
| Grand Junction Hotel             | Pennington SA     | 2    | 6.00%                   | 11,300            | 6.25%                   | 11,300            |
| Hotel HQ                         | Underwood QLD     | 2    | 5.75%                   | 27,500            | 6.00%                   | 26,600            |
| Kings Beach Tavern               | Caloundra QLD     | 2    | 6.00%                   | 18,000            | 6.25%                   | 19,000            |
| Kooyong Motor Hotel              | North Mackay QLD  | 2,4  | 7.50%                   | 7,650             | n/a                     | 3,500             |
| Leichhardt Hotel                 | Rockhampton QLD   | 2    | 7.00%                   | 9,700             | 7.75%                   | 9,800             |
| Lord Stanley Hotel               | East Brisbane QLD | 3    | 6.00%                   | 12,700            | 6.00%                   | 12,700            |
| Magnums Tavern                   | Airlie Beach QLD  | 3    | 6.50%                   | 25,300            | 6.50%                   | 24,500            |
| Mi Hi Tavern                     | Brassal QLD       | 2    | 5.50%                   | 23,100            | 6.50%                   | 19,200            |
| New Inala Hotel                  | Inala QLD         | 2    | 6.00%                   | 14,000            | 6.25%                   | 13,500            |
| Palm Cove Tavern                 | Palm Cove QLD     | 2    | 6.50%                   | 7,500             | 6.75%                   | 8,500             |
| Royal Hotel                      | West End QLD      | 2,4  | 7.00%                   | 3,600             | n/a                     | 3,200             |
| Royal Mail Hotel                 | Tewantin QLD      | 3    | 6.50%                   | 20,700            | 6.50%                   | 20,700            |
| Quest Griffith                   | Griffith NSW      | 2    | 7.50%                   | 17,000            | 7.44%                   | 15,900            |

<sup>1</sup> Capitalisation rate at last independent valuation

<sup>2</sup> Independent valuation obtained as at 31 December 2019

<sup>3</sup> Independent valuation obtained as at 31 December 2018

<sup>4</sup> Valued on a components basis as at 30 June 2019

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 11 – Investment property (continued)**

| Property                    | Location          | Note | 31 December 2019        |                   | 30 June 2019            |                   |
|-----------------------------|-------------------|------|-------------------------|-------------------|-------------------------|-------------------|
|                             |                   |      | <sup>1</sup> Cap'n rate | Fair Value \$'000 | <sup>1</sup> Cap'n rate | Fair Value \$'000 |
| Q Sports Bar*               | Cairns QLD        | 2    | 6.00%                   | 10,100            | 6.50%                   | 9,700             |
| The Hotel Allen             | Northward QLD     | 2,4  | 7.00%                   | 11,000            | n/a                     | 6,300             |
| The Regatta                 | Toowong QLD       | 3    | 5.75%                   | 49,300            | 5.75%                   | 50,200            |
| The Wallaby Hotel           | Mudgeeraba QLD    | 2    | 6.00%                   | 12,250            | 6.25%                   | 13,400            |
| Tom's Tavern                | Aitkenvale QLD    | 2    | 6.50%                   | 23,000            | 6.75%                   | 21,000            |
| Trinity Beach Tavern        | Trinity Beach QLD | 3    | 6.50%                   | 18,700            | 6.50%                   | 18,800            |
| Waterloo Tavern             | Paralowie SA      | 3    | 6.50%                   | 20,700            | 6.50%                   | 20,700            |
| Woodpecker Tavern           | Burpengary QLD    | 2    | 6.00%                   | 5,200             | 6.50%                   | 8,700             |
| Total Investment Properties |                   |      | 6.10%                   | 714,250           | 6.42%                   | 708,500           |

<sup>1</sup> Capitalisation rate at last independent valuation

<sup>2</sup> Independent valuation obtained as at 31 December 2019

<sup>3</sup> Independent valuation obtained as at 31 December 2018

<sup>4</sup> Valued on a components basis as at 30 June 2019

**Note 12 – Trade and other payables**

|                  | 31 December 2019 | 30 June 2019 |
|------------------|------------------|--------------|
|                  | \$'000           | \$'000       |
| <i>Current</i>   |                  |              |
| Trade payables   | 1,159            | 26           |
| Accrued interest | 2,892            | 2,956        |
| Other payables   | 2,721            | 2,167        |
| Lease liability  | 94               | -            |
|                  | 6,866            | 5,149        |

**Note 13 – Employee benefit liabilities**

|                                | 31 December 2019 | 30 June 2019 |
|--------------------------------|------------------|--------------|
|                                | \$'000           | \$'000       |
| Short-term employee benefits   | 57               | 57           |
| Post-employment benefits       | 46               | 38           |
|                                | 103              | 95           |
| <i>Represented as follows:</i> |                  |              |
| Current liabilities            | 97               | 94           |
| Non-current liabilities        | 6                | 1            |
|                                | 103              | 95           |

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 14 – Loans and borrowings**

|  | 31 December<br>2019 | 30 June<br>2019 |
|--|---------------------|-----------------|
|  | \$'000              | \$'000          |
| <i>Non-current</i>                           |                     |                 |
| USPP Notes                                   | 228,854             | 228,768         |
| Bank loans                                   | 34,467              | 34,466          |
|  | <u>263,321</u>      | <u>263,234</u>  |
| <b>U.S. Private Placement (“USPP”) Notes</b> |                     |                 |
| USPP - drawn                                 | 230,000             | 230,000         |
| Borrowing costs capitalised                  | (1,553)             | (1,553)         |
| Amortisation of borrowing costs              | 407                 | 321             |
|  | <u>228,854</u>      | <u>228,768</u>  |

The USPP Note Purchase Agreement was executed on 8 August 2017 and funding occurred on 11 August 2017. 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**

|                                  | 31 December<br>2019 | 30 June<br>2019 |
|----------------------------------|---------------------|-----------------|
| <i>Common Terms Deed (“CTD”)</i> |                     |                 |
| CTD - drawn                      | 34,700              | 34,715          |
| Borrowing costs capitalised      | (803)               | (793)           |
| Amortisation of borrowing costs  | 357                 | 331             |
| Borrowing costs written off      | 213                 | 213             |
|                                  | <u>34,467</u>       | <u>34,466</u>   |
| <b>Total CTD Loans</b>           | <u>34,467</u>       | <u>34,466</u>   |

The CTD facility maturity was reduced on 24 December 2019 by 2 years maturing 1 July 2022.

The facility limit remains unchanged at \$78.1 million, however the commitment was reduced to \$73 million (30 June 2019: \$74 million) and the guarantee facility was increased to \$5.1 million (30 June 2019: \$4.1 million).

**Note 15 – Provisions**

|  | 31 December<br>2019 | 30 June<br>2019 |
|--|---------------------|-----------------|
|  | \$'000              | \$'000          |
| <i>Provision for distribution</i>      |                     |                 |
| Balance at the beginning of the period | 14,740              | 14,302          |
| Provisions made during the period      | 15,090              | 29,042          |
| Provisions used during the period      | (14,740)            | (28,604)        |
| Balance at the end of the period       | <u>15,090</u>       | <u>14,740</u>   |

**Distribution**

The provision for distribution related to distributions to be paid to stapled security holders on 4 March 2020. This distribution will be funded via drawdown on the existing Common Terms Deed loan facility.

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 16 – Contributed equity**

|   | No. of units | Issue Price \$ | \$'000  |
|---|--------------|----------------|---------|
| On issue at 30 June 2019 - fully paid     | 146,105,439  |                | 262,640 |
| Units issued under the DRP                | 610,514      | 3.4284         | 2,095   |
| On issue at 31 December 2019 - fully paid | 146,715,953  |                | 264,735 |
| On issue at 30 June 2018 - fully paid     | 146,105,439  |                | 262,640 |
| On issue at 31 December 2018 - 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 in person or by proxy at a meeting 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 19).

**Distribution reinvestment plan (DRP)**

The HPI Group has a Distribution Reinvestment Plan (DRP) whereby unitholders are free to choose the proportion of their distribution entitlements satisfied by the issue of new units rather than cash.

**Note 17 – Retained earnings**

|  | 31 December<br>2019<br>\$'000 | 30 June<br>2019<br>\$'000 |
|--|-------------------------------|---------------------------|
| Balance at the beginning of the period                 | 164,708                       | 144,512                   |
| Profit for the period                                  | 20,359                        | 49,238                    |
| Distribution to stapled security holders               | -                             | (14,302)                  |
| Provision for distribution to stapled security holders | (15,090)                      | (14,740)                  |
| Balance at the end of the period                       | 169,977                       | 164,708                   |

**Note 18 – Reserves**

|  | Treasury share<br>reserve<br>\$'000 | Share based<br>payment reserve<br>\$'000 | Total<br>\$'000 |
|--|-------------------------------------|--|-----------------|
| Balance at 1 July 2019                     | (490)                               | 49                                       | (441)           |
| Purchase of treasury shares                | (168)                               | -  | (168)           |
| Recognition of share-based payment expense | -                                   | 36                                       | 36              |
| Balance at 31 December 2019                | (658)                               | 85                                       | (573)           |
| Balance at 1 July 2018                     | (490)                               | 66                                       | (424)           |
| Recognition of share-based payment expense | -                                   | 10                                       | 10              |
| Reversal of share-based payment expense    | -                                   | (55)                                     | (55)            |
| Balance at 31 December 2018                | (490)                               | 21                                       | (469)           |

**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 31 December 2019, the HPI Group held 213,866 of the Company's securities (31 December 2018: 162,363).

**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 unvested 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**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 19 – Net assets per stapled security**

|  | 31 December<br>2019 | 30 June<br>2019 |
|--|---------------------|-----------------|
| Number of stapled securities on issue as at the end of the period          | 146,715,953         | 146,105,439     |
| Less: Treasury securities  | (213,866)           | (162,363)       |
| Adjusted number of stapled securities on issue as at the end of the period | 146,502,087         | 145,943,076     |
| Net assets at balance date   | \$434,138,947       | \$426,907,191   |
| Per stapled security on issue  | \$2.96              | \$2.93          |

**Note 20 – Earning per security**

|  | 31 December<br>2019      | 31 December<br>2018      |
|--|--------------------------|--------------------------|
| Profit for the period                        | \$20,359,000             | \$21,129,000             |
| <b>Weighted average number of securities</b> | <b>No. of securities</b> | <b>No. of securities</b> |
| On issue at the beginning of the period      | 146,105,439              | 146,105,439              |
| Add: Distribution reinvestment securities    | 388,207                  | -                        |
| Less: Treasury securities                    | (179,997)                | (162,363)                |
| Weighted average number of securities        | 146,313,649              | 145,943,076              |
| Basic earnings per security - cents          | 13.91                    | 14.48                    |
| Diluted earnings per security - cents        | 13.90                    | 14.46                    |

**Note 21 – Distributions**

|  | Total<br>distribution<br>\$'000 | No. of stapled<br>securities | Distribution per<br>stapled security<br>cents |
|--|---------------------------------|------------------------------|---|
| <b>Distributions to stapled security holders</b> |                                 |                              |   |
| <b>31 December 2019</b>                          |                                 |                              |   |
| 1 July 2019 to 31 December 2019                  | 15,090                          | 146,502,087                  | 10.3  |
| <b>31 December 2018</b>                          |                                 |                              |   |
| 1 July 2018 to 31 December 2018                  | 14,302                          | 145,943,076                  | 9.8   |

**Note 22 – Financial instruments**

**Accounting classifications and fair values**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. 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.

| 31 December 2019<br>\$'000                              | Carrying amount |  |                                   | Total     |
|---|-----------------|--|-----------------------------------|-----------|
|   | Note            | Financial assets<br>at amortised<br>cost | Other<br>financial<br>liabilities |           |
| <b>Financial assets not measured at fair value</b>      |                 |  |                                   |           |
| Trade and other receivables                             | 9               | 1,654                                    | -                                 | 1,654     |
| Cash and cash equivalents                               | 8               | 494                                      | -                                 | 494       |
|   |                 | 2,148                                    | -                                 | 2,148     |
| <b>Financial liabilities not measured at fair value</b> |                 |  |                                   |           |
| Loans and borrowings                                    | 14              | -  | (263,321)                         | (263,321) |
| Trade and other payables                                | 12              | -  | (6,866)                           | (6,866)   |
|   |                 | -  | (270,187)                         | (270,187) |

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**  
**Notes to the consolidated financial statements (continued)**

**Note 22 – Financial instruments (continued)**

| 30 June 2019<br>\$'000                                  | Note | Carrying amount                          |                                   | Total     |
|---|------|--|-----------------------------------|-----------|
|   |      | Financial assets<br>at amortised<br>cost | Other<br>financial<br>liabilities |           |
| <b>Financial assets not measured at fair value</b>      |      |  |                                   |           |
| Trade and other receivables                             | 9    | 369                                      | -                                 | 369       |
| Cash and cash equivalents                               | 8    | 586                                      | -                                 | 586       |
|   |      | 955                                      | -                                 | 955       |
| <b>Financial liabilities not measured at fair value</b> |      |  |                                   |           |
| Loans and borrowings                                    | 14   | -  | (262,234)                         | (262,234) |
| Trade and other payables                                | 12   | -  | (5,149)                           | (5,149)   |
|   |      | -  | (268,383)                         | (268,383) |

**Note 23 – Contingent assets**

The HPI Group is not aware of any contingent assets as at 31 December 2019 which may materially affect the operation of the business (30 June 2019: none).

**Note 24 – Contingent liabilities**

The HPI Group has issued a bank guarantee as security over the office premises for \$78,304 (30 June 2019: \$78,304).

The Trust has issued a bank guarantee of \$4 million to the Company in its capacity of Responsible Entity (30 June 2019: \$4 million).

The HPI Group is not aware of any contingent liabilities as at 31 December 2019 which may materially affect the operation of the business (30 June 2019: none).

**Note 25 – Commitments**

The HPI Group has committed to a \$30 million capital expenditure program across the portfolio over a two-year period commencing in early 2020 (see Note 27).

Other than the commitment noted above, the HPI Group is not aware of any other commitments as at 31 December 2019 which may materially affect the operation of the business (30 June 2019: none).

**Note 26 – Segment information**

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

Revenues from QVC represented approximately \$24.6 million (31 December 2018: \$21.7 million) of the HPI Group's total revenues.

**Note 27 – Subsequent events**

On 28 January 2020, the HPI Group announced it had entered into an agreement with Queensland Venue Company ("QVC") pursuant to which QVC had agreed to extend 28 leases with HPI Group that were due to expire in June or December 2021.

For 20 of the properties, QVC exercised options to extend its existing leases with HPI Group for a further 15 years. The rent and rent review mechanism remain unchanged for these properties.

For the remaining 8 properties, the base rent has been reset to \$3.0 million lower than the base rent payable under the current leases. For these properties QVC exercised options for a further 10 years. The rent review mechanism remains unchanged. The new rent will commence 1 July 2020.

The HPI Group has under this agreement also committed to a \$30 million capital expenditure program across the portfolio over a two-year period commencing in early 2020.

The terms of the agreement have been taken into consideration by the independent valuers and included in the final determination of valuations by Directors included in this December 2019 Half Year Report.

Other than the subsequent event described above, no other item, transaction or event has occurred subsequent to 31 December 2019 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.



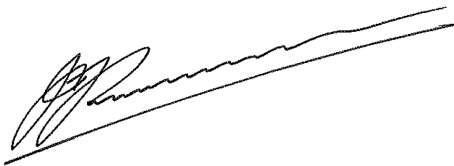
**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Directors' declaration**

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

1. the consolidated financial statements and notes, set out on pages 9 to 24, 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 31 December 2019 and of its performance for the six months ended on that date; and
  - b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
2. there are reasonable grounds to believe that the Hotel Property Investment Trust will be able to pay its debts as and when they become due and payable.

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



John Russell  
Director  
Melbourne  
Dated this 19<sup>th</sup> day of February 2020



# Independent Auditor's Review Report

To stapled security holders of Hotel Property Investments

## Report on the Half-year Financial Report

### Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Hotel Property Investments (the Stapled Group Half-year Financial Report).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Stapled Group Half-year Financial Report is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Stapled Group's** financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2019;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 27 comprising a summary of significant accounting policies and other explanatory information;
- The Directors' Declaration.

The **Stapled Group** comprises, Hotel Property Investments Trust (the Trust) and the entities it controlled at the half year's end or from time to time during the half-year and Hotel Property Investments Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

### Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Hotel Property Investments Limited, being the Responsible Entity of the Trust, are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.



## Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Stapled Group's financial position as at 31 December 2019 and its performance for the half-year period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hotel Property Investments, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Rachel Milum

*Partner*

Melbourne

19 February 2020

**Hotel Property Investments**  
**Half Year Report for the six months ended 31 December 2019**

**Corporate directory**

**Hotel Property Investments**

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Link Market Services  
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**Auditor**

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Melbourne VIC 3008 Australia

**Responsible Entity**

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Level 17, IBM Centre, 60 City Road  
Southbank VIC 3006 Australia

**Company Secretary**

Hotel Property Investments Limited  
Blair Strik