

**Hotel Property Investments (HPI)
Report for the Year Ended 30 June 2016**

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 2016

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Hotel Property Investments
Report for the year ended 30 June 2016
Directors' report

The Directors of Hotel Property Investments Limited (the "Responsible Entity") for the Hotel Property Investments Trust ("the Trust"), present the consolidated financial report of Hotel Property Investments Trust ("the Trust"), Hotel Property Investments Limited ("the Company") and their controlled entities (together "the HPI Group") for the year ended 30 June 2016.

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

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

During the year ended 30 June 2016 the Trust Company (RE Services) was the Responsible Entity for the Trust. Whilst the Trust Company (RE Services) was the Responsible Entity, the day to day management and administration of the HPI Group was contracted to a third party, Redcape Services Pty Ltd, for a fixed monthly fee.

The Trust Company (RE Services) is incorporated and domiciled in Australia. The registered office of the Trust Company (RE Services) is located at level 12, 123 Pitt Street, Sydney, NSW.

The following persons were Directors of the Trust Company (RE Services) as Responsible Entity during the year ended 30 June 2016:

Andrew Cannane	Appointed 31 March 2011
Christopher Green	Appointed 7 March 2014
Gillian Larkins	Appointed 7 March 2014, resigned 31 July 2015
Anna O'Sullivan	Appointed 7 March 2014 as an alternate Director for each of Andrew Cannane and Christopher Green, resigned as alternate Director 7 December 2015
Glenn Foster	Appointed 7 March 2014 as an alternate Director for Gillian Larkins, resigned as alternate Director 31 July 2015
	Appointed Director 31 July 2015
Michael Vainauskas	Appointed 2 March 2015
Rodney Garth Ellwood	Appointed 7 December 2015 as alternate Director, for each of Andrew Cannane and Christopher Green

Hotel Property Investments
Report for the year ended 30 June 2016
Directors' report (continued)

1 Directors and officers (continued)

The members of the Board of Directors of the Company in office during the year :

Name and position	Experience
<p>Michael Tilley <i>Independent non-executive Chairman</i></p>	<p><i>Appointed 19 November 2013.</i></p> <p>Michael Tilley was appointed non-executive Chairman of the Company in November 2013. He 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.</p> <p>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.</p> <p>He holds a Post Graduate Diploma in Business Administration from Swinburne University and is a Fellow of The Australian Institute of Company Directors.</p>
<p>Raymond Gunston <i>Independent non-executive Director</i></p>	<p><i>Appointed 19 November 2013.</i></p> <p>Raymond Gunston was appointed an Independent non-executive Director of the Company in November 2013. Ray 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.</p> <p>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.</p> <p>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 the General Manager-Finance, Corporate and Major Projects at the Australian Football League.</p> <p>Raymond has a Bachelor of Commerce (with 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, and is Chairman of the HPI Group's Audit and Risk Management Committee.</p>
<p>Lachlan Edwards <i>Independent non-executive Director</i></p>	<p><i>Appointed 19 November 2013.</i></p> <p>Lachlan Edwards is a Managing Director and Co-Head of the advisory businesses at Lazard in Australia. 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 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 at Goldman Sachs between 2006 - 2013 where he was Head of Restructuring Europe and more recently Head of Restructuring Asia-Pacific.</p> <p>Prior to joining Goldman Sachs Lachlan spent 15 years at Rothschild Australia and NM Rothschild & Sons in London in various risk management, project finance and restructuring roles latterly as Co-Head of Restructuring Europe and Co-Head of Corporate Debt Advisory, UK.</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. He is a Graduate Member of the Australian Institute of Company Directors.</p>

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Directors' report (continued)

1 Directors and officers (continued)

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

Name and position	Experience
John Russell <i>Non-executive Director</i>	<p><i>Appointed 23 May 2013.</i></p> <p>John Russell has an extensive background in the hospitality and gaming industries. He is currently Chief Executive Officer of Redcape Group Ltd and has enjoyed senior executive roles at Australian Leisure and Hospitality Group Limited (ALH) and Tabcorp Holdings Limited.</p> <p>John joined Redcape Group Ltd 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 has a broad range of senior management experience in large and small public and private companies.</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>
David Charles <i>Company Secretary</i>	<p><i>Resigned 1 August 2016</i></p> <p>David Charles has been Fund Manager for HPI since November 2013. David was Chief Financial Officer at Redcape Group Limited from April 2009 to November 2013. He is a Chartered Accountant with over 25 years' experience in the accounting and audit, financial services, retail and the property sectors. 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. David holds a Bachelor of Economics from Monash University and is a member of the Institute of Chartered Accountants in Australia and New Zealand.</p>
Jenny Romeo <i>Chief Financial Officer and Company Secretary</i>	<p><i>Appointed 16 December 2015</i></p> <p>Jenny Romeo was appointed Chief Financial Officer in September 2015, and is a Chartered Accountant with over 25 years' experience in the property and financial services sectors. Prior to joining HPI Jenny was CFO at International Parking Group for 6 years and CFO at Lifestyle Communities for 2 years. Jenny has responsibility for all financial and compliance matters of the group. Jenny holds a Bachelor of Economics from Monash University and is a member of the Institute of Chartered Accountants in Australia and New Zealand.</p>
Philip Thomas <i>Company Secretary</i>	<p><i>Resigned 16 December 2015</i></p> <p>Philip Thomas specialises in Management and Boardroom Governance, and the provision of Risk and Compliance services. Clients range from international and Australian Listed entities, large private companies, and Not for Profits in a variety of sectors and industries. He is currently a director of four companies and Chairman of a Not for Profit.</p>

Hotel Property Investments

Report for the year ended 30 June 2016

Directors' report (continued)

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

The HPI Group pursued the divestment of two non-strategic assets with lower long term investment returns. At 30 June 2016 a bottle shop was divested, while the other asset, a South Australian hotel, was under contract and held for sale.

During the year total assets increased by \$29.8 million, total liabilities decreased by \$1.7 million and net assets increased by \$31.5 million. Net assets per security increased from \$2.07 to \$2.28.

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

4. Distributions and dividends

For the year ended 30 June 2016 the HPI Group paid an interim distribution of 9.0 cents per stapled security and declared a final distribution of 9.3 cents per stapled security to be paid on 9 September 2016. The aggregate distribution of 18.3c represents a 12.3% increase over the aggregate 2015 distribution of 16.3c.

No provisions for or payments of Company dividends have been made during the year (2015: nil).

5. Matters subsequent to the end of the financial year

On 1 July 2016 the HPI Group internalised its management and HPI Limited replaced the Trust Company (RE Services) Limited as the Responsible Entity for the HPI Trust. At that time all the staff previously providing the third party services became employees of the HPI Group, and David Charles was appointed as Managing Director and Chief Executive Officer (MD & CEO).

6. Review and results of operations

Background

The HPI Group is an Australian Real Estate Investment Trust ("AREIT") whose principal activity is real estate investment in freehold pubs in Australia. The HPI Group was restructured and listed on the Australian Securities Exchange ("ASX") in December 2013.

Current year performance

The HPI Group recorded a total profit after tax for the year of \$60.1 million. Operating revenues and expenses included rental income from investment properties of \$43.7 million, property cost recoveries of \$4.1 million, property outgoing costs of \$6.9 million, management fees and other trust costs of \$4.1 million, and financing costs of \$10.3 million. Additionally, there was a fair value gain on investment property of \$32.6 million. Adjusting profit after tax for fair value adjustments, losses on hedging and other minor items, the distributable earnings of the HPI Group was \$26.8 million. Adjusting further for maintenance capex of \$0.5 million and one off costs of management internalisation of \$0.4 million, the Adjusted Funds from Operations (AFFO) was \$26.7 million, 100% of which will be distributed to security holders.

At 30 June 2016 Investment Properties have been valued by Directors. In accordance with the HPI Group policy, valuations have been determined by reference to the current net income, including allowance for contracted rental growth, for each property with valuation yields maintained constant at their previous independent valuation level. Independent valuations will be gained for one third of the portfolio at 31 December 2016 in accordance with the HPI Group's established valuation cycle. The current average valuation yield is 7.3%.

The total distribution for the year is 18.3 cents per security, comprised of an interim distribution of 9.0 cents and a final distribution of 9.3 cents per security.

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Report for the year ended 30 June 2016

Directors' report (continued)

6. Review and results of operations (continued)

Financial position

At 30 June 2016 the HPI Group's net assets were \$333.4 million representing net assets per security of \$2.28 (2015: \$2.07). Major assets and liabilities included cash on hand of \$2.3 million, investment property of \$588.3 million, assets held for sale of \$8.3 million, receivables and other current assets \$0.7 million and bank loans of \$246.6 million. Additionally, a provision was created for payment of distributions of \$13.6 million. During the year the value of our investment property increased by \$24.8 million resulting mainly from fair value gains of \$32.6 million and a transfer to assets held for sale of \$8.3 million, whilst loans have decreased by \$4.2 million. At reporting date the mark to market valuation of HPI Group's hedging instruments is a liability of \$4.0 million.

At 30 June 2016 the HPI Group's loan facilities of \$270 million (drawn to \$246.6 million) have a weighted average 2.5 years to expiry, and interest rate swaps are in place for an aggregate \$125 million until 10 December 2018. The HPI Group will continue to monitor its debt and interest rate position in order to deliver the best outcomes for security holders.

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 established in 2014. Interest rate risk and regulatory risk are considered the key risks for the HPI Group.

Further material risks include ongoing credit availability, tenant credit risk, valuation risk, property liquidity risk, succession planning, and the possible adverse impacts of high 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 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 annual rent increases averaging 3.9% across the portfolio and by prudent management of financing charges, management fees and 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 further accretive freehold hotel acquisitions. Effective 1 July 2016 the HPI Group internalised its management structure, was granted an AFSL, and pursuant to a deed of retirement and appointment a member of the Group became the Responsible Entity for the Hotel Property Investments Trust. These initiatives will enhance internal management and development opportunities.

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 investigated the divestment of two non-strategic assets with lower long term investment returns throughout the year. One being a bottle shop, has been divested and the other, a freehold hotel in South Australia, is under contract and held for sale at 30 June 16.

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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Report for the year ended 30 June 2016
Directors' report (continued)

6. Review and results of operations (continued)

Distributions

For the year ended 30 June 2016 the HPI Group will distribute 100% of its Adjusted Funds From Operations, 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.

	2016
	\$'000
Profit after income tax for the year	60,128
Plus/(Less): Adjustments for non-cash items	
Fair value (increments)/decrements to investment properties	(32,607)
Cash flow hedges	(997)
Loss/(gain) on sale of investment properties	(1)
Finance costs - non-cash	268
Income tax expense	15
Total adjustments for non-cash items	<u>(33,322)</u>
Distributable earnings	26,806
Add one-off Internalisation cost	427
Less maintenance capital expenditure	<u>(503)</u>
Adjusted funds from operations	<u>26,730</u>
Distribution paid or provided for ¹	26,737

¹ Difference to AFFO due to rounding

	2016
	Cents
Earnings and distribution per stapled security:	
Basic and diluted earnings	41.2
Earnings available for distribution per security	18.3
Interim distribution per security	9.0
Final distribution per security	<u>9.3</u>
Total distribution per security	<u>18.3</u>

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Directors' report (continued)

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
Michael Tilley	Orica Limited	Non-executive	November 2003	January 2014
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

Lachlan Edwards and John Russell are members of the BARC

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 1/07/2015	Net Movement	Number held at 30/06/2016
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	Non-executive Director	56,450	-	56,450

The Directors of the Responsible Entity (Trust Company) have no interests in the stapled securities of the HPI Group.

Meetings of Directors

The number of meetings of the Company's Board of Directors held and of each Board Committee held during the year ended 30 June 2016 and the number of meetings attended by each director at the time the director held office during the year were:

Name	Board		BARC	
	Held	Attended	Held	Attended
Michael Tilley	13	13	4	4
Raymond Gunston	13	13	4	4
Lachlan Edwards	13	13	4	4
John Russell	13	13	4	4

8. Remuneration Report

This report provides details on the HPI Group's remuneration structure, decisions and outcomes for the year ended 30 June 2016 for employees of HPI including the Directors and Key Management Personnel.

8.1 Key Management Personnel

This report explains the remuneration arrangements for the HPI Group's Key Management Personnel (KMP), who are the individuals responsible for planning, controlling and managing HPI. For the 2016 reporting year, these were the non-executive Directors of the Company and the Directors and company secretary of the Responsible Entity, plus the CFO, Ms Jenny Romeo, who commenced employment on 27 September 2015 and was the only HPI employee during the 2016 reporting year.

8.2 Remuneration Governance

The Board's Charter provides that the Board will determine the fees payable to non-executive Directors within the aggregate amount approved by securityholders. This aggregate amount has been increased by the passing of an ordinary resolution of securityholders to a maximum of \$900,000 per annum.

To date the full Board has taken responsibility for all aspects of executive remuneration. The Chief Financial Officer was appointed from 27 September 2015. The Board Charter makes provision for the establishment of a Remuneration Committee once the Company employs a management team.

8.3 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 the calibre of executives required to allow HPI to generate sustainable growth in value for securityholders, while being fair and reasonable for executives and securityholders in relation to the results actually achieved.

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 HPI's sustainable long-term performance.
- Be sufficiently closely linked to HPI's sustained growth performance to provide good alignment with the interests of securityholders
- Ensure that remuneration and remuneration outcomes are determined on a clear and transparent basis
- Take specific account of the circumstances applying at HPI.

A mix of fixed and performance-related remuneration is provided to achieve these objectives.

8.4 Executive remuneration strategy and structure

Fixed remuneration

Fixed remuneration represents the base level of reward for executives. Fixed pay 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 pay at a level that it believes is reasonable in relation to the market, with reference to the median of the market for equivalent positions in comparable listed entities (pay for the 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 and HPI's achieved performance reflecting, in particular, the value created for securityholders.

As a transitional arrangement, for the year ending 30 June 2016, the CFO's variable remuneration was provided through a cash STI plan with an annual \$50,000 opportunity, pro rated to reflect the portion of the year the CFO was actually employed. The performance hurdles to be achieved for any STI to be payable to the CFO, and the percentage weighting for each hurdle, are based on individual and corporate Key Performance Indicators, including achievement of budgeted distribution and achievement of Management Internalisation, and Responsible Entity transition.

The CFO's employment contract provides that from FY2017, the STI plan will be replaced with a long-term incentive plan.

Hotel Property Investments

Report for the year ended 30 June 2016

Directors' report (continued)

8.5 Remuneration of the Company's Directors

During the year the Board received approval from securityholders to increase the aggregate Directors remuneration cap from \$600,000 to \$900,000 per annum. During the year the Chairman of the Company received Directors fees of \$173,801 plus statutory superannuation contributions and each independent non-executive director received \$75,000 plus statutory superannuation contributions. In addition to these fees, the Chairman of the Company's BARC was entitled to payment of \$20,000 and BARC members \$10,000 for their service to the Committee.

John Russell, who had previously elected not to receive any Directors fees, commenced receiving fees on 1 January 2016.

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

8.6 Remuneration of the Responsible Entity's Directors and Company Secretaries

The Trust Company (RE Services) acted as Responsible Entity for the full year ended 30 June 2016. The Trust Company (RE Services) company secretary fees and directors' fees (if any) for acting as directors of the Trust Company (RE Services) will be paid by the Trust Company (RE Services) or its related bodies corporate and will not be paid out of the assets or income of the Trust.

Fees paid to the Responsible Entity and its associates are disclosed in Note 27 to the financial statements.

8.7 Consequences of performance on shareholder wealth

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

	2016	2015	2014 ²
Distributable profit (\$m)	26.7	23.8	11.7
Distributions paid or payable (\$m)	26.7	23.8	11.7
Distributions per stapled security (cents)	18.3	16.3	8.8
Current property values (\$m)	588.3	563.5	496.7
Net gearing ¹	40.8%	43.4%	44.1%

1. Total borrowings less cash as a percentage of total assets less cash.

2. 2014 results are part year only.

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Directors' report (continued)

8. Remuneration Report - Audited (continued)

8.8 Details of remuneration of the Company's key management personnel

Remuneration details 1 July 2015 to 30 June 2016

Amount of remuneration

	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)	173,801	-	-	173,801	16,511	-	-	-	190,312	-	-
Raymond Gunston	95,217	-	-	95,217	9,046	-	-	-	104,263	-	-
Lachlan Edwards	85,194	-	-	85,194	8,093	-	-	-	93,287	-	-
Non-executive Director											
John Russell	42,500	-	-	42,500	4,038	-	-	-	46,538	-	-
Chief Financial Officer											
Jenny Romeo	166,966	38,000	4,484	209,450	14,123	-	-	-	223,573	17%	-
	563,678	38,000	4,484	606,162	51,811	-	-	-	657,973	-	-

Remuneration details 1 July 2014 to 30 June 2015

Amount of remuneration

	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 %
	Directors Fees \$	STI cash bonus \$	Non-monetary benefits \$	Total \$	Superannuation benefits \$	\$	\$	Options and rights \$	\$		
Independent non-executive Director											
Michael Tilley (Chairman)	124,715	-	-	124,715	11,848	-	-	-	136,563	-	-
Raymond Gunston	94,783	-	-	94,783	9,004	-	-	-	103,787	-	-
Lachlan Edwards	84,806	-	-	84,806	8,057	-	-	-	92,863	-	-
Non-executive Director											
John Russell	-	-	-	-	-	-	-	-	-	-	-
	304,305	-	-	304,305	28,909	-	-	-	333,213	-	-

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Directors' report (continued)

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 Directors of the Company, Michael Tilley, Raymond Gunston, Lachlan Edwards and John Russell.

During the financial year, the HPI Group paid an insurance premium of \$108,062 (2015: \$86,187) in respect of the current Directors of the Company.

No insurance premiums were paid out of the HPI Group in regards to insurance cover for either the Trust Company (RE Services) as Responsible Entity or 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.

The Company's Board has considered the remaining non-audit services provided during the year by the auditor and in accordance with advice provided by resolution of the BARC, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* and has made the same recommendation to the RE Board.

Details of the amounts paid to the auditor of the HPI Group, KPMG, and its network firms for audit and non-audit services provided during the year are set out below.

	2016
	\$
Non-audit services	
AFSL review	7,500
Notice of Meeting review	8,340
Other non-audit services	16,800
Total non-audit services	32,640
Audit and review of financial statements	167,325
Total payable to KPMG	199,965

11. Likely developments

Based on the current portfolio, the HPI Group will continue to receive average 3.9% annual rental increases on the anniversary of the commencement of each lease, which is expected to contribute to ongoing distribution growth.

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

12. 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 15 and forms part of the Directors' report for the year ended 30 June 2016.

13. 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.

14. Rounding of amounts

The HPI Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" 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 Class Order, except where otherwise indicated.

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Directors' report (continued)

15. Units on issue

The movement in units on issue in the Trust during the year is disclosed in Note 18 to the financial statements.

Signed in accordance with a resolution of the directors of HPI Limited.



Michael Tilley

Director

Melbourne

Dated this 24th day of August 2016



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

To: the directors of Hotel Property Investments Limited as responsible entity for the Hotel Property Investments Trust

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 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

A handwritten signature in blue ink, appearing to read 'Dean Waters', written over a horizontal line.

Dean Waters
Partner

Melbourne

24 August 2016

Hotel Property Investments
Report for the year ended 30 June 2016
Consolidated statement of profit or loss and other comprehensive income

	2016	2015
	\$'000	\$'000
REVENUE		
Rent from investment properties	43,657	40,726
Revenue from investment properties - straight-line lease adjustment	92	155
Revenue from outgoings recovered	4,123	4,149
Total revenue	47,872	45,030
Other income		
Fair value adjustment to investment properties	12	32,607
Impact of straight-line lease adjustment on fair value of investment properties	(92)	(155)
Interest from cash deposits	42	123
Amortisation of Derivatives	16	997
Sundry income	1	12
Total other income	33,555	17,989
Total income from operating activities	81,427	63,019
OPERATING EXPENSES		
Investment property outgoings and expenses	6,861	6,880
Loss/(gain) on sale of investment properties	(1)	61
Other expenses	7	4,100
	10,960	10,186
Profit from operating activities	70,467	52,833
Non operating income / (expenses)		
Change in fair value of derivative financial instruments	16	-
Realised loss on derivative financial instruments	-	(3,046)
Finance costs	8	(10,324)
Total non operating income / (expenses)	(10,324)	(17,361)
Profit before tax	60,143	35,472
Tax (expense) / benefit	13	(15)
Profit for the year	60,128	35,435
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedges - effective portion of changes in fair value	(1,937)	-
Total comprehensive income	58,191	35,435
Profit for the year attributable to:		
Unitholders of the Trust	60,094	35,350
Shareholders of the Company	34	85
	60,128	35,435
Basic and diluted earnings per security (cents)	41.15	24.94

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 2016
Consolidated statement of financial position

		2016	2015
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	2,269	4,562
Trade and other receivables	10	469	410
Other current assets		248	694
Assets held for sale	11	8,290	700
Total current assets		11,276	6,366
Non-current assets			
Investment property	12	588,310	563,490
Other non-current assets		193	195
Deferred tax assets	13	68	16
Total non-current assets		588,571	563,701
TOTAL ASSETS		599,847	570,067
LIABILITIES			
Current liabilities			
Trade and other payables	14	2,698	2,357
Provisions	17	13,787	12,505
Total current liabilities		16,485	14,862
Non-current liabilities			
Loans and borrowings	15	245,965	250,201
Derivative financial instruments	16	3,985	3,046
Total non-current liabilities		249,950	253,247
TOTAL LIABILITIES		266,435	268,109
NET ASSETS		333,412	301,958
EQUITY			
Contributed equity	18	262,640	262,640
Retained earnings / (accumulated losses)	19	72,709	39,318
Reserves	20	(1,937)	-
TOTAL EQUITY		333,412	301,958

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 2016
Consolidated statement of changes in equity

	Note	Contributed Equity \$'000	Accumulated Profit \$'000	Reserves \$'000	Total Equity \$'000
Balance at 1 July 2015		262,640	39,318	-	301,958
Total comprehensive income for the year					
Profit for the year		-	60,128	-	60,128
Total other comprehensive income		-	-	-	-
Hedging reserve movement	20	-	-	(1,937)	(1,937)
Total comprehensive income for the year		-	60,128	(1,937)	58,191
Transactions with owners in their capacity as owners recognised directly in equity					
Distribution to stapled security holders	23	-	(13,149)	-	(13,149)
Provision for distribution to stapled security holders	23	-	(13,588)	-	(13,588)
Balance at 30 June 2016		262,640	72,709	(1,937)	333,412
Balance at 1 July 2014		413,222	(152,266)	-	260,956
Total comprehensive income for the year					
Profit for the year		-	35,435	-	35,435
Total other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	35,435	-	35,435
Transactions with owners in their capacity as owners recognised directly in equity					
Issue of units for cash	18	29,382	-	-	29,382
Distribution to stapled security holders	23	-	(11,542)	-	(11,542)
Provision for distribution to stapled security holders	23	-	(12,273)	-	(12,273)
Transfer of accumulated losses to contributed equity	18, 19	(179,964)	179,964	-	-
Balance at 30 June 2015		262,640	39,318	-	301,958
Total recognised income and expense for the year is attributable to:					
- Trust					60,094
- Company					34
HPI Group					60,128

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 2016
Consolidated statement of cash flows

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Rent and outgoings from investment properties (GST inclusive)		52,501	49,481
Payments to suppliers		(15,075)	(14,829)
Interest received		42	123
Interest paid		(10,058)	(10,182)
Net cash from operating activities	29	<u>27,410</u>	<u>24,593</u>
Cash flows from investing activities			
Proceeds from disposal of investment properties		722	9,880
Payment for investment properties		-	(58,440)
Payment for additions to investment property		(503)	(881)
Net cash from investing activities		<u>219</u>	<u>(49,441)</u>
Cash flows from financing activities			
Proceeds from borrowings		21,500	84,000
Repayments of borrowings		(26,000)	(57,000)
Proceeds from the issue of securities (net of costs)		-	29,382
Payment for swap termination	16	-	(7,072)
Payment for distributions		(25,422)	(23,235)
Net cash from financing activities		<u>(29,922)</u>	<u>26,075</u>
Net increase/(decrease) in cash held		<u>(2,293)</u>	<u>1,227</u>
Cash and cash equivalents at the beginning of the period		4,562	3,335
Cash and cash equivalents at the end of the period	9	<u>2,269</u>	<u>4,562</u>

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 2016

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Hotel Property Investments

Report for the year ended 30 June 2016

Notes to the consolidated financial statements

Note 1 Reporting entity

The consolidated financial report of Hotel Property Investments as at and for the twelve months ended 30 June 2016 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 the Trust Company (RE Services) for the year end 30 June 2016.

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 financial statements also comply with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following:

- derivative financial instruments are measured at fair value
- investment property, including investment property held for sale at reporting date, is measured at fair value

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 2016 was approved by the directors of the Responsible Entity on 24 August 2016.

(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 Directors' Reports) Instrument 2016/191 and in accordance with the 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 year ended 30 June 2016 are described in the following notes:

- Note 4a and Note 12 - investment property
- Note 4c and Note 28 - financial instruments

(e) Working capital

As at 30 June 2016, the HPI Group had an excess of current liabilities over current assets of \$5.2 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.

On this basis, the directors have concluded that the deficiency of the net current assets does not impact the underlying going concern assumption applied in preparing these financial statements.

Hotel Property Investments

Report for the year ended 30 June 2016

Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies

(a) Basis of consolidation

(i) 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.

(ii) 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.

(iii) 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 period relating to fixed increases in operating lease rentals in future periods. This receivable is considered to be a component part of the relevant property investment carrying value.

Interest 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 income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss.

Finance costs comprise interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss.

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 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 subsidiary 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%.

(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 2016
Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies (continued)

(f) 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 period 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 yields have deteriorated, the directors will apply the average yield expansion to the yields of the remaining investment properties in determining the directors' valuations. Where external valuation yields have improved, the directors will maintain the existing external yield 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.

(g) 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 period. Any subsequent gains or losses on remeasurement are recognised in profit or loss.

(h) Financial instruments

(i) Non-derivative financial assets

The HPI Group initially recognises loans and 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.

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.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date 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.

(ii) 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 has the following non-derivative financial liabilities: 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.

Hotel Property Investments

Report for the year ended 30 June 2016

Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies (continued)

(h) Financial instruments (continued)

(iii) 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 holds 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 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.

(iv) 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.

(i) 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.

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.

(j) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning 1 July 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the HPI Group except for AASB 9 *Financial Instruments* (effective date of 1 July 2017), AASB 15 *Revenue from contracts with customers* (effective date of 1 January 2017) and AASB 16 *Leases* (effective date of 1 January 2019). The HPI Group does not plan to adopt any of these standards early and the extent of the impact has not been determined.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

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 12.

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 valuation yield.

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 valuation yield. Selection of an appropriate valuation yield is based on multiple criteria including risk associated with achieving the net rent cash flows into the future, and observed market based valuation yields 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 and the remaining economic life of the property. Properties held for sale are valued at the fair value as at the previous reporting period.

(b) Trade receivables

The fair value of trade receivables is 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.

(c) Derivatives

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.

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 Responsible Entity and the Company have overall responsibility for the establishment and oversight of the risk management framework.

The Company has established and does maintain 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.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 5 Financial risk management (continued)

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 92% 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 tenants or if a lease comes to an end the liquor and gaming licences 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 has entered into derivative contracts with its bankers to hedge its interest rate risk. Each counterparty has an investment grade credit rating.

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.

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 the banking syndicate charges interest on a variable rate basis. This risk is mitigated by the interest rate hedging the HPI Group has in place as described in note 3 (h) (iii). Interest rate risk also exists for interest earned on cash/bank holdings.

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 Syndicated Facility Agreement as Amended ("SFA"), entered into on 9 December 2013 with its banks, contains financial covenants which include a Loan to Value Ratio ("LVR") covenant. The HPI Group reviews the risk of breach of this covenant by regularly monitoring and reporting on it.

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 yields on the property portfolio.

As noted previously the HPI Group entered into the SFA with its banks on 9 December 2013. The HPI Group considers its borrowings as part of its capital management strategy. The SFA contains financial covenants within which the HPI Group must always operate, and includes a LVR covenant and an Interest Cover Ratio (ICR) covenant. The Manager manages 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 2016.

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 a prudent and appropriate range given the nature of the business. However, gearing may be higher if the HPI Boards 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 under the SFA, which requires the HPI Group to have an initial LVR of less than or equal to 65% reducing to 60% over the term of the SFA.

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

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

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 size relative 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	2016 \$'000	2015 \$'000
Note 7 Other expenses			
Advisory and legal fees		853	473
Management fees		1,495	1,647
Auditor's remuneration		200	158
Directors' fees		434	333
All other expenses		1,118	634
		4,100	3,245

	Note	2016 \$	2015 \$
Auditor's remuneration			
KPMG Australia			
- Audit and review of the financial reports		167,325	153,750
- Other assurance services		32,640	4,000
		199,965	157,750

	Note	2016 \$'000	2015 \$'000
Note 8 Finance costs			
Syndicated Facility Agreement ("SFA")			
- interest expense	(i)	8,872	10,116
- interest rate swaps		1,116	-
- amortised borrowing costs and write off of deferred borrowing costs	(ii)	268	222
- other finance costs		68	67
		10,324	10,405
Cash flow hedges - ineffective portion of changes in fair value		-	-
		10,324	10,405

(i) Represents interest expense under the SFA which commenced on 9 December 2013. The SFA interest rate is the average monthly BBSY (Bank Bill Swap Bid Rate) at the commencement of each funding period plus a margin.

(ii) Represents amortisation of the borrowing costs relating to the SFA which were capitalised on 9 December 2013 and which are being amortised over the term of the SFA.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	Note	2016 \$'000	2015 \$'000
Note 9 Cash and cash equivalents			
Cash at bank and on hand		2,269	4,562
		<u>2,269</u>	<u>4,562</u>

Note 10 Trade and other receivables			
Trade receivables		424	400
Less: Allowance for impairment		-	-
Net trade receivables		<u>424</u>	<u>400</u>
Other receivables		45	10
		<u>469</u>	<u>410</u>

Note 11 Assets held for sale			
Investment properties held for sale		8,290	700
		<u>8,290</u>	<u>700</u>

Movements

Carrying amount at the beginning of the year		700	-
Disposals		(700)	-
Transfer from investment property	12	8,290	700
Carrying amount at the end of the year		<u>8,290</u>	<u>700</u>

Liquorland English Street bottleshop was previously classified as held for sale and was sold during the year. Payneham Tavern has been classified as held for sale.

Note 12 Investment property			
Investment property		596,600	564,190
Investment properties held for sale	11	(8,290)	(700)
		<u>588,310</u>	<u>563,490</u>

Movements

Carrying amount at the beginning of the year		563,490	496,740
Transfer to assets held for sale	11	(8,290)	(700)
Capital additions on investment properties		503	881
Acquisitions		-	58,440
Disposals		-	(9,880)
Fair value adjustments		32,607	18,009
Carrying amount at the end of the year		<u>588,310</u>	<u>563,490</u>

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 12 Investment property (continued)

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 which is owned by CH Properties Services Pty Ltd as appointed sub-custodian of CH Trust. Investment properties are comprised of land, buildings, fixed improvements and liquor and gaming licences. Plant and equipment is 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 lease incentive costs to date.

Remaining lease terms for all properties are on average 6.82 years, excluding options for lease extensions upon completion of the lease term. Rents increase at an average of 3.9% 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 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 valuation yield. Selection of an appropriate valuation yield is based on multiple criteria, including risk associated with achieving the net rent cash flows into the future, and observed market based valuation yields 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 and the remaining economic life of the property. Properties held for sale are valued at the fair value as at the previous reporting period.

Fair value adjustments at 30 June 2016

The HPI Group policy is to independently value at least one third of all properties each financial year. The remainder of properties are valued by directors of the Company. Where independent valuation yields have deteriorated, the directors will apply the average valuation yield expansion to the valuation yields of the remaining investment properties in determining directors' valuations. Where independent valuation yields have improved directors will maintain the existing external valuation yield and use the present net rent value in determining 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.

	June 2016 Yields	June 2015 Yields
Hotel investment property yield range	6.75% - 8.75%	6.75% - 8.37%

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 12 Investment property (continued)

Fair value hierarchy

The fair value measurement for investment property of \$588.3 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Level 3 fair value

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

	2016	2015
	\$'000	\$'000
Reconciliation of fair value gains/losses		
Fair value as at beginning of the year	563,490	496,740
Transfer to assets held for sale	(8,290)	(700)
Capital additions on investment properties	503	881
Acquisitions	-	58,440
Disposals	-	(9,880)
Carrying amount before revaluations	555,703	545,481
Fair value as at end of the year	588,310	563,490
Fair value gain/(loss) for year	32,607	18,009

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
Capitalisation of rent allowing for the following adjustments:		The estimated fair value would increase (decrease) if:
- Additional land	Net rent	Net rent was higher (lower)
- Capital allowance	Capitalisation rates	Capitalisation rates were (lower) higher
	Additional land	Additional land was higher (lower) in value
	Capital allowance	Capital allowance was (smaller) larger

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 12 Investment property (continued)

Property	Location	Date acquired	Capitalisation rate 30 June 2016	Fair Value at 30 June 2016 \$'000	Fair Value at 30 June 2015 \$'000
Pubs and On-site Specialty Leases Owned as at 30 June 2016					
Barron River Hotel	Stratford QLD	Feb-01	8.00%	6,290	6,040
Beenleigh Tavern	Eagleby QLD	Oct-14	7.90%	10,300	10,030
Berserker Tavern	Rockhampton QLD	May-04	7.25%	8,960	8,320
Bonny View Tavern	Bald Hills QLD	Dec-06	7.50%	11,640	11,180
Boomerang Motor Hotel	West Mackay QLD	Sep-01	8.00%	8,580	8,240
Bribie Island Hotel	Bellara QLD	Aug-07	7.00%	15,140	13,890
Brighton Hotel	Brighton QLD	Jul-05	6.75%	11,460	10,230
Brighton Metro Hotel	Brighton SA	Jul-07	6.75%	13,940	13,400
Caboolture Sundowner Hotel Motel	Caboolture QLD	Sep-03	6.90%	10,720	9,590
Chancellors Tavern	Sippy Downs QLD	Aug-07	7.00%	11,960	11,510
Cleveland Sands Hotel	Cleveland QLD	Dec-06	7.10%	23,540	22,580
Cleveland Tavern	Cleveland QLD	Sep-03	7.20%	13,140	12,610
Club Hotel	Gladstone QLD	Jan-05	7.75%	6,450	5,950
Coomera Lodge Hotel	Oxenford QLD	Dec-06	7.00%	4,550	4,420
Crown Hotel	Lutwyche QLD	Nov-05	7.07%	32,520	29,100
Diamonds Tavern	Kallangur QLD	Mar-06	7.45%	8,590	8,340
Dunwoodys Tavern	Cairns QLD	Jan-97	7.25%	19,960	18,560
Everton Park Hotel	Everton Park QLD	Dec-06	6.75%	22,650	20,230
Ferry Rd Tavern	Southport QLD	Jul-06	7.30%	26,150	25,560
Fitzys Loganholme	Loganholme QLD	Jun-06	7.00%	20,060	19,190
Fitzys Waterford	Waterford QLD	Jun-06	7.50%	15,050	14,490
Grafton Hotel	Edmonton QLD	Jun-94	7.90%	6,470	6,210
Grand Junction Hotel	Pennington SA	Jul-07	7.00%	9,000	8,660
Hotel HQ	Underwood QLD	Sep-14	7.20%	19,890	18,900
Hotel Wickham	Fortitude Valley QLD	Jun-06	6.80%	10,740	9,600
Kings Beach Tavern	Caloundra QLD	Aug-07	7.00%	15,120	14,510
Kooyong Motor Hotel	North Mackay QLD	Mar-02	8.30%	6,990	6,750
Leichhardt Hotel	Rockhampton QLD	Nov-04	8.20%	8,050	7,720
Lord Stanley Hotel	East Brisbane QLD	Aug-07	7.10%	9,240	8,850

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 12 Investment property (continued)

Property	Location	Date acquired	Capitalisation rate 30 June 2016	Fair Value at 30 June 2016 \$'000	Fair Value at 30 June 2015 \$'000
Magnums Tavern	Airlie Beach QLD	Jan-15	7.75%	18,660	18,000
Mi Hi Tavern	Brassal QLD	Dec-06	7.50%	14,880	14,280
New Inala Hotel	Inala QLD	Jun-05	7.00%	10,730	9,610
Palm Cove Tavern	Palm Cove QLD	Apr-04	7.25%	7,000	6,140
Payneham Tavern **	Royston Park SA	Jul-07	7.00%	8,290	8,290
Royal Hotel Townsville	West End QLD	Sep-98	7.75%	5,600	5,380
Royal Mail Hotel	Tewantin QLD	Aug-07	7.25%	16,660	15,470
Q Sports Bar*	Cairns QLD	Jun-05	7.25%	7,810	7,250
The Hotel Allen	Northward QLD	May-00	8.75%	16,000	16,000
The Regatta	Toowong QLD	Nov-06	7.00%	35,040	33,970
The Wallaby Hotel	Mudgeeraba QLD	Jan-15	7.85%	10,100	9,800
Tom's Tavern	Aitkenvale QLD	Dec-03	7.50%	19,180	17,560
Trinity Beach Tavern	Trinity Beach QLD	Jun-05	7.25%	15,120	13,620
Waterloo Tavern	Paralowie SA	Jul-07	7.00%	17,230	16,570
Woodpecker Tavern	Burpengary QLD	Sep-03	7.50%	7,150	6,890
Total Pubs and On-site Speciality Leases			7.28%	596,600	563,490

* Q Sports Bar was previously known as "Sole on Sheridan"

** Payneham Tavern held for sale at the 30 June 2016

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	2016 \$'000	2015 \$'000
Note 13 Taxes		
Tax expense		
(a) Tax expense recognised in profit or loss		
Current tax expense/(benefit)	66	19
Deferred tax expense/(benefit)	(52)	18
	15	37
Tax expense/(benefit) attributable to profit from continuing operations	15	37
(b) Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit / (loss) before tax	60,143	35,472
Income tax expense calculated at 30%	18,043	10,642
Trust income not subject to tax	(18,028)	(10,605)
Tax expense / (benefit) on profit / (loss) before tax	15	37

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Accrued expenses	67	16	-	-	67	16
Employee liabilities	1	-	-	-	1	-
	68	16	-	-	68	16

(d) Movements in deferred tax balances during the year

	2016 \$'000	2015 \$'000
Balance at the beginning of the year	16	34
Recognised in profit and loss	52	(18)
Balance at the end of the year	68	16

	2016 \$'000	2015 \$'000
Note 14 Trade and other payables		
<i>Current</i>		
Trade payables	106	255
Due to related parties	288	-
Other payables	2,304	2,102
	2,698	2,357

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	2016	2015
	\$'000	\$'000
Note 15 Loans and borrowings		
<i>Non-current</i>		
Bank loans	245,965	250,201
	<u>245,965</u>	<u>250,201</u>
SFA		
Syndicated Facility Agreement ("SFA") - drawn down	246,623	251,123
Borrowing costs capitalised	(926)	(1,144)
Amortisation of borrowing costs	268	222
	<u>245,966</u>	<u>250,201</u>

Repayment schedule

Loans under the Syndicated Facility Agreement are due to mature in 2018.

At 30 June 2016 the HPI Group's loan facilities totalled \$270 million and were drawn to \$246.6 million.

Note 16 Derivative financial instruments

Derivative financial instruments - non current liability	3,985	3,046
	<u>3,985</u>	<u>3,046</u>
Derivative financial instruments at the beginning of the year	(3,046)	(3,162)
Fair value loss for the year:		
- Cancelled derivatives	-	(3,910)
- Open derivatives	(939)	(3,046)
Realised loss on cancelled derivatives	-	7,072
Fair value of derivative financial instruments at end of the year	<u>(3,985)</u>	<u>(3,046)</u>

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	2016	2015
	\$'000	\$'000
Note 17 Provisions		
<i>Current</i>		
Provision for distribution	13,588	12,273
Provision for capital works	199	232
	13,787	12,505
	Distribution	Capital works
Balance at the beginning of the year	12,273	232
Provisions made during the year	26,737	-
Provisions used during the year	(25,422)	(33)
Balance at the end of the year	13,588	199

Distribution

The provision for distribution relates to distributions to be paid to stapled security holders on 9 September 2016. This distribution will be funded via drawdown on the existing loan facility.

Capital works

The provision for capital works relates to preliminary expenditure incurred on capital development works on projects that may not proceed further and other capital works that may need to be undertaken.

	Note	No. of units	\$'000
Note 18 Contributed equity			
2016			
On issue at 1 July 2015 - fully paid		146,105,439	262,640
On issue at 30 June 2016 - fully paid		146,105,439	262,640
2015			
On issue at 1 July 2014 - fully paid		132,870,000	413,222
Issue of units for cash *		13,235,439	29,382
Transfer from accumulated losses		-	(179,964)
On issue at 30 June 2015 - fully paid		146,105,439	262,640

* The HPI Group issued stapled securities during the 2015 year by way of an institutional placement of \$25 million and a retail security purchase plan of \$5 million, less costs. All funds raised were applied to the units in the Trust.

Holders of these shares are entitled to dividends if declared and are entitled to one vote per share at general meetings of the Company.

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.

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.

	Note	2016	2015
		\$'000	\$'000
Note 19 Retained earnings / (accumulated losses)			
Balance at the beginning of the year		39,318	(152,266)
Profit for the year		60,128	35,435
Interim Distribution to stapled security holders		(13,149)	(11,542)
Provision for distribution to stapled security holders		(13,588)	(12,273)
Transfer to contributed equity *	18	-	179,964
Balance at the end of the year		72,709	39,318

* Accumulated losses incurred prior to the public float were transferred to contributed equity.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	2016	2015
	\$'000	\$'000
Note 20 Reserves		
Hedging reserve	1,937	-
<i>Movements</i>		
Opening balance at the beginning of the year	-	-
Transfer to hedging reserve	1,937	-
Closing balance at the end of the year	1,937	-

The hedging reserve comprises 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 or loss as the hedged cash flows or items affect profit or loss.

Note 21 Net assets per stapled security		
Number of stapled securities on issue as at the end of the year	146,105,439	146,105,439
Net assets at balance date	\$333,412,102	\$301,958,130
Per stapled security on issue	\$2.28	\$2.07

Note 22 Earnings per security		
Profit for the year	\$60,127,761	\$35,435,157

	No of securities	No of securities
Weighted average number of securities		
On issue at the beginning of the year	146,105,439	132,870,000
Effect of securities issued	-	9,192,177
	146,105,439	142,062,177

Basic and diluted earnings per security - cents

	41.15	24.94
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Basic and diluted earnings per security on issue are higher than the comparative period primarily because of the higher profit for the period ended June 2016.

Note 23 Distributions

	Total distribution \$'000	No of stapled securities	Distributions per stapled security cents
Distributions to stapled security holders			
2016			
1 July 2015 to 31 December 2015	13,149	146,105,439	9.00
1 January 2016 to 30 June 2016	13,588	146,105,439	9.30
Total distribution for the year	26,737		18.30
2015			
1 July 2014 to 31 December 2014	11,542	146,105,439	7.90
1 January 2015 to 30 June 2015	12,273	146,105,439	8.40
Total distribution for the year	23,815		16.30

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	2016	2015
	\$'000	\$'000
Note 24 Operating leases		
<i>Leases as lessor</i>		
The HPI Group leases out its investment properties under operating leases (see note 12). The future minimum lease receipts under non-cancellable leases are as follows:		
Less than one year	44,741	43,120
Between one and five years	197,033	183,750
More than five years	115,491	157,714
	357,265	384,584

Note 25 Group entities

Subsidiaries	Country of incorporation	Ownership interest
The C.H. Trust	Australia	100%
Hotel Property Investments Limited	Australia	*
C.H. Properties Pty Ltd	Australia	*

* Hotel Property Investments Limited is not a subsidiary of the Trust, Hotel Property Investments Limited is stapled to the Trust and C.H. Properties Pty Ltd is a 100% subsidiary of Hotel Property Investments Ltd.

	2016	2015
	\$'000	\$'000

Note 26 Parent entity

As at, and throughout the financial year ended 30 June 2016 the parent entity of the HPI Group was the Trust.

Result of the parent entity

Profit / (loss) for the period	60,094	35,350
Other comprehensive income	(1,937)	-
Total comprehensive income	58,157	35,350

Financial position of the parent entity at period end

Current assets	18,081	13,482
Total assets	576,067	550,067
Current liabilities	16,070	14,780
Total liabilities	266,020	268,026
Net assets	310,047	282,041

Total equity of the parent entity comprising of:

Contributed equity	262,642	262,640
Retained earnings	49,342	19,401
Reserves	(1,937)	-
Total equity	310,047	282,041

The parent's contingent assets, contingent liabilities and commitments are the same as those of the HPI Group as disclosed in Notes 30, 31 and 32.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 27 Related parties

(a) Key management personnel

The key management personnel of the HPI Group during the year were the non-executive directors of the Company, the directors and company secretary of The Trust Co (RE Services) Ltd which was the Responsible Entity during the year, and the Chief Financial Officer who commenced during the year.

During the year the Company otherwise subcontracted substantially all of its day to day management and administration to a third party services provider.

(b) Key management personnel compensation

Key management personnel compensation during the year comprised the following:

	2016	2015
	\$	\$
Short-term employee benefits	606,162	304,304
Post-employment benefits	51,811	28,909
	<u>657,973</u>	<u>333,213</u>

Post-employment benefits relate to defined contribution superannuation benefits.

(c) Other related party transactions

	Transaction values for the year ended 30 June		Balance outstanding as at 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Responsible entity fee	225,983	222,204	37,926	37,296
Services Manager fee	1,495,027	1,647,173	-	-

Responsible Entity fee

The Trust Company (RE Services) as the Responsible Entity is entitled to receive a fee each financial year while it is the responsible entity of the Trust. The fees will be paid from the income or assets of the Trust monthly in arrears.

The base fee is equal to:

- a. where the value of the Portfolio on the last Business Day of a financial year is less than or equal to \$500 million, \$220,000 per annum (as adjusted annually for CPI); or
- b. where the value of the portfolio on the last business day of a financial year is more than \$500 million, \$220,000 per annum (as adjusted annually for CPI) plus 0.03% per annum of the value of the Portfolio in excess of \$500 million.

Entities related to the Responsible Entity within the Perpetual Group held 355,817 of stapled securities.

Services Manager fee

John Russell is a non-executive director of the Company during the year and is also a director of the Services Manager.

The Services Manager is entitled to receive a fixed monthly fee for providing the primary administrative, operational and management services while the Administrative Services Agreement is operating for the year ended 30 June 2016. The Company has given notice of termination to the Services Manager which is effective 1 July 2016.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 28 Financial Instruments

(a) 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.

30 June 2016

\$'000

	Carrying amount					Fair value			
	Note	Fair value	Loans and	Other	Total	Level 1	Level 2	Level 3	Total
		hedging							
Financial assets not measured at fair value									
Trade and other receivables	10	-	469	-	469				
Cash and cash equivalents	9	-	2,269	-	2,269				
		-	2,738	-	2,738				
Financial liabilities measured at fair value									
Interest rate derivatives	16	(3,985)	-	-	(3,985)	-	(3,985)	-	(3,985)
		(3,985)	-	-	(3,985)				
Financial liabilities not measured at fair value									
Secured bank loans	15	-	-	(245,965)	(245,965)				
Trade and other payables	14	-	-	(2,698)	(2,698)				
		-	-	(248,663)	(248,663)				

30 June 2015

\$'000

	Carrying amount					Fair value			
	Note	Fair value	Loans and	Other	Total	Level 1	Level 2	Level 3	Total
		hedging							
Financial assets not measured at fair value									
Trade and other receivables	10	-	410	-	410				
Cash and cash equivalents	9	-	4,562	-	4,562				
		-	4,972	-	4,972				
Financial liabilities measured at fair value									
Interest rate derivatives	16	(3,046)	-	-	(3,046)	-	(3,046)	-	(3,046)
		(3,046)	-	-	(3,046)				
Financial liabilities not measured at fair value									
Secured bank loans	15	-	-	(250,201)	(250,201)				
Trade and other payables	14	-	-	(2,357)	(2,357)				
		-	-	(252,558)	(252,558)				

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

	2016	2015
	\$'000	\$'000
Note 28 Financial instruments (continued)		
(b) Credit risk		
<i>Exposure to credit risk</i>		
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:		
Cash and cash equivalents	2,269	4,562
Trade receivables	424	400
	2,693	4,962

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

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	Impairment	Gross	Impairment
		2016	2016	2015	2015
		\$'000	\$'000	\$'000	\$'000
Main tenant - rental receivables	Not past due	240	-	120	-
	Past due 0- 30 days	42	-	30	-
	Past due 31-120 days	54	-	237	-
		336	-	387	-
Other tenants - rental receivables	Not past due	42	-	10	-
	Past due 0- 30 days	21	-	1	-
	Past due 31-120 days	25	-	2	-
		88	-	13	-
	424	-	400	-	

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	Note	2016	2015
		\$'000	\$'000
Balance at 1 July		-	(19)
Impairment loss derecognised - receivables	10	-	19
Balance at 30 June		-	-

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 behaviour and extensive analysis of the underlying customer's credit rating. Based on historic default rates, the HPI Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables past due.

Hotel Property Investments
Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 28 Financial instruments (continued)

(c) Liquidity risk

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

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016							
Secured bank loans	245,965	284,177	4,894	4,824	9,664	264,795	-
Trade and other payables	2,698	2,698	2,698	-	-	-	-
	248,663	286,875	7,592	4,824	9,664	264,795	-
2015							
Secured bank loans	250,201	287,590	5,113	5,136	10,583	266,758	-
Trade and other payables	2,357	2,357	2,357	-	-	-	-
	252,558	289,947	7,470	5,136	10,583	266,758	-

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

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016							
Derivatives liability	3,985	3,985	-	-	-	3,985	-
2015							
Derivatives liability	3,046	3,046	-	-	-	3,046	-

The notional value of interest rate swaps (derivative liabilities) at 30 June 2016 was \$125 million (2015: \$125 million).

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Report for the year ended 30 June 2016
Notes to the consolidated financial statements (continued)

Note 28 Financial instruments (continued)

(d) Market risk

Interest rate risk

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

	2016 \$'000	2015 \$'000
Variable rate instruments		
Financial assets	2,269	4,562
Financial liabilities	(249,950)	(253,247)
	<u>(247,681)</u>	<u>(248,685)</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
2016					
Cash at bank	2,269	23	23	(23)	(23)
Bank loans	(245,965)	(2,460)	(2,460)	2,460	2,460
Interest rate derivatives	(3,985)	2,749	2,749	(2,821)	(2,821)
	<u>(247,681)</u>	<u>312</u>	<u>312</u>	<u>(384)</u>	<u>(384)</u>
2015					
Cash at bank	4,562	46	46	(46)	(46)
Bank loans	(250,201)	(2,502)	(2,502)	2,502	2,502
Interest rate derivatives	(3,046)	1,077	1,077	(7,278)	(7,278)
	<u>(248,685)</u>	<u>(1,379)</u>	<u>(1,379)</u>	<u>(4,822)</u>	<u>(4,822)</u>

HPI has elected to adopt hedge accounting from 1 July 2015 to manage volatility in profit or loss. HPI is required under its Facility Agreement to ensure that 50% of its interest rate risk exposure is at a fixed rate. This is achieved by using interest rate swaps as hedges of the variabilities in cash flow attributable to interest rate risk.

(e) Fair values

The fair values of financial assets and liabilities are the same as their carrying values.

Interest rate derivative financial instruments carried at fair value (note 16). 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)".

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Notes to the consolidated financial statements (continued)

	2016	2015
	\$'000	\$'000
Note 29 Statement of cash flows - additional information		
Reconciliation of cash flows from operating activities with profit attributable to the stapled security holders		
Profit for the period	60,128	35,435
Fair value adjustment to investment property	(32,607)	(18,009)
(Gain) / loss on sale of investment property	(1)	61
Fair value adjustment of derivative financial instruments	(997)	3,046
Fair value loss on cancelled derivatives	-	3,910
Amortisation of borrowing costs	268	222
Tax benefit	15	37
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(58)	106
(Increase)/decrease in prepayments	446	58
Increase/(decrease) in trade and other payables	315	(53)
Increase/(decrease) in provisions	(99)	(220)
Net cash from operating activities	27,410	24,593

Note 30 Contingent assets

The HPI Group is not aware of any contingent assets at 30 June 2016 which may materially affect the operation of the business (2015: none).

Note 31 Contingent liabilities

The HPI Group is not aware of any contingent liabilities at 30 June 2016 which may materially affect the operation of the business (2015: none).

Note 32 Commitments

The HPI Group has a memorandum of understanding with its major tenant the Coles Group, to perform various capital maintenance works.

Note 33 Segment information

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

Revenues from Coles Group represented approximately \$40.0 million (2015: \$38.0 million) of the HPI Group's total revenues.

Note 34 Subsequent events

On 1 July 2016 the HPI Group internalised its management and HPI Limited replaced the Trust Company (RE Services) Limited as the Responsible Entity for the HPI Trust. At that time all the staff previously providing the third party services became employees of the HPI Group, and David Charles was appointed as Managing Director and Chief Executive Officer (MD & CEO).

Other than disclosed above, there were no other items, transactions or events that have occurred subsequent to 30 June 2016 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 years.

Hotel Property Investments
Report for the year ended 30 June 2016
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 16 to 43, 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 2016 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 Investment Trust will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the individuals employed by the Services Manager effectively performing roles similar to that of a Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

The directors draw attention to note 2(a) 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 24th day of August 2016



Independent auditor's report to the stapled securityholders of Hotel Property Investments Trust and Hotel Property Investments Limited

Report on the financial report

We have audited the accompanying financial report of Hotel Property Investments Trust (the Trust), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of profit or loss and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Trust, Hotel Property Investments Limited (the Company) and the entities they controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Hotel Property Investments Limited, being the Responsible Entity of the Trust, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in section 8 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Hotel Property Investments for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Dean Waters
Partner

Melbourne

24 August 2016

Hotel Property Investments
Report for the year ended 30 June 2016

Security Holder Information

Substantial Security Holders

The number of stapled securities held by the HPI Group's substantial security holders as at 31 July 2016 is as follows:

Name	Stapled Securities
Investors Mutual	35,806,625
FIL Investment Management Australia	18,322,847
Goldman Sachs Asset Management	14,895,944

20 Largest Security Holders

As at 31 July 2016

Name	Number of Stapled Securities held	Percentage of Total Stapled Securities
1 JP Morgan Nominees Australia Limited	35,806,625	13.93%
2 HSBC Custody Nominees (Australia) Limited	18,322,847	7.66%
3 RBC Investor Services Australia Nominees Pty Limited	14,895,944	5.08%
4 National Nominees Limited	11,853,422	4.96%
5 Citicorp Nominees Pty Limited	9,076,422	4.85%
6 HSBC Custody Nominees (Australia) Limited	2,163,783	2.83%
7 Citicorp Nominees Pty Limited	2,133,999	2.68%
8 BNP Paribas Noms Pty Ltd	2,024,923	2.06%
9 Sandhurst Trustees Ltd	1,132,728	2.04%
10 Oxleigh Pty Ltd	800,713	1.85%
11 Warbont Nominees Pty Ltd	727,007	1.78%
12 Powerwrap Limited	691,561	1.59%
13 UBS Nominees	620,955	1.39%
14 Invia Custodian Pty Limited	476,924	1.25%
15 CS Fourth Nominees Pty Limited	465,292	1.20%
16 RBC Investor Services Australia Nominees Pty Limited	355,817	1.06%
17 Becjohn Pty Ltd	306,666	0.95%
18 Tennessee Investments Pty Ltd	300,000	0.94%
19 Pershing Australia Nominees Pty Ltd	285,000	0.82%
20 Bell Potter Nominees Ltd	268,500	0.79%
Total	102,709,128	70.30%

Distribution of Security Holders

As at 31 July 2016

Range	Total Holders	Stapled Securities	Percentage of Total Stapled Securities
1 - 1,000	803	429,772	0.23%
1,001 - 5,000	1,428	4,400,547	2.86%
5,001 - 10,000	788	6,180,521	4.01%
10,001 - 100,000	1,104	27,111,334	18.63%
100,001 and over	54	107,983,265	74.27%
Total	4,177	146,105,439	100.00%

As at 31 July 2016, there were 146,105,439 fully-paid stapled securities held by 4,177 individual security holders.

Hotel Property Investments
Report for the year ended 30 June 2016

Corporate Directory

Hotel Property Investments

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Fax: +61 2 9287 0303

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Auditor

KPMG
147 Collins Street
Melbourne VIC 3000 Australia

Responsible Entity

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Level 23, HWT Tower, 40 City Road
Southbank VIC 3006 Australia

Company Secretary

Hotel Property Investments Limited
Jenny Romeo