

**Hotel Property Investments (HPI)  
Report for the Year Ended 30 June 2015**

**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 2015**

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## Hotel Property Investments

### Report for the year ended 30 June 2015

#### Directors' report

The directors of The Trust Company (RE Services) Limited (the "Responsible Entity") for the Hotel Property Investments Trust ("the Trust"), present their consolidated financial report of the Trust and its controlled entity, together with the consolidated financial report of Hotel Property Investments Limited ("the Company") and its controlled entity (together "the HPI Group") for the year ended 30 June 2015.

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

The Responsible Entity is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 12, 123 Pitt Street, Sydney, NSW 2000.

#### Corporate Governance

A copy of HPI Group's Corporate Governance Statement is available on HPI Group's website at [www.hpitrust.com.au/cms/corporate\\_governance](http://www.hpitrust.com.au/cms/corporate_governance)

#### 1. Directors and officers

The Responsible Entity and the Company have entered into a Management Agreement pursuant to which the Company has agreed to be responsible for the oversight and day-to-day management of the HPI Group. The initial term of the Management Agreement is 3 years ending on 19 November 2016.

Separately, while the Company and the Responsible Entity each remain responsible for the financial and operating policies and management of the HPI Group, the Company has delegated and subcontracted substantially all of its administrative, operational and management obligations under the Management Agreement to the Services Manager (Redcape Services Pty Ltd) pursuant to the Administrative Services Agreement (ASA).

The Services Manager has agreed to provide administrative, operational and management services to the Company in exchange for a fixed monthly fee.

The Services Manager has retained the employment of a dedicated Fund Manager who is responsible for ensuring the Services Manager provides these services to the HPI Group. If requested by the Company, the Services Manager may also provide transaction and other designated services for the HPI Group. Any further fees for the provision of additional services by the Services Manager must be agreed with the HPI Group.

The following persons were directors of the Responsible Entity during the year ended 30 June 2015:

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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
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
Joanne Hawkins	Appointed 7 March 2014 as an alternate director for Gillian Larkins, resigned 26 June 2015
Michael Vainauskas	Appointed 2 March 2015

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**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**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
<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 &amp; 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 and Risk Management and Audit Committees.</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, and a Board Member of Greyhound Racing Victoria.</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 &amp; Sons, a Governor of the English National Ballet in London, and at the University &amp; 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 &amp; 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 &amp; Investments from the Securities Institute of Australia. He is a Graduate Member of the Australian Institute of Company Directors.</p>

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**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 &amp; Chief Executive Officer. Previously he was Chief Financial Officer of ALH and has served as General Manager Strategy &amp; 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>
Trevor O'Hoy <i>Non-executive Director</i>	<p><i>Resigned 29 May 2015</i></p> <p>Trevor O'Hoy was appointed Non-Executive Chairman of Redcape Group Ltd in May 2012. Trevor brings an unparalleled understanding of the Pub industry having spent 32 years at Foster's Group Limited in various senior executive finance and operational roles culminating in that of Chief Executive Officer.</p> <p>Trevor is currently Executive Chairman of Swisse Wellness Group, Chairman of Tobin Brothers Foundation, and a director of Stone and Wood Brewing Company and The Melbourne Stars BBL Team. Trevor Chairs the Ponting Foundation and is a board member of Cricket Victoria.</p> <p>Trevor graduated from Monash University, where he was recognised as a Distinguished Alumni in 2006, and also completed the Advanced Management Program at Harvard University.</p>
David Charles <i>Company Secretary</i>	<p><i>Appointed 1 July 2011</i></p> <p>David Charles is an experienced Chartered Accountant with 25 years experience in the accounting and audit, financial services, aviation and the hotel property sectors. David commenced his career with Touche Ross in 1989 and has held senior positions in a number of large companies including Citibank in London, Ansett Australia, ANZ Bank and the Spotless Group. Immediately prior to joining Redcape Property Group on 1 July 2009 as Chief Financial Officer, David spent 5 years with the Coles Group including 4 years within the Liquor and Hotels division in senior Finance and Business Management roles.</p>
Philip Thomas <i>Company Secretary</i>	<p><i>Appointed 21 November 2014</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 2015

### 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

During the year ended 30 June 2015 the HPI Group undertook a series of corporate activities including several freehold hotel acquisitions, several asset divestments, interest rate hedging, and an equity raising of \$30 million. The interest rate margin on the original loan facility was also reduced by 20 basis points, whilst an additional \$10 million was added to the loan facility.

Four freehold hotels were acquired, three of which are leased to the Coles Group and the fourth leased to the ALH Group, a joint venture 75% controlled by Woolworths Limited. Seven non-strategic assets with lower long term investment returns were divested, six of which were detached bottle shops and the seventh a freehold hotel in South Australia.

In order to rebalance gearing following the acquisitions and to provide additional funds for growth, the HPI Group undertook a \$25 million institutional equity placement and a Security Purchase Plan to raise a further \$5 million from mostly retail security holders, raising \$30 million in total (before costs) and issuing 13,235,439 new stapled securities.

During the year total assets increased by \$68.5 million, total liabilities increased by \$27.5 million and net assets increased by \$41.0 million. Net assets per security increased from \$1.96 to \$2.07.

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 2015 the Trust paid an interim distribution of 7.9 cents per stapled security and declared a final distribution of 8.4 cents per stapled security to be paid on 11 September 2015. For the year ended 30 June 2014 the Trust paid a final distribution of 8.8 cents per stapled security.

No provisions for or payments of Company dividends have been made during the year (2014: nil).

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

No item, transaction or event has occurred subsequent to 30 June 2015 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.

#### 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. Accordingly the comparative financial statements for the year ended 30 June 2014 include income and expenditure related to assets no longer within the HPI Group, and financing costs related to the previous capital structure.

##### Current year performance

The HPI Group recorded a total profit after tax for the year of \$35.4 million. Operating revenues and expenses included rental income from investment properties of \$40.7 million, property cost recoveries of \$4.1 million, property outgoing costs of \$6.9 million, management fees and other trust costs of \$3.2 million, and financing costs of \$10.4 million. Additionally there was a fair value gain on investment property of \$18.0 million, a \$3.9 million realised loss on the cancellation of interest rate swaps entered into during the year ended 30 June 2014, and a \$3.0 million fair value loss on swaps entered into during the year ended 30 June 2015. Adjusting profit after tax for fair value adjustments, losses on hedging and other minor items, the distributable earnings of the HPI Group was \$24.7 million. Adjusting further for maintenance capex of \$0.9 million the Adjusted Funds from Operations (AFFO) was \$23.8 million, 100% of which will be distributed to security holders.

At 30 June 2015 independent valuations were obtained for the two investment properties acquired which settled in the second half of financial year 2015. The remaining properties have been valued by Directors. In accordance with the HPI Group policy, valuations have been determined by reference to the current net income 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 2015 in accordance with the HPI Group's established valuation cycle. The current average valuation yield is 7.4%.

The total distribution for the year is 16.3 cents per security, comprised of an interim distribution of 7.9 cents and a final distribution of 8.4 cents per security.

# Hotel Property Investments

## Report for the year ended 30 June 2015

### Directors' report (continued)

#### 6. Review and results of operations (continued)

##### Financial position

At 30 June 2015 the HPI Group's net assets were \$302.0 million representing net assets per security of \$2.07 (2014: \$1.96). Major assets and liabilities included cash on hand of \$4.6 million, investment property of \$563.5 million, assets held for sale of \$0.7 million, receivables and other current assets \$1.1 million and bank loans of \$250.2 million. Additionally, a provision was created for payment of distributions of \$12.3 million. During the year investment property increased by \$66.8 million resulting mainly from acquisitions of \$58.4 million, divestments of \$9.9 million and fair value gains of \$18.0 million, whilst loans have increased by \$27.0 million to partly fund the acquisitions. At reporting date the mark to market valuation of HPI Group's hedging instruments is negative \$3.0 million.

At 30 June 2015 the HPI Group's loan facility of \$270 million (drawn to \$251.1 million) have a weighted average 3.5 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 debt capital markets and interest rates with the goal of prudently managing its interest rate and refinancing risk, including identifying and examining all potential financing sources and looking to improve the HPI Group's debt composition, debt cost and maturity profile.

##### 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 Company and Responsible Entity Boards' in fulfilling their responsibilities relating to overseeing the HPI Group's risk profile, policy, and the effectiveness of the HPI Group's risk management framework. During the period the BARC and the Company's Board reviewed and updated the risk management framework, including the risk matrix established in 2014. They determined that two risks previously identified, namely interest rate risk and regulatory risk pertaining to liquor laws in Queensland (where the majority of the HPI Group property portfolio is concentrated) remained the key risks for the HPI Group, with further risks including ongoing credit availability, tenant credit risk, valuation risk, property liquidity risk, reliance on external management, and the possible adverse impacts of high inflation. The Company's Board concluded that the 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 the Coles Group as it pursues its retail liquor and hotels strategy, or through further accretive freehold hotel acquisitions. During the year the HPI Group completed the acquisition of 4 freehold hotel properties for a total investment of \$58.4 million, and the divestment of 1 freehold hotel and 6 freehold bottleshops for total proceeds of \$9.9 million, which resulted in an incremental \$1.4 million rental income.

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 will maintain gearing around its target range of 40 to 50 percent.

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 2015**  
**Directors' report (continued)**

**6. Review and results of operations (continued)**

**Distributions**

For the year ended 30 June 2015 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.

	<b>2015</b>
	<b>\$'000</b>
<b>Profit after income tax for the year</b>	35,435
<b>Plus/(Less): Adjustments for non-cash items</b>	
Fair value (increments)/decrements to investment properties	(18,009)
Fair value (increments)/decrements to derivatives	6,956
Loss/(gain) on sale of investment properties	61
Finance costs - non-cash	222
Income tax expense	37
<b>Total adjustments for non-cash items</b>	<u>(10,733)</u>
<b>Distributable earnings</b>	24,702
<b>Less maintenance capital expenditure</b>	<u>(881)</u>
<b>Adjusted funds from operations</b>	<u>23,821</u>
<b>Distribution paid or provided for <sup>1</sup></b>	23,815

<sup>1</sup> Difference to AFFO due to rounding

	<b>2015</b>
	<b>Cents</b>
<b>Earnings and distribution per stapled security:</b>	
Basic and diluted earnings	24.9
Earnings available for distribution per security	16.3
Interim distribution per security	7.9
Final distribution per security	<u>8.4</u>
Total distribution per security	<u>16.3</u>



**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**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:

<b>Director</b>	<b>Directorships of listed entities</b>	<b>Type</b>	<b>Appointed</b>	<b>Resigned</b>
Michael Tilley	Orica Limited	Non-executive	November 2003	January 2014
Raymond Gunston	Sigma Pharmaceuticals Limited	Non-executive	July 2010	
Trevor O'Hoy	ASG Group Limited	Non-executive	September 2010	April 2014

**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:

<b>Name</b>	<b>Role</b>	<b>Number held at 1/07/2014</b>	<b>Net Movement</b>	<b>Number held at 30/06/2015</b>
Michael Tilley	Independent non-executive Chairman	1,119,048	(18,334)	1,100,714
Raymond Gunston	Independent non-executive Director	119,048	6,666	125,714
Lachlan Edwards	Independent non-executive Director	154,762	17,748	172,510
John Russell	Non-executive Director	47,618	8,832	56,450
Trevor O'Hoy	Non-executive Director	487,142	-	487,142

The directors of the Responsible Entity 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 during the year ended 30 June 2015 and the number of meetings attended by each director at the time the director held office during the year were:

<b>Name</b>	<b>Board</b>		<b>BARC</b>	
	<b>Held</b>	<b>Attended</b>	<b>Held</b>	<b>Attended</b>
Michael Tilley	13	13	4	4
Raymond Gunston	13	13	4	4
Lachlan Edwards	13	12	4	4
John Russell	13	13	4	4
Trevor O'Hoy	13	12	4	4

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Directors' report (continued)**

**8. Remuneration Report - Audited**

This report provides details on the HPI Group's remuneration structure, decisions and outcomes for the year ended 30 June 2015.

**8.1 Principles of remuneration**

The key management personnel of the HPI Group are the non-executive directors of the Company and the directors and company secretary of the Responsible Entity.

As previously stated, the Company has delegated and subcontracted substantially all of its administrative, operational and management obligations to the Services Manager pursuant to the Administrative Services Agreement. As a result the HPI Group has no other key management personnel.

**8.2 Remuneration of the Company's directors**

The previous board obtained external advice on the directors' remuneration at the time of the Company's IPO in 2013. The directors' aggregate remuneration cap of \$600,000 per annum, and each director's remuneration was set at that time and remained current throughout the year. During the year the Chairman of the Company received directors fees of \$125,000 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 services to the committee.

John Russell and Trevor O' Hoy elected not to receive any directors fees due to their association with the Services Manager.

The Company has no performance, bonus or incentive remuneration components.

During the year the company began a process of review by appointing an independent remuneration advisor. As at year end the company had not been provided with any recommendations by the independent remuneration advisor.

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.

**8.3 Remuneration of the Responsible Entity's Directors and Company Secretaries**

The Responsible Entity's company secretary fees and directors' fees (if any) for acting as directors of the Responsible Entity will be paid by the Responsible Entity 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.

**8.4 Consequences of performance on shareholder wealth**

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

	<b>2015</b>	<b>2014</b>
Distributable profit (\$m)	23.8	11.7
Distributions paid or payable (\$m)	23.8	11.7
Distributions per stapled security (cents)	16.3	8.8
Current property values (\$m)	563.5	496.7
Net gearing <sup>1</sup>	43.4%	44.1%

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

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**Report for the year ended 30 June 2015**  
**Directors' report (continued)**

**8. Remuneration Report - Audited (continued)**

**8.5 Details of remuneration of the Company's directors**

**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			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Independent non-executive Director</b>											
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	-	-
<b>Non-executive Director</b>											
John Russell	-	-	-	-	-	-	-	-	-	-	-
Trevor O'Hoy	-	-	-	-	-	-	-	-	-	-	-
	304,304	-	-	304,304	28,909	-	-	-	333,213	-	-

**Remuneration details 19 November 2013 to 30 June 2014**

**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			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Independent non-executive Director</b>											
Michael Tilley (Chairman)	77,244	-	-	77,244	7,145	-	-	-	84,389	-	-
Raymond Gunston	58,705	-	-	58,705	5,430	-	-	-	64,135	-	-
Lachlan Edwards	52,526	-	-	52,526	4,859	-	-	-	57,385	-	-
<b>Non-executive Director</b>											
John Russell	-	-	-	-	-	-	-	-	-	-	-
Trevor O'Hoy	-	-	-	-	-	-	-	-	-	-	-
	188,475	-	-	188,475	17,434	-	-	-	205,909	-	-

John Russell and Trevor O'Hoy have elected not to receive any Directors fees as long as they are associated with the Services Manager.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**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, John Russell and Trevor O'Hoy.

During the financial year, the HPI Group paid an insurance premium of \$86,187 (2014: \$86,231) in respect of the current directors of the Company.

No insurance premiums are paid out of the HPI Group in regards to insurance cover for either the Responsible Entity or the auditors of the HPI Group. So long as the Directors and officers of the Responsible Entity and its Compliance Committee act in accordance with the Constitution and Corporations Act, the Directors and officers 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.

	<b>2015</b>
	<b>\$</b>
Services other than audit and review of financial statements	
Compliance plan review	4,000
	4,000
Audit and review of financial statements	153,750
Total payable to KPMG	157,750

**11. Likely developments**

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, 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 14 and forms part of the Directors' Report for the year ended 30 June 2015.

**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 Class Order 98/100, 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 the Trust Company (RE Services) Limited.



Andrew Cannane

Director

Sydney

Dated this 26th day of August 2015



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

To: the directors of The Trust Company (RE Services) 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 2015 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

Darren Scammell

*Partner*

Melbourne

26 August 2015

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Consolidated statement of profit or loss and other comprehensive income**

		2015 \$'000	2014 \$'000
<b>REVENUE</b>			
Rent from investment properties		40,726	50,338
Revenue from investment properties - straight-line lease adjustment		155	610
Revenue from outgoings recovered		4,149	5,455
<b>Total revenue</b>		<b>45,030</b>	<b>56,403</b>
<b>Other income</b>			
Fair value adjustment to investment properties	12	18,009	53,075
Impact of straight-line lease adjustment on fair value of investment properties		(155)	(610)
Interest from cash deposits		123	168
Sundry income		12	710
<b>Total other income</b>		<b>17,989</b>	<b>53,343</b>
<b>Total income from operating activities</b>		<b>63,019</b>	<b>109,746</b>
<b>OPERATING EXPENSES</b>			
Investment property outgoings and expenses		6,880	8,737
Loss/(gain) on sale of investment properties		61	544
Other expenses	7	3,245	14,941
<b>Total expenses from operating activities</b>		<b>10,186</b>	<b>24,221</b>
<b>Profit from operating activities</b>		<b>52,833</b>	<b>85,524</b>
<b>Non operating income / (expenses)</b>			
Change in fair value of derivative financial instruments	16	(3,046)	(2,709)
Realised loss on derivative financial instruments		(3,910)	-
Finance costs	8	(10,405)	(23,549)
<b>Total non operating income / (expenses)</b>		<b>(17,361)</b>	<b>(26,258)</b>
<b>Profit before tax</b>		<b>35,472</b>	<b>59,266</b>
Tax (expense) / benefit	13	(37)	34
<b>Profit for the year</b>		<b>35,435</b>	<b>59,300</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>35,435</b>	<b>59,300</b>
<b>Profit / (loss) total comprehensive income attributable to:</b>			
Unitholders of the Trust		35,350	59,379
Shareholders of the Company		85	(79)
		<b>35,435</b>	<b>59,300</b>
Basic and diluted earnings per security (cents)		24.94	44.63

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

For the comparative period, this statement includes revenues and expenses for the 48 investment properties included in the HPI Group float and an additional 28 investment properties only up until their novation to another entity on 9 December 2013 as part of the HPI Group float.

Basic and diluted earnings per security on issue are lower than the comparative period primarily because the comparative period includes the results of the additional 28 investment properties only up until their novation to another entity on 9 December 2013 as part of the HPI Group float.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Consolidated statement of financial position**

		2015	2014
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	4,562	3,335
Trade and other receivables	10	410	535
Other current assets		694	752
Assets held for sale	11	700	-
<b>Total current assets</b>		<b>6,366</b>	<b>4,622</b>
<b>Non-current assets</b>			
Investment property	12	563,490	496,740
Other non-current assets		195	195
Deferred tax assets	13	16	34
<b>Total non-current assets</b>		<b>563,701</b>	<b>496,969</b>
<b>TOTAL ASSETS</b>		<b>570,067</b>	<b>501,591</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	2,357	2,410
Provisions	17	12,505	11,888
<b>Total current liabilities</b>		<b>14,862</b>	<b>14,298</b>
<b>Non-current liabilities</b>			
Loans and borrowings	15	250,201	223,175
Derivative financial instruments	16	3,046	3,162
<b>Total non-current liabilities</b>		<b>253,247</b>	<b>226,337</b>
<b>TOTAL LIABILITIES</b>		<b>268,109</b>	<b>240,635</b>
<b>NET ASSETS</b>		<b>301,958</b>	<b>260,956</b>
<b>EQUITY</b>			
Contributed equity	18	262,640	413,222
Retained earnings / (accumulated losses)	19	39,318	(152,266)
Reserves	20	-	-
<b>TOTAL EQUITY</b>		<b>301,958</b>	<b>260,956</b>

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 2015**  
**Consolidated statement of changes in equity**

	Note	Contributed Equity \$'000	Accumulated Losses \$'000	Reserves \$'000	Total Equity \$'000
<b>Balance at 1 July 2014</b>		413,222	(152,266)	-	260,956
<b>Total comprehensive income for the year</b>					
Profit for the year		-	35,435	-	35,435
Total other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		-	35,435	-	35,435
<b>Transactions with owners in their capacity as owners recognised directly in equity</b>					
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	-	-
<b>Balance at 30 June 2015</b>		262,640	39,318	-	301,958
<b>Balance at 1 July 2013</b>					
		691,513	(303,486)	62	388,089
<b>Total comprehensive income for the year</b>					
Profit for the year		-	59,300	-	59,300
Total other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		-	59,300	-	59,300
<b>Transactions with owners in their capacity as owners recognised directly in equity</b>					
Provision for distribution to stapled security holders	23	-	(11,693)	-	(11,693)
Distribution to unitholders of the Trust before stapling	23	-	(12,901)	-	(12,901)
Transfer of capital reserve to accumulated losses	20	-	62	(62)	-
Novation of assets and liabilities to an entity under common control	18, 19	(278,291)	116,452	-	(161,839)
<b>Balance at 30 June 2014</b>		413,222	(152,266)	-	260,956
Total recognised income and expense for the year is attributable to:					
- Trust					35,350
- Company					85
HPI Group					35,435

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 2015**  
**Consolidated statement of cash flows**

	Note	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Rent and outgoings from investment properties (GST inclusive)		49,481	58,961
Payments to suppliers		(14,829)	(21,135)
Interest receipts - bank deposits		123	168
Interest paid		(10,182)	(15,388)
<b>Net cash from operating activities</b>	29	<u>24,593</u>	<u>22,606</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investment properties		9,880	3,590
Payment for investment properties		(58,440)	(6,660)
Payment for additions to investment property		(881)	(2,699)
<b>Net cash from investing activities</b>		<u>(49,441)</u>	<u>(5,769)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		84,000	5,000
Repayments of borrowings		(57,000)	(16,192)
Proceeds as a result of refinancing		-	14,686
Proceeds from the issue of securities (net of costs)		29,382	-
Payment for swap termination	16	(7,072)	-
Payment of distributions		(23,235)	(12,901)
Payments on behalf of related parties		-	(8,943)
Receipts from related parties		-	3,000
Payments as a result of restructuring and public float		-	(8,923)
Payment of cash on novation		-	(4,974)
<b>Net cash from financing activities</b>		<u>26,075</u>	<u>(29,247)</u>
<b>Net increase/(decrease) in cash held</b>		<u>1,227</u>	<u>(12,410)</u>
Cash and cash equivalents at the beginning of the period		3,335	15,745
<b>Cash and cash equivalents at the end of the period</b>	9	<u>4,562</u>	<u>3,335</u>

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

For the comparative period, this statement includes cash flows for the 48 investment properties included in the HPI Group float and an additional 28 investment properties only up until their novation to another entity on 9 December 2013 as part of the HPI Group float.

# Hotel Property Investments

## Report for the year ended 30 June 2015

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# Hotel Property Investments

## Report for the year ended 30 June 2015

### 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 2015 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) Limited (the "Responsible Entity").

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

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

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

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

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

The HPI Group is a for profit entity.

#### Note 2 Basis of preparation

##### (a) Compliance statement

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The 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 2015 was approved by the directors of the Responsible Entity on 26 August 2015.

##### (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 Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, 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 2015 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 2015, the HPI Group had an excess of current liabilities over current assets of \$8.5 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 2015

### 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 expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses 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 2015

### 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 2015**  
**Notes to the consolidated financial statements (continued)**

**Note 3 Significant accounting policies (continued)**

**(h) Financial instruments (continued)**

*(iii) Derivative financial instruments*

The HPI Group uses derivative financial instruments, such as interest rate caps and interest rate swaps to hedge its exposure to interest rate risks arising from financing and investment activities. The HPI Group does not hold or issue derivative financial instruments for trading purposes. When a derivative financial instrument is not held for trading and is not designated in a qualifying hedge relationship, all changes in fair value are recognised immediately in profit or loss.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Since the HPI Group's derivative financial instruments have not been designated in hedge relationships that qualify for hedge accounting, the gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

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

*(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 January 2015, 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, which becomes mandatory for the HPI Group's 2019 financial statements and could change the classification and measurement of financial assets. 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 2015**  
**Notes to the consolidated financial statements (continued)**

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**Note 4 Determination of fair values**

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

**(a) Investment property**

Independent valuations of investment properties which the HPI Group intends to hold are obtained from suitably qualified independent valuers as discussed in note 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 values of trade receivables, are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

**(c) Derivatives**

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

**Note 5 Financial risk management**

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

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

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

The 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.

The Responsible Entity has appointed a Compliance Committee whose duties include but are not limited to the monitoring of the Responsible Entity's compliance with the Scheme's compliance plan, and reporting any findings or breaches of the *Corporations Act 2001* of which the Committee becomes aware of or that it suspects.



**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

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**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 95% 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 ("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 2015.

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 2015**  
**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 relative size to the Company.

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

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

	Note	2015 \$'000	2014 \$'000
<b>Note 7 Other expenses</b>			
Advisory and legal fees		473	11,359
Management fees		1,647	1,785
Auditor's remuneration		158	423
Directors' fees		333	206
All other expenses		634	1,168
		3,245	14,941

In the comparative period the HPI Group incurred \$11.4m of advisory and legal fees directly related to its listing on 10 December 2013.

	\$	\$
<b>Auditor's remuneration</b>		
KPMG Australia		
- Audit and review of financial reports	153,750	150,000
- Other assurance services	4,000	272,500
	157,750	422,500

In the comparative period the HPI Group paid \$272,500 of fees in relation to an Investigating Accountants report relating to the listing on 10 December 2013.

		2015 \$'000	2014 \$'000
<b>Note 8 Finance costs</b>			
Syndicated Facility Agreement ("SFA")			
- interest expense	(i)	10,116	15,617
- amortised borrowing costs and write off of deferred borrowing costs	(ii)	222	7,587
- other finance costs		67	345
		10,405	23,549

(i) Represents interest expense under the previous SFA which terminated on 9 December 2013 and the SFA which commenced contemporaneously on that date. 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 the write-off of the unamortised borrowing costs relating to the SFA which terminated on 9 December 2013, and amortisation of the borrowing costs relating to the new 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 2015**  
**Notes to the consolidated financial statements (continued)**

	Note	2015 \$'000	2014 \$'000
<b>Note 9 Cash and cash equivalents</b>			
Cash at bank and on hand		4,562	3,335
		<u>4,562</u>	<u>3,335</u>

**Note 10 Trade and other receivables**

Trade receivables		400	554
Less: Allowance for impairment		-	(19)
Net trade receivables		<u>400</u>	<u>535</u>
Other receivables		10	-
		<u>410</u>	<u>535</u>

**Note 11 Assets held for sale**

Investment properties held for sale		700	-
		<u>700</u>	<u>-</u>

**Movements**

Carrying amount at the beginning of the year		-	4,000
Disposals		-	(4,000)
Transfer from investment property	12	700	-
Carrying amount at the end of the year		<u>700</u>	<u>-</u>

Management have committed to sell the the Liqourland English Street bottleshop. Accordingly this asset is classified as held for sale. Efforts to dispose of this asset have commenced and a sale is expected by December 2015.

**Note 12 Investment property**

Investment property		564,190	496,740
Investment properties held for sale	11	(700)	-
		<u>563,490</u>	<u>496,740</u>

**Movements**

Carrying amount at the beginning of the year		496,740	752,713
Transfer to assets held for sale	11	(700)	-
Capital additions on investment properties		881	3,836
Acquisitions		58,440	6,660
Disposals		(9,880)	-
Fair value adjustments		18,009	53,075
Novation of assets to an entity previously under common control		-	(319,544)
Carrying amount at the end of the year		<u>563,490</u>	<u>496,740</u>

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

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**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 Property 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 7.93 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 2015**

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.

At 30 June 2015 independent valuations were obtained for the two investment properties acquired during the year which settled in the second half of financial year 2015. These valuations were undertaken by Urbis. The remaining properties have been valued by Directors. Further independent valuations will be undertaken at 31 December 2015.

	June 2015 Yields	June 2014 Yields
Coles Group	6.75% - 8.37%	6.75% - 8.30%

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

**Note 12 Investment property (continued)**

**Fair value hierarchy**

The fair value measurement for investment property of \$563.5 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.

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of fair value gains/losses		
Fair value as at beginning of the year	496,740	752,713
Transfer to assets held for sale	(700)	-
Capital additions on investment properties	881	3,836
Acquisitions	58,440	6,660
Disposals	(9,880)	-
Novation of assets to an entity under common control	-	(319,544)
Carrying amount before revaluations	545,481	443,665
Fair value as at end of the year	563,490	496,740
Fair value gain/(loss) for year	18,009	53,075

**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.

<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
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 2015**  
**Notes to the consolidated financial statements (continued)**

**Note 12 Investment property (continued)**

<b>Property</b>	<b>Location</b>	<b>Date acquired</b>	<b>Capitalisation rate 30 June 2015</b>	<b>Fair Value at 30 June 2015 \$'000</b>	<b>Fair Value at 30 June 2014 \$'000</b>
<b>Pubs and On-site Specialty Leases Owned as at 30 June 2015</b>					
Barron River Hotel	Stratford QLD	Feb-01	8.00%	6,040	5,780
Beenleigh Tavern	Eagleby QLD	Oct-14	7.90%	10,030	-
Berserker Tavern	Rockhampton QLD	May-04	7.50%	8,320	8,030
Bonny View Tavern	Bald Hills QLD	Dec-06	7.50%	11,180	10,830
Boomerang Motor Hotel	West Mackay QLD	Sep-01	8.00%	8,240	7,880
Bribie Island Hotel	Bellara QLD	Aug-07	7.30%	13,890	13,290
Brighton Hotel	Brighton QLD	Jul-05	7.25%	10,230	9,920
Brighton Metro Hotel	Brighton SA	Jul-07	6.75%	13,400	12,850
Caboolture Sundowner Hotel Motel	Caboolture QLD	Sep-03	7.40%	9,590	9,170
Chancellors Tavern	Sippy Downs QLD	Aug-07	7.00%	11,510	11,050
Cleveland Sands Hotel	Cleveland QLD	Dec-06	7.10%	22,580	21,490
Cleveland Tavern	Cleveland QLD	Sep-03	7.20%	12,610	12,150
Club Hotel	Gladstone QLD	Jan-05	8.10%	5,950	5,890
Coomera Lodge Hotel	Oxenford QLD	Dec-06	7.00%	4,420	4,140
Crown Hotel	Lutwyche QLD	Nov-05	7.67%	29,100	27,730
Diamonds Tavern	Kallangur QLD	Mar-06	7.45%	8,340	8,060
Dunwoodys Tavern	Cairns QLD	Jan-97	7.50%	18,560	17,820
Everton Park Hotel	Everton Park QLD	Dec-06	7.25%	20,230	19,530
Ferry Rd Tavern	Southport QLD	Jul-06	7.30%	25,560	22,650
Fitzys Loganholme	Loganholme QLD	Jun-06	7.00%	19,190	18,610
Fitzys Waterford	Waterford QLD	Jun-06	7.50%	14,490	13,870
Grafton Hotel	Edmonton QLD	Jun-94	7.90%	6,210	5,900
Grand Junction Hotel	Pennington SA	Jul-07	7.00%	8,660	8,290
Hotel HQ	Underwood QLD	Sep-14	7.20%	18,900	-
Hotel Wickham	Fortitude Valley QLD	Jun-06	7.30%	9,600	9,180
Kings Beach Tavern	Caloundra QLD	Aug-07	7.00%	14,510	13,880
Kooyong Motor Hotel	North Mackay QLD	Mar-02	8.30%	6,750	6,260
Leichhardt Hotel	Rockhampton QLD	Nov-04	8.20%	7,720	7,260
Lord Stanley Hotel	East Brisbane QLD	Aug-07	7.10%	8,850	8,410

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

**Note 12 Investment property (continued)**

<b>Property</b>	<b>Location</b>	<b>Date acquired</b>	<b>Capitalisation rate 30-Jun-15</b>	<b>Fair Value at 30 June 2015 \$'000</b>	<b>Fair Value at 30 June 2014 \$'000</b>
Magnums Tavern	Airlie Beach QLD	Jan-15	7.75%	18,000	-
Mi Hi Tavern	Brassal QLD	Dec-06	7.50%	14,280	13,790
New Inala Hotel	Inala QLD	Jun-05	7.50%	9,610	9,170
Palm Cove Tavern	Palm Cove QLD	Apr-04	8.00%	6,140	5,840
Payneham Tavern	Royston Park SA	Jul-07	7.00%	8,290	7,960
Royal Hotel Townsville	West End QLD	Sep-98	7.75%	5,380	5,090
Royal Mail Hotel	Tewantin QLD	Aug-07	7.50%	15,470	14,960
Q Sports Bar*	Cairns QLD	Jun-05	7.50%	7,250	7,070
The Hotel Allen	Northward QLD	May-00	8.37%	16,000	16,250
The Regatta	Toowong QLD	Nov-06	7.00%	33,970	33,220
The Wallaby Hotel	Mudgeeraba QLD	Jan-15	7.85%	9,800	-
Tom's Tavern	Aitkenvale QLD	Dec-03	7.72%	17,560	17,340
Trinity Beach Tavern	Trinity Beach QLD	Jun-05	7.75%	13,620	13,070
Waterloo Tavern	Paralowie SA	Jul-07	7.00%	16,570	15,930
Woodpecker Tavern	Burpengary QLD	Sep-03	7.50%	6,890	6,550
<b>Total Pubs and On-site Speciality Leases</b>			<b>7.42%</b>	<b>563,490</b>	<b>486,160</b>

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

Seven properties with a book value of \$10.58 million at June 2014 were divested during the year and are not reflected in this table.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015 \$'000	2014 \$'000
<b>Note 13 Taxes</b>		
<b>Tax expense</b>		
<b>(a) Tax expense recognised in profit or loss</b>		
Current tax expense/(benefit)	19	(34)
Deferred tax expense/(benefit)	18	-
	<u>37</u>	<u>(34)</u>
Tax expense/(benefit) attributable to profit from continuing operations	<u>37</u>	<u>(34)</u>
<b>(b) Numerical reconciliation between tax expense and pre-tax accounting profit</b>		
Profit / (loss) before tax	35,472	59,266
Income tax expense calculated at 30%	10,642	17,780
Trust income not subject to tax	(10,605)	(17,814)
Tax expense / (benefit) on profit / (loss) before tax	<u>37</u>	<u>(34)</u>

**(c) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Accrued expenses	16	2	-	-	16	2
Tax loss carry-forwards	-	32	-	-	-	32
	<u>16</u>	<u>34</u>	<u>-</u>	<u>-</u>	<u>16</u>	<u>34</u>

**(d) Movements in deferred tax balances during the year**

	2015 \$'000	2014 \$'000
Balance at the beginning of the year	34	-
Recognised in profit and loss	(18)	34
Balance at the end of the year	<u>16</u>	<u>34</u>

	2015 \$'000	2014 \$'000
<b>Note 14 Trade and other payables</b>		
<i>Current</i>		
Trade payables	255	91
Due to related parties	-	18
Other payables	2,102	2,301
	<u>2,357</u>	<u>2,410</u>



**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015	2014
	\$'000	\$'000
<b>Note 15 Loans and borrowings</b>		
<i>Non-current</i>		
Bank loans	250,201	223,175
	<u>250,201</u>	<u>223,175</u>
<b>SFA extinguished</b>		
Syndicated Facility Agreement ("SFA")	-	417,875
Syndicated Facility Agreement ("SFA") - repayment	-	(417,875)
Borrowing costs capitalised	-	(12,219)
Amortisation of borrowing costs	-	6,548
Borrowing costs write off	-	5,671
	<u>-</u>	<u>-</u>
<b>SFA newly established</b>		
Syndicated Facility Agreement ("SFA") - drawdown	251,123	224,123
Borrowing costs capitalised	(1,144)	(1,067)
Amortisation of borrowing costs	222	119
	<u>250,201</u>	<u>223,175</u>

During the year the HPI Group added an additional \$10 million to its loan facility.

**Repayment schedule**

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

<b>Note 16 Derivative financial instruments</b>		
Derivative financial instruments - non current liability	3,046	3,162
	<u>3,046</u>	<u>3,162</u>
Derivative financial instruments at the beginning of the year	(3,162)	(976)
Fair value loss for the year:		
- Cancelled derivatives	(3,910)	-
- Open derivatives	(3,046)	(2,709)
Realised loss on cancelled derivatives	7,072	-
Novation of assets and liabilities to an entity under common control	-	523
Fair value of derivative financial instruments at end of the year	<u>(3,046)</u>	<u>(3,162)</u>

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015	2014
	\$'000	\$'000
<b>Note 17 Provisions</b>		
<i>Current</i>		
Provision for distribution	12,273	11,693
Provision for capital works	232	195
	12,505	11,888
	Distribution	Capital works
Balance at the beginning of the year	11,693	195
Provisions made during the year	23,815	37
Provisions used during the year	(23,235)	-
Balance at the end of the year	12,273	232

**Distribution**

The provision for distribution relates to distributions to be paid to stapled security holders on 11 September 2015. 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
<b>Note 18 Contributed equity</b>			
<b>2015</b>			
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	19	-	(179,964)
On issue at 30 June 2015 - fully paid		146,105,439	262,640
<b>2014</b>			
On issue at 1 July 2013 - fully paid		9,042,761,481	691,513
Consolidation of units on issue		(8,909,891,481)	-
Novation of assets and liabilities to an entity under common control		-	(278,291)
On issue at 30 June 2014 - fully paid		132,870,000	413,222

The HPI Group issued stapled securities during the period 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.

Accumulated losses incurred prior to the public float have been transferred to contributed equity.

The consolidation of units on issue was at the rate of 68.05721 per unit held and occurred immediately prior to the stapling and the sale of units prior to the public float.

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	2015	2014
		\$'000	\$'000
<b>Note 19 Retained earnings / (accumulated losses)</b>			
Balance at the beginning of the year		(152,266)	(303,486)
Profit for the year		35,435	59,300
Transfer from capital reserve		-	62
Distribution to stapled security holders		(11,542)	-
Provision for distribution to stapled security holders		(12,273)	(11,693)
Distributions to unit holders of the Trust before stapling		-	(12,901)
Novation of assets and liabilities to an entity under common control		-	116,452
Transfer to contributed equity *	18	179,964	-
Balance at the end of the year		39,318	(152,266)

\* Accumulated losses incurred prior to the public float have been transferred to contributed equity.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015	2014
	\$'000	\$'000
<b>Note 20 Reserves</b>		
Capital reserve	-	-
<i>Movements</i>		
Opening balance at the beginning of the year	-	62
Transfer to accumulated losses	-	(62)
Closing balance at the end of the year	-	-

The capital reserve was no longer being maintained for a specific purpose and a decision was made to transfer the balance to retained earnings / (accumulated losses).

<b>Note 21 Net assets per stapled security</b>		
Number of stapled securities on issue as at the end of the year	146,105,439	132,870,000
Net assets at balance date	\$301,958,130	\$260,955,870
Per stapled security on issue	\$2.07	\$1.96

<b>Note 22 Earnings per security</b>		
Profit for the year	\$35,435,157	\$59,299,646

	No of securities	No of securities
<b>Weighted average number of securities</b>		
On issue at the beginning of the year	132,870,000	9,042,761,481
Effect of consolidation of securities on issue	-	(8,909,891,481)
Effect of securities issued	9,192,177	-
	142,062,177	132,870,000
Basic and diluted earnings per security - cents	24.94	44.63

Basic and diluted earnings per security on issue are lower than the comparative period primarily because the comparative period includes the results of an additional 28 investment properties only up until their novation to another entity on 9 December 2013 as part of the HPI Group float.

<b>Note 23 Distributions</b>			
	Total		Distributions per
	distribution	No of stapled	stapled security
	\$'000	securities	cents
<b>2015</b>			
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
<b>2014</b>			
10 December 2013 to 31 December 2013	-	132,870,000	-
1 January 2014 to 30 June 2014	11,693	132,870,000	8.80
Total distribution for the year	11,693		8.80
	Total		Distributions
	distribution	No of units	per unit
	\$'000		cents
<b>2014</b>			
Distributions to unit holders of the Trust before stapling	12,901	9,042,761,481	0.14

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015	2014
	\$'000	\$'000
<b>Note 24 Operating leases</b>		
<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	43,120	38,081
Between one and five years	183,750	167,925
More than five years	157,714	182,476
	384,584	388,482

**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.

	2015	2014
	\$'000	\$'000

**Note 26 Parent entity**

As at, and throughout the financial year ended 30 June 2015 the parent entity of the HPI Group was the Trust.

**Result of the parent entity**

Profit / (loss) for the period	33,994	54,495
Other comprehensive income	-	-
Total comprehensive income	33,994	54,495

**Financial position of the parent entity at period end**

Current assets	13,482	12,679
Total assets	550,067	483,044
Current liabilities	14,780	14,228
Total liabilities	268,026	240,564
Net assets	282,041	242,480

**Total equity of the parent entity comprising of:**

Contributed equity	262,640	413,223
Retained earnings / (accumulated losses)	19,401	(170,743)
<b>Total equity</b>	282,041	242,480

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.

For the comparative period, this statement includes revenues and expenses for the 48 investment properties included in the HPI Group float and an additional 28 investment properties only up until their novation to another entity on 9 December 2013 as part of the HPI Group float.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

**Note 27 Related parties**

**(a) Key management personnel**

The Trust does not employ personnel in its own right. However, the Trust is required to have an incorporated responsible entity to manage its activities. The directors and company secretaries of the Responsible Entity are considered key management personnel of the Trust and the HPI Group.

No fees or benefits are payable to the directors of the Responsible Entity out of the assets of the Trust. Those directors are employees of an entity related to the Responsible Entity.

The directors of the Company are considered key management personnel of the HPI Group.

As stated previously the Company has delegated and subcontracted substantially all of its administrative, operational and management obligations to the Services Manager (Redcape Services Pty Ltd) pursuant to the Administrative Services Agreement. As a result the HPI Group has no other key management personnel.

**(b) Key management personnel compensation**

Key management personnel compensation from the date of stapling comprised the following:

	2015	2014
	\$	\$
Short-term employee benefits	304,304	188,475
Post-employment benefits	28,909	17,434
	<u>333,213</u>	<u>205,909</u>

Post-employment benefits relate to defined contribution superannuation benefits.

**(c) Other related party transactions**

	Transaction values for the		Balance outstanding as at	
	year ended 30 June		30 June	
	2015	2014	2015	2014
	\$	\$	\$	\$
Responsible entity fee	222,204	185,727	37,296	18,333
Services Manager fee	1,647,173	1,784,651	-	-

*Responsible Entity fee*

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:

- 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
- 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 1,320,534 of stapled securities.

*Services Manager fee*

John Russell and Trevor O'Hoy, non-executive directors of the Company during the year, are also directors of the Services Manager.

The Services Manager is being paid a fixed monthly fee (adjusted annually for CPI) of \$138,473 for providing the primary administrative, operational and management services under the Administrative Services Agreement.

*Unit holders prior to stapling*

Prior to the public float of the HPI Group, assets and liabilities not intended for the float were assigned or novated to entities under common control of the vendors. At the end of the period there were no amounts owing to the vendors.

During the comparative period distributions totalling \$12.9 million were paid to the unit holders of the Trust prior to stapling.

For the period prior to the listing of the HPI Group, the HPI Group paid for transactions on behalf of other entities under common control of the vendors. The total amount paid was \$8.9 million of which \$3.0 million was repaid. The amounts owing to the HPI Group were then novated to other entities under common control of the vendors. At the end of the period there were no amounts owing to the HPI Group.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**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 2015**

**\$'000**

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

**30 June 2014**

**\$'000**

	Carrying amount				Fair value			
	Note	Fair value	Loans and	Other	Level 1	Level 2	Level 3	Total
		hedging	receivables	financial				
<b>Financial assets not measured at fair value</b>								
Trade and other receivables	10	-	535	-				535
Cash and cash equivalents	9	-	3,335	-				3,335
		-	3,870	-				3,870
<b>Financial liabilities measured at fair value</b>								
Interest rate derivatives	16	(3,162)	-	-	-	(3,162)	-	(3,162)
		(3,162)	-	-				(3,162)
<b>Financial liabilities not measured at fair value</b>								
Secured bank loans	15	-	-	(223,175)				(223,175)
Trade and other payables	14	-	-	(2,410)				(2,410)
		-	-	(225,585)				(225,585)

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015	2014
	\$'000	\$'000
<b>Note 28 Financial instruments (continued)</b>		
<b>(b) Credit risk</b>		
<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	4,562	3,335
Trade receivables	400	535
	4,962	3,870

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
		2015	2015	2014	2014
		\$'000	\$'000	\$'000	\$'000
Main tenant - rental receivables	Not past due	120	-	82	-
	Past due 0- 30 days	30	-	119	-
	Past due 31-120 days	237	-	284	-
		387	-	485	-
Other tenants - rental receivables	Not past due	10	-	48	-
	Past due 0- 30 days	1	-	4	-
	Past due 31-120 days	2	-	17	(19)
		13	-	69	(19)
	400	-	554	(19)	

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

	Note	2015	2014
		\$'000	\$'000
Balance at 1 July		(19)	(62)
Impairment loss derecognised - receivables	10	19	43
Balance at 30 June		-	(19)

*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 2015**  
**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
<b>2015</b>							
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	-	-	-	-
	<b>252,558</b>	<b>289,947</b>	<b>7,470</b>	<b>5,136</b>	<b>10,583</b>	<b>266,758</b>	<b>-</b>
<b>2014</b>							
Secured bank loans	223,175	275,791	4,967	4,780	11,833	254,211	-
Trade and other payables	2,410	2,410	2,410	-	-	-	-
	<b>225,585</b>	<b>278,201</b>	<b>7,377</b>	<b>4,780</b>	<b>11,833</b>	<b>254,211</b>	<b>-</b>

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
<b>2015</b>							
Derivatives liability	3,046	3,046	-	-	-	3,046	-
<b>2014</b>							
Derivatives liability	3,162	3,162	-	-	-	3,162	-

The notional value of interest rate swaps (derivative liabilities) at 30 June 2015 was \$125 million (2014: \$250 million).



**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**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:

	2015 \$'000	2014 \$'000
<b>Variable rate instruments</b>		
Financial assets	4,562	3,335
Financial liabilities	(253,247)	(226,337)
	<u>(248,685)</u>	<u>(223,002)</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
<b>2015</b>					
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>
<b>2014</b>					
Cash at bank	3,335	33	33	(33)	(33)
Bank loans	(223,175)	(2,232)	(2,232)	2,232	2,232
Interest rate derivatives	(3,162)	1,325	1,325	(7,607)	(7,607)
	<u>(223,002)</u>	<u>(874)</u>	<u>(874)</u>	<u>(5,408)</u>	<u>(5,408)</u>

**(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)".

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**  
**Notes to the consolidated financial statements (continued)**

	2015 \$'000	2014 \$'000
<b>Note 29 Statement of cash flows - additional information</b>		
<b>Reconciliation of cash flows from operating activities with profit attributable to the stapled security holders</b>		
Profit for the period	35,435	59,300
Fair value adjustment to investment property	(18,009)	(53,075)
(Gain) / loss on sale of investment property	61	544
Fair value adjustment of derivative financial instruments	3,046	2,709
Fair value loss on cancelled derivatives	3,910	-
Amortisation of borrowing costs	222	7,587
Tax benefit	37	(34)
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	106	(4,516)
(Increase)/decrease in prepayments	58	575
Increase/(decrease) in trade and other payables	(53)	9,364
Increase/(decrease) in provisions	(220)	152
<b>Net cash from operating activities</b>	<b>24,593</b>	<b>22,606</b>

**Note 30 Contingent assets**

The HPI Group is not aware of any contingent assets at 30 June 2015 which may materially affect the operation of the business (2014: none).

**Note 31 Contingent liabilities**

The HPI Group is not aware of any contingent liabilities at 30 June 2015 which may materially affect the operation of the business (2014: 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. Additionally the HPI Group has agreed to capital development of certain Coles Group properties.

**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 \$38.0 million (2014: \$35.0 million) of the HPI Group's total revenues.

**Note 34 Subsequent events**

No item, transaction or event has occurred subsequent to 30 June 2015 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 2015**  
**Directors' declaration**

In the opinion of the directors of The Trust Company (RE Services) Limited, as Responsible Entity for the Hotel Property Investment Trust:

1. the consolidated financial statements and notes, set out on pages 15 to 42, are in accordance with the *Corporations Act 2001*, including:
  - (a) giving a true and fair view of the Hotel Property Investments Group financial position as at 30 June 2015 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 2015.

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 The Trust Company (RE Services) Limited.



Andrew Cannane

Director

Sydney

Dated this 26th day of August 2015



## **Independent auditor's report to the stapled security holders 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 2015, 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 The Trust Company (RE Services) 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 2015 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 pages 10 to 11 of the directors' report for the year ended 30 June 2015. 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 2015, complies with Section 300A of the *Corporations Act 2001*

KPMG

Darren Scammell

*Partner*

Melbourne

26 August 2015

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**

**Security Holder Information**

**Substantial Security Holders**

The number of stapled securities held by the HPI Group's substantial security holders as at 31 July 2015 is as follows:

Name	Stapled Securities
Investors Mutual	20,354,698
FIL Investment Management Australia	11,188,638
Goldman Sachs Asset Management	7,422,213

**20 Largest Security Holders**

As at 31 July 2015

Name	Number of Stapled Securities held	Percentage of Total Stapled Securities
1 Investors Mutual	20,354,698	13.93%
2 FIL Investment Management Australia	11,188,638	7.66%
3 Goldman Sachs Asset Management	7,422,213	5.08%
4 Vanguard Investments Australia	7,246,887	4.96%
5 Varde Partners	7,087,713	4.85%
6 Colonial First State - Core Australian Equities	4,137,399	2.83%
7 Resolution Capital	3,914,768	2.68%
8 AMP Capital Investors	3,014,848	2.06%
9 Mizuho Trust and Banking	2,986,786	2.04%
10 IFM Investors	2,702,975	1.85%
11 Schroder Investment Management	2,595,567	1.78%
12 FIL Investment Management	2,323,327	1.59%
13 Renaissance Smaller Companies	2,035,906	1.39%
14 Vanguard Group	1,819,923	1.25%
15 Renaissance Property Securities	1,759,368	1.20%
16 Regal Funds Management	1,555,283	1.06%
17 Vinva Investment Management	1,393,412	0.95%
18 BlackRock Investment Management (Australia) - Index	1,375,363	0.94%
19 UBS Securities	1,200,941	0.82%
20 Private Clients of HUB 24 Custodial Services	1,148,419	0.79%
Total	87,264,434	59.73%

**Distribution of Security Holders**

As at 31 July 2015

Range	Total Holders	Stapled Securities	Percentage of Total Stapled Securities
1 - 1,000	591	337,241	0.23%
1,001 - 5,000	1,323	4,178,430	2.86%
5,001 - 10,000	741	5,859,696	4.01%
10,001 - 100,000	1,118	27,221,259	18.63%
100,001 and over	55	108,508,813	74.27%
Total	3,828	146,105,439	100.00%

As at 31 July 2015, there were 146,105,439 fully-paid stapled securities held by 3,828 individual security holders.

**Hotel Property Investments**  
**Report for the year ended 30 June 2015**

**Corporate Directory**

**Hotel Property Investments**

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**Auditor**

KPMG  
147 Collins Street  
Melbourne VIC 3000 Australia

**Responsible Entity**

The Trust Company (RE Services) Limited  
Level 12, 123 Pitt Street  
Sydney NSW 2000  
Telephone: 02 8295 8100

**Company Secretary**

Hotel Property Investments Limited  
David Charles  
Philip Thomas

The Trust Company (RE Services) Limited  
Glenda Susan Charles  
Sylvie Dimarco  
Joanne Hawkins