

Hotel Property Investments (HPI)
Half Year Report
For The Six Months Ended 31 December 2014

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

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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 half year ended 31 December 2014.

The units in the Trust and the shares in the Company are stapled and cannot be traded or dealt with separately. The stapled securities were first quoted on the Australian Securities Exchange ("ASX") on 10 December 2013, trading under the code HPI.

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.

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 or directors of the Company during or since the end of the half year ended 31 December 2014.

Directors of the Responsible Entity

Andrew Cannane

Christopher Green

Gillian Larkins

Anna O'Sullivan Alternate director for each of Andrew Cannane and Christopher Green

Glenn Foster Alternate director for Gillian Larkins

Joanne Hawkins Alternate director for Gillian Larkins

Directors of the Company

Michael Tilley

Raymond Gunston

Lachlan Edwards

John Russell

Trevor O'Hoy

2. Principal activities

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

3. Significant changes in state of affairs

During the period ended 31 December 2014 the HPI Group undertook a series of corporate activities including several freehold hotel acquisitions, several asset divestments, hedging for the duration of the loan facilities and an equity raising of \$30 million.

In September and October 2014 the HPI Group settled the acquisitions of Hotel HQ and the Beenleigh Tavern, each Coles Group leased freehold hotels in Greater Brisbane, Queensland and in December 2014 exchanged contracts to acquire Magnums Tavern and the Wallaby Hotel, both also in Queensland. Magnums Tavern represents the first hotel in the HPI Group portfolio leased to the ALH Group. In December 2014 the HPI Group exchanged contracts to divest 7 non-strategic assets with lower investment returns, 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 conducted a Security Purchase Plan (or SPP) to raise a further \$5 million from mostly retail security holders, raising \$30 million in total and issuing 13,235,439 new stapled securities.

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

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Directors' report (continued)

4. Distributions and dividends

For the half year ended 31 December 2014 the Trust provided for a distribution of 7.9 cents per stapled security (2013: nil).

No provisions for or payments of Company dividends have been made during the half year ended 31 December 2014 (2013: nil).

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

Subsequent to reporting date the HPI Group settled contracts to acquire Magnums Tavern (\$17.5 million) and the Wallaby Hotel (\$9.5 million), freehold hotels leased to the ALH Group and the Coles Group respectively. The HPI Group also settled contracts to divest 6 Detached Bottle Shops for an aggregate of \$3.8 million, approximately 1.0% above book value.

No other item, transaction or event has occurred subsequent to 31 December 2014 that is likely in the opinion of the directors of the Responsible Entity to significantly affect the operations of the HPI Group, the results of those operations, or the state of affairs of the HPI Group in future financial periods.

6. Review and results of operations

Background

The HPI Group is an Australian Real Estate Investment Trust ("AREIT"). Its principal activity is real estate investment in freehold pubs in Australia. The HPI Group listed on the Australian Securities Exchange ("ASX") on 10 December 2013 after several years in private ownership. The HPI Group owns a portfolio of freehold properties, comprising pubs and associated speciality stores located on the pub sites.

Key highlights associated with an investment in the HPI Group are:

- A portfolio of medium to large scale pubs predominantly leased to Coles Group companies
- A longstanding relationship with the Coles Group
- Property values underpinned by the value of liquor and gaming licences
- A stable income stream generated by long term lease profile with attractive terms
- Strong organic income growth combined with future growth opportunities
- An attractive distribution yield
- An experienced Service Manager management team in the pub real estate sector

Half-year performance

The HPI Group Profit after Tax for the half year was \$7.3 million, including a fair value gain on investment property of \$2.1 million, a fair value loss on hedging instruments of \$6.6 million and amortisation of borrowing costs expense of \$0.1 million. Adjusting for these items, the Distributable Earnings of the HPI Group was \$11.9 million. Adjusting further for Maintenance capex of \$0.3 million the Adjusted Funds from Operations ("AFFO") was \$11.6 million, which will be 100% distributed to securityholders. The total Distribution for the period of \$11.6 million exceeds the \$10.6 million (pro rata) forecast in the HPI Prospectus & Product Disclosure Statement ("Prospectus"). The main reasons for the difference are higher rent income due to acquisitions during the period (\$0.4 million), lower financing costs (\$0.3 million) and lower Trust Costs (\$0.3 million).

During the half year the HPI Group collected all rent and outgoings due in accordance with its leases, negotiated lease extensions on several speciality tenancies and carried out maintenance in accordance with its contractual and lease obligations.

Financial position

The HPI Group's net assets were \$286.1 million at 31 December 2014 representing net assets per stapled security of \$1.96. Major assets and liabilities included cash on hand of \$2.7 million, investment property of \$518.3 million, assets held for sale of \$10.6 million and bank loans of \$227.1 million. Additionally, a provision was created for payment of distributions of \$11.6 million. During the half year investment property has increased by \$21.5 million, whilst loans have increased by \$3.0 million. At reporting date the mark to market valuation of HPI Group's hedging instruments is negative \$9.7 million.

Independent valuations were obtained for 16 investment properties as at 31 December 2014 with the remaining investment properties valued by the Company Directors in accordance with the HPI Group policy. Valuation yields on the independently valued properties contracted on average by 10 basis points, and in line with the policy Directors held valuation yields on the remaining investment properties constant at their 30 June 2014 levels, whilst applying the current net income levels.

The HPI Group has in place 5 year loan facilities, on which interest rate exposure is hedged approximately 50% using interest rate caps until June 2015, and approximately 100% from July 2015 until expiration of the loan facility in December 2018 using interest rate swaps. 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 and maturity profile.

Risk management

There has not been a material change in the HPI Group's risk profile since 30 June 2014. Details of the the HPI Group's risk profile are outlined in the Directors's report for the year ended 30 June 2014.

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Directors' report (continued)

6. Review and results of operations (continued)

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 (annual rent increases of 4% per annum on most properties in the portfolio), and by prudent management of financing, management and costs of the Trust. The HPI Group considers that further distribution growth may arise from development opportunities undertaken with the Coles Group as it pursues its retail liquor strategy, or through further accretive freehold hotel acquisitions.

During the half year the HPI Group completed or exchanged contracts to acquire 4 freehold hotel properties and exchanged contracts to divest 7 non-strategic assets with lower investment returns (six of which were Detached Bottle Shops) as part of ongoing portfolio management. The HPI Group will continue to pursue hotel 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 look for further funding to achieve appropriate asset growth whilst ensuring it maintains 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 the Coles Group and trading out of lesser quality properties in the portfolio as markets create value opportunities over time.

Distributions

For the half year ended 31 December 2014 the HPI Group will distribute 100% of its distributable earnings less maintenance capital expenditure costs, or 100% of its Adjusted Funds From Operations ("AFFO"). Distributable earnings is calculated as net profit adjusted for non-cash items. AFFO is calculated as Distributable Earnings less maintenance capital expenditure.

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

| | 31 December |
|---|--------------------|
| | 2014 |
| | \$'000 |
| Profit after income tax for the period | 7,286 |
| Plus/(less): adjustments for non-cash items | |
| Fair value (increments)/decrements to investment properties | (2,123) |
| Fair value (increments)/decrements to derivatives | 6,557 |
| Loss/(gain) on sale of investment properties | - |
| Finance costs - non-cash | 107 |
| Income tax expense | 37 |
| Total adjustments for non-cash items | <u>4,578</u> |
| Distributable earnings | 11,864 |
| Less maintenance capital expenditure | <u>(274)</u> |
| Adjusted funds from operations | <u>11,590</u> |
| Distribution paid or provided for ¹ | 11,542 |

¹ Difference due to rounding of distribution to 7.9 cents

| | Cents |
|--|--------------|
| Earnings and distribution per stapled security: | |
| Basic and diluted earnings | 5.28 |
| Earnings available for distribution | 7.9 |
| Distribution | 7.9 |

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Half Year Report for the six months ended 31 December 2014
Directors' report (continued)

7. Likely developments

The HPI Group will continue its business as a freehold pub owner, managing the properties in accordance with the leases, and will receive annual rental increases on the anniversary of the commencement of each lease. The HPI Group will continue to review the portfolio with a view to increasing distributions per security, whether by divesting assets with lower investment returns and recycling the proceeds into higher returning assets, or by acquiring new assets which are accretive to distributions.

8. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of the Directors' report for the half year ended 31 December 2014.

9. Environmental regulation

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

10. 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.

Signed in accordance with a resolution of the directors of the Trust Company (RE Services) Limited.



Andrew Cannane

Director

Sydney

Dated this 25th day of February 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 Hotel Property Investments Trust

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

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

KPMG

Darren Scammell

Partner

Melbourne

25 February 2015

Hotel Property Investments

Half Year Report for the six months ended 31 December 2014

Consolidated statement of profit or loss and other comprehensive income

| | | 31 December 2014 \$'000 | 31 December 2013 \$'000 |
|---|------|-------------------------------|-------------------------------|
| | Note | | |
| REVENUE | | | |
| Rent from investment properties | | 19,702 | 31,815 |
| Revenue from investment properties - straight-line lease adjustment | | 12 | 614 |
| Revenue from outgoings recovered | | 2,299 | 3,284 |
| Total revenue | | 22,013 | 35,713 |
| Other income | | | |
| Fair value adjustment to investment properties | 11 | 2,123 | 39,831 |
| Impact of straight-line lease adjustment on fair value of investment properties | | (12) | (614) |
| Interest from cash deposits | | 54 | 86 |
| Sundry income | | 12 | 702 |
| Total other income | | 2,177 | 40,005 |
| Total income from operating activities | | 24,190 | 75,718 |
| OPERATING EXPENSES | | | |
| Investment property outgoings and expenses | | (3,615) | (5,067) |
| Loss on sale of investment properties | | - | (544) |
| Other expenses | 6 | (1,378) | (13,816) |
| Total expenses from operating activities | | (4,993) | (19,427) |
| Profit from operating activities | | 19,197 | 56,291 |
| Non operating income / (expenses) | | | |
| Change in fair value of derivative financial instruments | 14 | (6,557) | 453 |
| Finance costs | 7 | (5,317) | (18,224) |
| Total non operating income / (expenses) | | (11,874) | (17,771) |
| Profit before tax | | 7,323 | 38,520 |
| Tax (expense) / benefit | | (37) | - |
| Profit for the period | | 7,286 | 38,520 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 7,286 | 38,520 |
| Profit / total comprehensive income attributable to: | | | |
| Unitholders of the Trust | | 7,199 | 38,563 |
| Shareholders of the Company | | 87 | (43) |
| | | 7,286 | 38,520 |
| Basic and diluted earnings per security (cents) | 20 | 5.28 | 28.99 |

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

For the half year ended 31 December 2013, 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 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
Half Year Report for the six months ended 31 December 2014
Consolidated statement of financial position

| | | 31 December | 30 June |
|--|------|----------------|----------------|
| | | 2014 | 2014 |
| | Note | \$'000 | \$'000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 2,652 | 3,335 |
| Trade and other receivables | 9 | 1,423 | 535 |
| Other current assets | | 4,156 | 752 |
| Assets held for sale | 10 | 10,580 | - |
| Total current assets | | 18,811 | 4,622 |
| Non-current assets | | | |
| Investment property | 11 | 518,255 | 496,740 |
| Other non-current assets | | 195 | 195 |
| Deferred tax assets | | 2 | 34 |
| Total non-current assets | | 518,452 | 496,969 |
| TOTAL ASSETS | | 537,263 | 501,591 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 12 | 3,443 | 2,410 |
| Provisions | 15 | 11,737 | 11,888 |
| Total current liabilities | | 15,180 | 14,298 |
| Non-current liabilities | | | |
| Loans and borrowings | 13 | 226,282 | 223,175 |
| Derivative financial instruments | 14 | 9,719 | 3,162 |
| Total non-current liabilities | | 236,001 | 226,337 |
| TOTAL LIABILITIES | | 251,181 | 240,635 |
| NET ASSETS | | 286,082 | 260,956 |
| EQUITY | | | |
| Contributed equity | 16 | 262,640 | 413,222 |
| Retained earnings / (accumulated losses) | 17 | 23,442 | (152,266) |
| TOTAL EQUITY | | 286,082 | 260,956 |

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

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Half Year Report for the six months ended 31 December 2014
Consolidated statement of changes in equity

| | Note | Contributed equity \$'000 | Retained earnings / (accumulated losses) \$'000 | Reserves \$'000 | Total equity \$'000 |
|---|--------|---------------------------------|---|--------------------|------------------------|
| Balance at 1 July 2014 | | 413,222 | (152,266) | - | 260,956 |
| Total comprehensive income for the period | | | | | |
| Profit for the period | | - | 7,286 | - | 7,286 |
| Total other comprehensive income | | - | - | - | - |
| Total comprehensive income for the period | | - | 7,286 | - | 7,286 |
| Transactions with owners in their capacity as owners recognised directly in equity | | | | | |
| Issue of units for cash | 16 | 29,382 | - | - | 29,382 |
| Provision for distribution to stapled security holders | 21 | - | (11,542) | - | (11,542) |
| Transfer of accumulated losses to contributed equity | 16, 17 | (179,964) | 179,964 | - | - |
| Balance at 31 December 2014 | | 262,640 | 23,442 | - | 286,082 |
| Balance at 1 July 2013 | | 691,513 | (303,486) | 62 | 388,089 |
| Total comprehensive income for the period | | | | | |
| Profit for the period | | - | 38,520 | - | 38,520 |
| Total other comprehensive income | | - | - | - | - |
| Total comprehensive income for the period | | - | 38,520 | - | 38,520 |
| Transactions with owners in their capacity as owners recognised directly in equity | | | | | |
| Distribution to unitholders of the Trust before stapling | | - | (12,901) | - | (12,901) |
| Transfer of capital reserve to accumulated losses | | - | 62 | (62) | - |
| Novation of assets and liabilities to an entity under common control | | (277,781) | 116,924 | - | (160,857) |
| Balance at 31 December 2013 | | 413,732 | (160,881) | - | 252,851 |
| Total recognised income and expense for the period is attributable to: | | | | | |
| - Trust | | | | | 7,199 |
| - Company | | | | | 87 |
| HPI Group | | | | | 7,286 |

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

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Consolidated statement of cash flows

| | 31 December | 31 December |
|---|-----------------|-----------------|
| | 2014 | 2013 |
| Note | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Rent and outgoings from investment properties (GST inclusive) | 24,253 | 39,723 |
| Payments to suppliers | (7,452) | (16,921) |
| Interest receipts - bank deposits | 54 | 86 |
| Interest paid | (5,210) | (10,234) |
| Net cash from operating activities | 11,645 | 12,654 |
| Cash flows from investing activities | | |
| Proceeds from disposal of investment properties | - | 3,590 |
| Payment for investment properties | (31,923) | (6,659) |
| Payment for additions to investment property | (1,094) | (1,855) |
| Net cash from investing activities | (33,017) | (4,924) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 45,000 | 5,000 |
| Repayments of borrowings | (42,000) | (7,125) |
| Proceeds as a result of refinancing | - | 14,686 |
| Proceeds from the issue of securities | 29,382 | - |
| Payment of distribution | (11,693) | (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 | - | (5,133) |
| Net cash from financing activities | 20,689 | (20,339) |
| Net decrease in cash held | (683) | (12,609) |
| Cash and cash equivalents at the beginning of the period | 3,335 | 15,745 |
| Cash and cash equivalents at the end of the period | 2,652 | 3,136 |
| 8 | | |

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

For the half year ended 31 December 2013, 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.

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Hotel Property Investments

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Notes to the consolidated financial statements

Note 1 Reporting entity

The consolidated financial report of Hotel Property Investments as at and for the half year ended 31 December 2014 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. Prior to this occurring the Trust was regarded as a non-reporting entity.

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

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

The HPI Group is a for profit entity.

Note 2 Basis of preparation

(a) Compliance statement

The consolidated financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and with IAS 34 *Interim Financial Reports*. The consolidated interim financial report does not include all the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the HPI Group as at and for the year ended 30 June 2014, and any public announcements made by the HPI Group during the interim reporting period in accordance with the continuous disclosure requirements and the *Corporations Act 2001*.

(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 half year ended 31 December 2014 was approved by the directors of the Responsible Entity on 25 February 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 HPI 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.

Hotel Property Investments

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Notes to the consolidated financial statements (continued)

Note 3 Significant accounting policies

The accounting policies applied are consistent with those applied by the HPI Group in its consolidated financial report as at and for the year ended 30 June 2014.

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 continuously are obtained from suitably qualified independent valuers as discussed in note 11.

Where properties have not been independently valued at reporting date, properties will be valued by Directors, 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 reporting date.

(c) Derivatives

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

Note 5 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.

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Notes to the consolidated financial statements (continued)

| | | 31 December 2014 \$'000 | 31 December 2013 \$'000 |
|------------------------------|--|-------------------------------|-------------------------------|
| Note 6 Other expenses | | | |
| Advisory and legal fees | | 63 | 11,518 |
| Management fees | | 816 | 970 |
| All other expenses | | 499 | 1,328 |
| | | 1,378 | 13,816 |

For the half year ended 31 December 2013 the HPI Group incurred \$11.4m of advisory and legal fees directly related to its listing on 10 December 2013.

| | | | |
|---|------|-------|--------|
| Note 7 Finance costs | | | |
| Syndicated Facility Agreement ("SFA") | | | |
| - interest expense | (i) | 5,177 | 10,632 |
| - amortised borrowing costs and write off of deferred borrowing costs | (ii) | 107 | 7,480 |
| - other finance costs | | 33 | 112 |
| | | 5,317 | 18,224 |

(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.

| | 31 December 2014 \$'000 | 30 June 2014 \$'000 |
|---|-------------------------------|---------------------------|
| Note 8 Cash and cash equivalents | | |
| Cash at bank and on hand | 2,652 | 3,335 |
| | 2,652 | 3,335 |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

| | | 31 December 2014 \$'000 | 30 June 2014 \$'000 |
|---|----|-------------------------------|---------------------------|
| Note 9 Trade receivables | | | |
| Trade receivables | | 1,442 | 554 |
| Less: Allowance for impairment | | (19) | (19) |
| Net trade receivables | | <u>1,423</u> | <u>535</u> |
| Note 10 Assets held for sale | | | |
| Investment properties held for sale | | <u>10,580</u> | - |
| | | <u>10,580</u> | |
| Movements | | | |
| Carrying amount at the beginning of the period | | - | 4,000 |
| Disposals | | - | (4,000) |
| Transfer from investment property | 11 | <u>10,580</u> | - |
| Carrying amount at the end of the period | | <u>10,580</u> | - |
| Note 11 Investment property | | | |
| Investment property | | 528,835 | 496,740 |
| Investment properties held for sale | 10 | <u>(10,580)</u> | - |
| | | <u>518,255</u> | <u>496,740</u> |
| Movements | | | |
| Carrying amount at the beginning of the period | | 496,740 | 752,713 |
| Transfer to assets held for sale | 10 | (10,580) | - |
| Capital additions on investment properties | | 274 | 3,836 |
| Acquisitions | | 29,698 | 6,660 |
| Disposals | | - | - |
| Fair value adjustments | | 2,123 | 53,075 |
| Novation of assets to an entity previously under common control | | - | (319,544) |
| Carrying amount at the end of the period | | <u>518,255</u> | <u>496,740</u> |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 11 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, and 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 inclusive of any liquor and gaming licences attached to these properties to their respective tenants 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 8.4 years, excluding options for lease extensions upon completion of the lease term. Rents increase at 4% 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 31 December 2014

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. 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.

Independent valuations were obtained for 16 investment properties as at 31 December 2014. These valuations were completed by CBRE Hotels Valuation & Advisory Services, and Urbis. Directors' valuations were completed for the remaining properties.

| | December 2014 Yields | June 2014 Yields |
|-------------|----------------------|------------------|
| Coles Group | 6.75% - 8.30% | 6.75% - 8.30% |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 11 Investment property (continued)

Fair value hierarchy

The fair value measurement for investment property of \$518.3m 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.

| | 31 December | 30 June |
|--|--------------------|----------------|
| | 2014 | 2014 |
| | \$'000 | \$'000 |
| Reconciliation of fair value gains/losses | | |
| Fair value as at beginning of the period | 496,740 | 752,713 |
| Transfer to non-current assets held for sale | (10,580) | - |
| Capital additions on investment properties | 274 | 3,836 |
| Acquisitions | 29,698 | 6,660 |
| Disposals | - | - |
| Novation of assets to an entity under common control | - | (319,544) |
| Carrying amount before revaluations | 516,132 | 443,665 |
| Fair value as at end of the period | 518,255 | 496,740 |
| Fair value gain for period | 2,123 | 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.

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

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 11 Investment property (continued)

| Property | Location | Date acquired | Fair Value at 31 December 2014 \$'000 | Capitalisation rate |
|--|----------------------|--------------------------|--|--------------------------------|
| Pubs and On-site Specialty Leases | | | | |
| Barron River Hotel | Stratford QLD | Feb-01 | 5,800 | 8.00% |
| Beenleigh Tavern | Eagleby QLD | Oct-14 | 10,000 | 7.90% |
| Berserker Tavern | Rockhampton QLD | May-04 | 8,000 | 7.50% |
| Bonny View Tavern | Bald Hills QLD | Dec-06 | 11,100 | 7.50% |
| Boomerang Motor Hotel | West Mackay QLD | Sep-01 | 7,900 | 8.00% |
| Bribie Island Hotel | Bellara QLD | Aug-07 | 13,320 | 7.30% |
| Brighton Hotel | Brighton QLD | Jul-05 | 9,820 | 7.25% |
| Brighton Metro Hotel | Brighton SA | Jul-07 | 12,890 | 6.75% |
| Caboolture Sundowner Hotel Motel | Caboolture QLD | Sep-03 | 9,210 | 7.40% |
| Chancellors Tavern | Sippy Downs QLD | Aug-07 | 11,050 | 7.00% |
| Cleveland Sands Hotel | Cleveland QLD | Dec-06 | 21,840 | 7.10% |
| Cleveland Tavern | Cleveland QLD | Sep-03 | 12,180 | 7.20% |
| Club Hotel | Gladstone QLD | Jan-05 | 5,680 | 8.10% |
| Coomera Lodge Hotel | Oxenford QLD | Dec-06 | 4,080 | 7.00% |
| Crown Hotel | Lutwyche QLD | Nov-05 | 28,470 | 7.67% |
| Diamonds Tavern | Kallangur QLD | Mar-06 | 8,050 | 7.45% |
| Dunwoodys Tavern | Cairns QLD | Jan-97 | 17,830 | 7.50% |
| Everton Park Hotel | Everton Park QLD | Dec-06 | 19,880 | 7.25% |
| Ferry Rd Tavern | Southport QLD | Jul-06 | 24,950 | 7.30% |
| Fitzys Loganholme | Loganholme QLD | Jun-06 | 18,300 | 7.00% |
| Fitzys Waterford | Waterford QLD | Jun-06 | 13,900 | 7.50% |
| Grafton Hotel | Edmonton QLD | Jun-94 | 5,975 | 7.90% |
| Grand Junction Hotel | Pennington SA | Jul-07 | 8,310 | 7.00% |
| Hotel HQ | Underwood QLD | Sep-14 | 18,450 | 7.20% |
| Hotel Wickham | Fortitude Valley QLD | Jun-06 | 9,190 | 7.30% |
| Kings Beach Tavern | Caloundra QLD | Aug-07 | 13,850 | 7.00% |
| Kooyong Motor Hotel | North Mackay QLD | Mar-02 | 6,525 | 8.30% |
| Leichhardt Hotel | Rockhampton QLD | Nov-04 | 7,280 | 8.20% |
| Lord Stanley Hotel | East Brisbane QLD | Aug-07 | 8,460 | 7.10% |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 11 Investment property (continued)

| Property | Location | Date acquired | Fair Value at | Capitalisation rate |
|--|-------------------|--------------------------|------------------------------------|--------------------------------|
| | | | 31 December 2014 \$'000 | |
| Mi Hi Tavern | Brassal QLD | Dec-06 | 14,100 | 7.50% |
| New Inala Hotel | Inala QLD | Jun-05 | 9,180 | 7.50% |
| Palm Cove Tavern | Palm Cove QLD | Apr-04 | 5,900 | 8.00% |
| Payneham Tavern | Royston Park SA | Jul-07 | 7,980 | 7.00% |
| Royal Hotel Townsville | West End QLD | Sep-98 | 5,150 | 7.75% |
| Royal Mail Hotel | Tewantin QLD | Aug-07 | 14,860 | 7.50% |
| Q Sports Bar* | Cairns QLD | Jun-05 | 6,960 | 7.50% |
| The Hotel Allen | Northward QLD | May-00 | 16,000 | 7.85% |
| The Regatta | Toowong QLD | Nov-06 | 33,020 | 7.00% |
| Tom's Tavern | Aitkenvale QLD | Dec-03 | 17,270 | 7.72% |
| Trinity Beach Tavern | Trinity Beach QLD | Jun-05 | 13,090 | 7.75% |
| Waterloo Tavern | Paralowie SA | Jul-07 | 15,930 | 7.00% |
| Woodpecker Tavern | Burpengary QLD | Sep-03 | 6,525 | 7.50% |
| Total Pubs and On-site Speciality Leases | | | 518,255 | 7.39% |

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

| | 31 December 2014 \$'000 | 30 June 2014 \$'000 |
|---|--|------------------------------------|
| Note 12 Trade and other payables | | |
| <i>Current</i> | | |
| Trade payables | 462 | 91 |
| Due to related parties | - | 18 |
| Other payables | 2,981 | 2,301 |
| | 3,443 | 2,410 |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

| | 31 December 2014 \$'000 | 30 June 2014 \$'000 |
|--|-------------------------------|---------------------------|
| Note 13 Loans and borrowings | | |
| <i>Non-current</i> | | |
| Bank loans | 226,282 | 223,175 |
| | <u>226,282</u> | <u>223,175</u> |
| SFA extinguished | | |
| 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> |
| SFA newly established | | |
| Syndicated Facility Agreement ("SFA") - drawdown | 227,123 | 224,123 |
| Borrowing costs capitalised | (948) | (1,067) |
| Amortisation of borrowing costs | 107 | 119 |
| | <u>226,282</u> | <u>223,175</u> |
| Repayment schedule | | |
| Loans under the Syndicated Facility Agreement are due to mature in 2018. | | |
| Note 14 Derivative financial instruments | | |
| Derivative financial instruments - non current liability | 9,719 | 3,162 |
| | <u>9,719</u> | <u>3,162</u> |
| Movements post 9 December 2013 | | |
| Derivative financial instruments at the beginning of the period | (3,162) | - |
| Fair value loss for the period | (6,557) | (3,162) |
| Fair value of derivative financial instruments at end of the period | <u>(9,719)</u> | <u>(3,162)</u> |
| Movements pre 9 December 2013 | | |
| Interest rate collar at the beginning of the period | - | (976) |
| Fair value gain for the period | - | 453 |
| Novation of assets and liabilities to an entity under common control | - | 523 |
| Fair value of interest rate collar at end of the period | <u>-</u> | <u>-</u> |
| Total fair value loss for the period | <u>(6,557)</u> | <u>(2,709)</u> |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

| | 31 December 2014 \$'000 | 30 June 2014 \$'000 |
|--|-------------------------------|---------------------------|
| Note 15 Provisions | | |
| <i>Current</i> | | |
| Provision for distribution | 11,542 | 11,693 |
| Provision for capital works undertaken | 195 | 195 |
| | 11,737 | 11,888 |
| | Distribution | Capital works |
| Balance at the beginning of the period | 11,693 | 195 |
| Provisions made during the period | 11,542 | - |
| Provisions used during the period | (11,693) | - |
| Balance at the end of the period | 11,542 | 195 |

Distribution

The provision for distribution relates to distributions to be paid to stapled securityholders on 6 March 2015. This distribution will be funded via drawdown on the existing loan facility.

Capital works undertaken

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

| | No of units | \$'000 |
|--|-----------------|-----------|
| Note 16 Contributed equity | | |
| On issue at 1 July 2014 - fully paid | 132,870,000 | 413,222 |
| Issue of units for cash | 13,235,439 | 29,382 |
| Transfer from accumulated losses | - | (179,964) |
| On issue at 31 December 2014 - fully paid | 146,105,439 | 262,640 |
| 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 | - | (277,781) |
| On issue at 31 December 2013 - fully paid | 132,870,000 | 413,732 |

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 securityholder present at a meeting in person or by proxy, is entitled to one vote.

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

| | 31 December 2014 \$'000 | 30 June 2014 \$'000 |
|--|-------------------------------|---------------------------|
| Note 17 Retained earnings / (accumulated losses) | | |
| Balance at the beginning of the period | (152,266) | (303,486) |
| Profit for the period | 7,286 | 59,300 |
| Transfer from capital reserve | - | 62 |
| Provision for distribution to stapled security holders | (11,542) | (11,693) |
| Distributions to unitholders of the Trust before stapling | - | (12,901) |
| Novation of assets and liabilities to an entity under common control | - | 116,452 |
| Transfer to contributed equity * | 179,964 | - |
| Balance at the end of the period | 23,442 | (152,266) |

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

Note 18 Reserves

| | | |
|--|---|------|
| Capital reserve | - | - |
| <i>Movements</i> | | |
| Opening balance at the beginning of the period | - | 62 |
| Transfer to accumulated losses | - | (62) |
| Closing balance at the end of the period | - | - |

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

Note 19 Net assets per security

| | | |
|---|---------------|---------------|
| Number of stapled securities on issue as at the end of the period | 146,105,439 | 132,870,000 |
| Net assets at balance date | \$286,081,536 | \$260,956,384 |
| Per security on issue | \$1.96 | \$1.96 |

| | 31 December 2014 | 31 December 2013 |
|--|---------------------|---------------------|
|--|---------------------|---------------------|

Note 20 Earnings per security

| | | |
|---|-------------|-------------|
| Number of stapled securities on issue as at the end of the period | 146,105,439 | 132,870,000 |
| Basic and diluted earnings per security - cents | 5.28 | 28.99 |

The calculation of basic and diluted earnings per security has been based on the profit attributable to stapled security holders and weighted average number of stapled securities outstanding.

Basic and diluted earnings per security on issue are lower than the comparative period 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.

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 21 Distributions

| | Total distribution \$'000 | No of stapled securities | Distributions per stapled security cents |
|--|---------------------------------|-----------------------------|--|
| Distributions to stapled security holders | | | |
| 31 December 2014 | | | |
| 1 July 2014 to 31 December 2014 | 11,542 | 146,105,439 | 7.90 |
| 31 December 2013 | | | |
| 10 December 2013 to 31 December 2013 | - | 132,870,000 | - |

| | Total distribution \$'000 | No of units | Distributions per unit cents |
|--|---------------------------------|---------------|------------------------------------|
| Distributions to unitholders of the Trust before stapling | | | |
| 31 December 2013 | | | |
| 1 July 2013 to 9 December 2013 | 12,901 | 9,042,761,481 | 0.14 |

Note 22 Related parties

Related party transactions

| | Transaction values for the six months ended | | Balance outstanding as at | |
|------------------------|--|---------------------|---------------------------|-----------------|
| | 31 December 2014 | 31 December 2013 | 31 December 2014 | 30 June 2014 |
| | \$ | \$ | \$ | \$ |
| Responsible Entity fee | 110,000 | 62,043 | 20,167 | 20,167 |
| Services Manager fee | 816,337 | 970,259 | - | - |

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 (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 (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 1,514,781 of stapled securities.

Services Manager fee

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

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

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 23 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.

31 December 2014

\$'000

| | Carrying amount | | | | Fair value | | | | |
|---|-----------------|--------------------------------|-----------------------|-----------------------------|------------|---------|---------|---------|---------|
| | Note | Fair value hedging instruments | Loans and receivables | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets not measured at fair value | | | | | | | | | |
| Trade receivables | 9 | - | 1,423 | - | 1,423 | | | | |
| Cash and cash equivalents | 8 | - | 2,652 | - | 2,652 | | | | |
| | | - | 4,075 | - | 4,075 | | | | |
| Financial liabilities measured at fair value | | | | | | | | | |
| Interest rate derivatives | 14 | (9,719) | - | - | (9,719) | - | (9,719) | - | (9,719) |
| | | (9,719) | - | - | (9,719) | | | | |
| Financial liabilities not measured at fair value | | | | | | | | | |
| Secured bank loans | 13 | - | - | (226,282) | (226,282) | | | | |
| Trade and other payables | 12 | - | - | (3,443) | (3,443) | | | | |
| | | - | - | (229,725) | (229,725) | | | | |

30 June 2014

\$'000

| | Carrying amount | | | | Fair value | | | | |
|---|-----------------|--------------------------------|-----------------------|-----------------------------|------------|---------|---------|---------|---------|
| | Note | Fair value hedging instruments | Loans and receivables | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets not measured at fair value | | | | | | | | | |
| Trade receivables | 9 | - | 535 | - | 535 | | | | |
| Cash and cash equivalents | 8 | - | 3,335 | - | 3,335 | | | | |
| | | - | 3,870 | - | 3,870 | | | | |
| Financial liabilities measured at fair value | | | | | | | | | |
| Interest rate derivatives | 14 | (3,162) | - | - | (3,162) | - | (3,162) | - | (3,162) |
| | | (3,162) | - | - | (3,162) | | | | |
| Financial liabilities not measured at fair value | | | | | | | | | |
| Secured bank loans | 13 | - | - | (223,175) | (223,175) | | | | |
| Trade and other payables | 12 | - | - | (2,410) | (2,410) | | | | |
| | | - | - | (225,585) | (225,585) | | | | |

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
Notes to the consolidated financial statements (continued)

Note 24 Contingent assets

The HPI Group is not aware of any contingent assets at 31 December 2014 which may materially affect the operation of the business.

Note 25 Contingent liabilities

The HPI Group is not aware of any contingent liabilities at 31 December 2014 which may materially affect the operation of the business.

Note 26 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 27 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 \$18.7 million (2013: \$17.6 million) of the HPI Group's total revenues.

Note 28 Subsequent events

Subsequent to reporting date the HPI Group settled contracts to acquire Magnums Tavern (\$17.5 million) and the Wallaby Hotel (\$9.5 million), freehold hotels leased to the ALH Group and the Coles Group respectively. The HPI Group also settled contracts to divest 6 Detached Bottle Shops for an aggregate of \$3.8 million, approximately 1.0% above book value.

No other item, transaction or event has occurred subsequent to 31 December 2014 that is likely in the opinion of the directors of the Responsible Entity to significantly affect the operations of the HPI Group, the results of those operations, or the state of affairs of the HPI Group in future financial periods.

Hotel Property Investments
Half Year Report for the six months ended 31 December 2014
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 8 to 26, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of Hotel Property Investments Group financial position as at 31 December 2014 and of its performance for the half year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
2. There are reasonable grounds to believe that the Hotel Property Investment Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of The Trust Company (RE Services) Limited.



Andrew Cannane

Director

Sydney

Dated this 25th day of February 2015



Independent auditor's review report to the stapled security holders of Hotel Property Investments Limited and Hotel Property Investments Trust

We have reviewed the accompanying half-year financial report of Hotel Property Investments (the Group), which comprises the consolidated statement of financial position as at 31 December 2014, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising Hotel Property Investments Limited (the Company), Hotel Property Investments Trust (the Trust), and the entities they controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year 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 half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hotel Property Investments, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hotel Property Investments is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature of the KPMG firm, written in dark ink.

KPMG

A handwritten signature of Darren Scammell, written in dark ink.

Darren Scammell

Partner

Melbourne

25 February 2015