Hotel Property Investments Group

ASX Appendix 4E

Full Year Report

Year Ended 30 June 2017

Name of entity

HOTEL PROPERTY INVESTMENTS (HPI)

ABN or equivalent company reference

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

Half yearly	Preliminary final	Reporting Period
	✓	1 July 2016 to 30 June 2017 (previous corresponding period 1 July 2015 to 30 June 2016)

Results for announcement to the market

	30-Jun-2017 A$'000	30-Jun-2016 A$'000	Variance %
Total revenue from ordinary activities	48,727	47,872	1.79%
Total revenue from operating activities	120,410	81,428	47.87%
Profit from ordinary activities after tax attributable to stapled Securityholders	98,899	60,128	64.48%

	30-Jun-2017 $ per security	30-Jun-2016 $ per security	Variance %
Net Assets per security	$2.65	$2.28	16.18%

	30-Jun-2017 cents per security	30-Jun-2016 cents per security	Variance %
Earnings per security	67.71	41.15	64.52%

Distributions

	Amount per security	Franked Amount
Interim Distribution	22.2 cents	nil
▪ An interim distribution of 22.2 cents was paid on 6 March 2017 relating to the period from 1 July 2016 to 31 December 2016 ▪ 9.7 cents of the interim distribution related to operations and 12.5 cents related to a special distribution to Securityholders. ▪ The record date for determining entitlements to the interim distribution was 30 December 2016.		
Final Distribution	9.9 cents	nil
▪ A final distribution of 9.9 cents was declared relating to the period from 1 January 2017 to 30 June 2017 ▪ The total distribution amount of 9.9 cents per stapled security represents a Trust distribution. The distribution payment will be made on 6 September 2017. ▪ The record date for determining entitlements to the final distribution was 30 June 2017.		

Explanation of Results

- Total revenue from ordinary activities increased by 1.79% due to annual rent increases averaging 3.62% across the portfolio offset by the reduction of rent revenue due to the sale of the Payneham Tavern in September 2016.
- Total revenue from operating activities increased by 47.87% primarily due to the significant fair value adjustment of investment property during the period of $69.5 million (2016: $32.6 million).
- Profit from ordinary activities after tax attributable to stapled Securityholders increased by 64.52% due to:
  - the abovementioned increases in rent revenue and fair value adjustments; and
  - a $1.5 million gain on the sale of the Payneham Tavern.

Other

During the year HPI LTIP Pty Ltd and the HPI Rights Plan Trust were established and are controlled by HPI Limited. There are no entities over which control has been gained or lost during the period.

There are no associates or joint venture entities.

The remainder disclosures required to comply with listing rule 4.3A are contained within the 'Review and results of operations' section of the June 2017 Directors' Report and the audited June 2017 Financial Report.

Audit

This report is based on financial accounts which have been audited by KPMG. A copy of the Hotel Property Investments audited annual report is attached.

Hotel Property Investments (HPI)
Report for the Year Ended 30 June 2017

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

Contents

The Directors of Hotel Property Investments Limited (the "Responsible Entity") for the Hotel Property Investments Trust ("the Trust"), present the consolidated financial report of Hotel Property Investments Trust, Hotel Property Investments Limited ("the Company") and their controlled entities (together "the HPI Group") for the year ended 30 June 2017.

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

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

Corporate Governance

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

1. Directors and officers

On 1 July 2016, upon the retirement of the Trust Company (RE Services), the Company became the Responsible Entity for the Trust.

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

Name and position	Experience
Michael Tilley *Independent non-executive Chairman*	*Appointed 19 November 2013* Michael Tilley was appointed an independent 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. Michael was a non-executive Director at Orica Ltd from November 2003 until January 2014 where he was the Chairman of Orica's Safety, Health & Environment Committee and a member of the Audit and Risk and Corporate Governance and Nominations Committees. Michael is a former member of the Takeovers Panel and has previously served as a non-executive Director of Incitec Ltd. He holds a Post Graduate Diploma in Business Administration from Swinburne University and is a Fellow of The Australian Institute of Company Directors.
Raymond Gunston *Independent non-executive Director*	*Appointed 19 November 2013* Raymond Gunston was appointed an independent non-executive Director of the Company in November 2013. Raymond has over 30 years of corporate and financial services experience in the public and private sectors, specialising in finance, treasury, mergers and acquisitions, and accounting. Raymond is currently a non-executive Director of Sigma Pharmaceuticals Limited, where he is also a member of the Remuneration and Nomination Committee and Chairman of the Risk Management and Audit Committee. He was formerly Chief Financial Officer of Tatts Group Limited and Director of many of the Tatts Group's subsidiary and associate companies. He is currently General Manager – Infrastructure, Major Projects and Investment at the Australian Football League. Raymond has a Bachelor of Commerce (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. Raymond is Chairman of HPI Group's Board Audit and Risk Management Committee and the Responsible Entity Compliance Committee.

1. Directors and officers (continued)

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

1. Directors and officers (continued)

Name and position	Experience
David Charles	
Managing Director & Chief Executive Officer and Company Secretary	*Appointed 1 July 2016 as Managing Director & Chief Executive Officer* *Appointed 22 December 2016 as Company Secretary, resigned 19 May 2017* David Charles was appointed Managing Director and CEO of HPI in July 2016, having been Fund Manager since November 2013. From April 2009 to November 2013 David was Chief Financial Officer at the Redcape Group, HPI's former owner. Before joining the Redcape Group Limited, David served at Coles Group for 5 years, including 4 years within the Liquor and Hotels division in senior finance and business management roles. He is a Chartered Accountant with over 25 years' experience in property, retail and hospitality, financial services, and accounting and audit. David holds a Bachelor of Economics from Monash University and is a member of the Institute of Chartered Accountants in Australia and New Zealand.
Blair Strik	
Chief Financial Officer and Company Secretary	*Appointed 26 April 2017 as Chief Financial Officer and 19 May 2017 as Company Secretary* Blair Strik joined HPI Group in April 2017 as Chief Financial Officer and has over 15 years' experience in the property industry, professional services and treasury. Prior to joining the HPI Group, Blair held senior finance positions with the Industry Superannuation Property Trust for over 9 years, building on experience from previous roles at Rio Tinto and KPMG. Blair holds a Bachelor of Business from Swinburne University of Technology and is a member of the Institute of Chartered Accountants in Australia and New Zealand.
Jenny Romeo	
Chief Financial Officer and Company Secretary	*Resigned 22 December 2016*

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

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

During the year, the HPI Group refinanced its loan facilities, replacing the previous syndicated facility agreement with a common terms deed and bilateral facility agreements with the Commonwealth Bank of Australia and Westpac Banking Corporation. The refinancing increased the average loan term to expiry to 4.3 years on settlement and included an average interest rate margin of 1.7%.

In December 2016, in conjunction with the loan refinancing, the Board commissioned independent valuations for the entire property portfolio resulting in a reduction in the weighted average capitalisation rate from 7.3% at 30 June 2016 to 6.5%. The Directors have valued investment property at $658.7 million at 30 June 2017, a net increase of $69.5 million over the prior year.

The HPI Group introduced a long-term incentive plan for executive employees during the year. The plan is designed to link executive remuneration with the long-term goals and performance of the HPI Group. During the year, the HPI Group established an employee share trust (HPI Rights Plan Trust) and associated trustee (HPI LTIP Pty Ltd) to operate the plan. These entities are controlled by the HPI Group and as such, are included within the HPI Group's consolidated financial statements for the year ended 30 June 2017.

The HPI Rights Plan Trust has purchased HPI Group securities on-market during the period. Shares held by the HPI Rights Plan Trust will transfer to employees upon satisfaction of vesting criteria. These shares are classified as Treasury shares in equity reserves for financial reporting purposes.

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 2017 the HPI Group paid an interim distribution of 22.2 cents per stapled security comprising of 9.7 cents per stapled security from income for the half year ended 31 December 2016 and a special distribution of 12.5 cents per stapled security. The HPI Group has declared a final income distribution of 9.9 cents per stapled security to be paid on 6 September 2017. The aggregate income distribution of 19.6 cents per security from trading operations represents a 7.1% increase over the aggregate 2016 income distribution of 18.3 cents.

5. Matters subsequent to the end of the financial year

On 23 June 2017, the HPI Group priced A$230 million long-term debt via the U.S. Private Placement ("USPP") market. The USPP issue comprises three tranches of unsecured, Australian Dollar denominated notes:

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

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

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

Immediately following these changes to the Group's financing arrangements, HPI Group drawn debt was $256 million including $230 million under the USPP and $26 million under CTD. As $130 million or 50.7% of this drawn debt is on fixed interest terms the HPI Group cancelled its $62.5 million interest rate swap on 18 July 2017, at a payout cost of $1.2 million. Consequently, the HPI Group's weighted average term to expiry for its loans and borrowings has increased from 3.6 years to 8.0 years as at 11 August 2017.

No other item, transaction or event has occurred subsequent to 30 June 2017 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

6.1 Background

The HPI Group is an Australian Real Estate Investment Trust. Its principal activity is real estate investment in freehold pubs in Australia. The HPI Group listed on the ASX on 10 December 2013. The HPI Group owns a portfolio of freehold properties, comprising pubs and associated speciality stores located on the pub sites.

6.2 Current year performance

The HPI Group recorded a total profit after tax for the year of $98.9 million. Operating revenues and expenses included rental income from investment properties of $44.7 million, property cost recoveries of $4.1 million, property outgoing costs of $6.8 million, other trust and management costs of $3.0 million, and financing costs of $10.4 million. Additionally, there was a fair value gain on investment property of $69.5 million.

At 30 June 2017, the Investment Properties have been valued by Directors. In accordance with the HPI Group policy, Directors valuations have been determined by reference to the current net income, including allowance for contracted rental growth for each property and the specific circumstances of each property. Market capitalisation rates maintained constant at their previous independent valuation level. Independent valuations will be gained for at least one third of the portfolio at 31 December 2017 in accordance with the HPI Group's established valuation cycle. The current average capitalisation rate is 6.5%.

Adjusting profit after tax for fair value adjustments, losses on hedging and other minor items, the distributable earnings of the HPI Group was $29.3 million. Adjusting further for maintenance capex of $0.8 million and one off costs of property acquisition and divestments that did not proceed of $0.1 million, the Adjusted Funds from Operations (AFFO) was $28.6 million, 100% of which will be distributed to security holders.

The income distribution for the year is 19.6 cents per security, comprised of an interim distribution of 9.7 cents and a final distribution of 9.9 cents per security from trading operations. A special distribution of 12.5 cents per security was paid in March 2017.

6.3 Financial position

At 30 June 2017 Net Assets were $387.2 million representing net assets per stapled security of $2.65 (June 2016: $2.28). Major assets and liabilities included cash on hand of $1.1 million, investment property of $658.7 million, receivables and other current assets of $0.6 million, bank loans of $254.8 million and a provision was created for payment of distributions of $14.5 million.

During the period investment property values increased by $70.4 million before capex resulting mainly from fair value gains of $69.5 million, whilst loans have increased by $8.9 million.

At 30 June 2017, the HPI Group's loan facility of $285 million was drawn to $256.0 million and an interest rate swap was in place for an aggregate $62.5 million expiring on 10 December 2018.

6. Review and results of operations (continued)

6.3 Financial position (continued)

The HPI Group will continue to monitor debt and interest rate markets with the goal of prudently managing its ongoing interest rate risks.

During the year the HPI Group maintained interest rate swaps to hedge interest rate risk. Following the pricing of the USPP notes in June 2017, the swap in place at 30 June 2017 was cancelled in July 2017.

6.4 Risk management

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

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

6.5 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 approximately 3.9% across the portfolio and by prudent management of financing charges, management fees and other costs of the Trust. Further distribution growth may arise from development opportunities undertaken on surplus land or with Coles Group as it pursues its retail liquor and hotels strategy, or through further accretive freehold hotel acquisitions.

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

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

6.6 Distributions

For the year ended 30 June 2017 the HPI Group will distribute 100% of its Adjusted Funds From Operations ("AFFO"), calculated as profit for the year adjusted for fair value movements, losses or gains on hedging, other one off and non-cash items, tax, and maintenance capital expenditure.

During the year, the HPI Group paid a special distribution of 12.5 cents per stapled security in addition to the income distribution of 19.6 cents per security paid from trading operations.

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

	2017 $'000
Profit after income tax for the year	98,899
Plus/(Less): Adjustments for non-cash items	
Net fair value increments to investment properties	(69,501)
Straight line lease adjustment	(47)
Cash flow hedges	640
Gain on sale of investment properties	(1,530)
Non-cash finance costs	843
Income tax expense	2
Total adjustments for non-cash items	(69,593)
Distributable earnings	29,306
Add one-off costs related to discontinued transactions	86
Less maintenance capital expenditure	(816)
Adjusted funds from operations	28,576
Distribution paid or provided for	46,879

	2017 Cents
Earnings and distribution per stapled security:	
Basic and diluted earnings	67.7
Earnings available for distribution per security	32.1
Interim distribution per security	9.7
Final distribution per security	9.9
Special distribution per security	12.5
Total distribution per security	32.1

7. Directors' information

Directorships of listed entities within the last three years

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

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

Special responsibilities of Directors

The following are the special responsibilities of each Director:

Michael Tilley is Chairman of the Board
Raymond Gunston is Chairman of the BARC and the Responsible Entity Compliance Committee
John Russell is Chairman of the Human Resources Committee (HRC) and was previously a member of the BARC
Lachlan Edwards and Giselle Collins are members of the BARC and HRC

7. Directors' information (continued)

Directors' interests in stapled securities

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

Name	Role	Number held at 1/07/2016	Net Movement	Number held at 30/06/2017
Michael Tilley	Independent non-executive Chairman	1,100,714	-	1,100,714
Raymond Gunston	Independent non-executive Director	125,714	-	125,714
Lachlan Edwards	Independent non-executive Director	172,510	-	172,510
John Russell	Independent non-executive Director	56,450	-	56,450
Giselle Collins	Independent non-executive Director	-	-	-
David Charles	Managing Director and Chief Executive Officer	34,998	-	34,998

Meetings of Directors

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

	Board		BARC		RECC		HRC	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Michael Tilley	13	13	-	-	-	-	-	-
Raymond Gunston	13	13	4	4	5	5	-	-
Lachlan Edwards	13	13	4	4	-	-	1	1
John Russell	13	13	3	3	-	-	1	1
Giselle Collins	5	5	1	1	-	-	1	1
David Charles	13	13	-	-	-	-	-	-

8. Remuneration Report - Audited

This report provides details on the HPI Group's remuneration structure, decisions and outcomes for the year ended 30 June 2017 for Key Management Personnel ("KMP") of the HPI Group.

8.1 Key Management Personnel

This report explains the remuneration arrangements for the HPI Group's KMPs employed during the reporting period, who are the individuals responsible for planning, controlling and managing the HPI Group.

For the 2017 reporting year, the KMP were the non-executive Directors and the Managing Director & Chief Executive Officer and the Chief Financial Officer & Company Secretary.

The Managing Director & Chief Executive Officer, Mr David Charles, commenced employment with HPI on 1 July 2016 upon internalisation of the HPI Group management. Prior to this date, Mr Charles was employed by the external services manager, Redcape Property Services Pty Ltd and as such, was not included in the 2016 remuneration report.

During the 2017 reporting year, Ms Jenny Romeo held the position of Chief Financial Officer & Company Secretary until 22 December 2016. Mr Blair Strik commenced employment as Chief Financial Officer on 27 April 2017 and was appointed Company Secretary on 19 May 2017.

8.2 Remuneration Governance

The remuneration arrangements for non-executive Directors are distinct and separate from those for the executives. The Board's Charter provides that the Board will determine the fees payable to non-executive Directors within the aggregate amount approved by Securityholders. The aggregate amount has been approved by Securityholders at a maximum of $900,000 per annum, and can only be increased by the passing of an ordinary resolution of Securityholders.

The Board established a Human Resources Committee ("HRC") during the 2017 financial year. Prior to the establishment of the HRC, the full Board has taken responsibility for all aspects of Board and executive remuneration.

The purpose of the HRC is to recommend to the Board policies and practices which enable the Company to attract, develop, retain and motivate high calibre Directors and Executives. The HRC will review and make recommendations on policies for remuneration, development, retention and termination of Directors and KMP.

8. Remuneration Report - Audited (continued)

The Board shall appoint members to the HRC from time to time and review the composition of the HRC annually. The HRC shall consist of at least three Directors and will be comprised solely of non-executive Directors with a majority being independent (including the Chairman).

As a minimum, the HRC shall meet once a year in order to facilitate a Board performance assessment and review and make recommendations to the Board on remuneration packages and policies applicable to Directors and Executives.

During the year ended 30 June 2017, the Board obtained advice from independent remuneration advisors on remuneration benchmarking. Refer to section 8.4.

8.3 Executive remuneration philosophy and link to business strategy Objectives

The Board's overall objective is to ensure that executive remuneration is effective in attracting, motivating and retaining high calibre executives to allow the HPI Group to generate sustainable growth in value for Securityholders, while being fair and reasonable for executives and Securityholders.

More specifically, the executive remuneration framework is intended to:

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

A mix of fixed and performance-related remuneration is provided to achieve these objectives, with a distinguishing feature of the HPI executive remuneration framework being that all performance-based reward is provided through the equity-based long-term incentive plan (LTI), with no annual bonus or short-term incentive (STI). The weighting to fixed pay is justified on the basis of the steady and predictable nature of HPI's current business (with long term leases and predictable rental increases over all properties).

8.4 Services from remuneration consultants

The HRC engaged Willis Towers Watson as remuneration consultant to assist the Board to review the amount and elements of KMP remuneration.

Willis Towers Watson was also engaged to provide market based comparisons and information relevant to setting the remuneration of the Managing Director and Chief Executive Officer, and the Chief Financial Officer. Documented protocols apply to the engagement of remuneration consultants to ensure compliance with the relevant provisions of the Corporations Act 2001, including those relating to the provision of remuneration recommendations. No remuneration recommendations were included in the advice provided by Willis Towers Watson during the year.

The Board is satisfied that the advice provided to the HRC was made by Willis Towers Watson free from undue influence by members of KMP to whom the advice related.

8.5 Executive remuneration strategy and structure

Fixed remuneration

Fixed remuneration represents the base level of reward for executives. Fixed remuneration is set having regard to the employee's responsibilities, experience, skills and performance, as well as to the external market and internal relativities.

The Board has set fixed remuneration at a level that it believes is reasonable in relation to the market, with reference to the remuneration for equivalent positions in comparable listed entities (remuneration for the Chief Executive Officer and Chief Financial Officer was benchmarked against both comparable ASX-listed real estate investment trusts and similar sized ASX-listed general market companies).

8. Remuneration Report - Audited (continued)

Variable remuneration

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

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

In recognition of the successful internalisation of HPI's management at 1 July 2017, the Board awarded the then Chief Financial Officer a further one-off $37,000 cash STI during the reporting period ending 30 June 2017.

The Chief Financial Officer's STI plan was subsequently replaced with a long-term incentive plan for the year ended 30 June 2017.

The Board considered whether a short term incentive should be included in future executive remuneration but came to the view that the interests of security holders would be best served if all of the performance-based remuneration is focussed on longer-term performance. This is because the nature of the HPI business under the current business model, with its long-term pub leases with built-in annual rental adjustments, means that available financial performance metrics are too predictable and certain of achievement for a STI based on such measures to provide a meaningful incentive.

Consequently the Board has determined that 100% of executive variable remuneration should be linked to the value delivered to the HPI Group's Securityholders in the form of the distributions from the Trust and growth in the price of HPI Securities. The Board has given careful and detailed consideration to deciding on the best performance measures to use in the LTI plan that would achieve this objective and concluded, in the particular circumstances applying to the HPI Group, that the condition that should be used is relative Total Securityholder Return (TSR), given that TSR takes account of both distributions paid and growth in the price of securities.

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

Executives will also be required to remain employed with the HPI Group from the date Rights are granted until the time vesting outcomes are determined before any Rights will be able to vest unless the Executive leaves due to ill-health, total and permanent disability, death, redundancy or sale of the business. In such circumstances unvested rights will vest pro rata according to the extent to which the relevant performance period has been completed as at the date on which employment ceases and having regard to the extent to which performance conditions have been achieved, as determined by the Board. There will be no re-testing of Rights that do not vest on the basis of HPI's relative TSR performance over the relevant 3-year performance period.

To maximise alignment with the returns experienced by Securityholders, the Board has imposed as a gateway condition a requirement that the HPI Group's TSR over the relevant 3-year LTI performance period must be positive before any Rights will be able to vest under the LTI plan. This will ensure that Rights cannot vest to executives when Securityholders have lost value over the Performance Period relating to those Rights even though HPI's relative TSR ranking against the comparator group would otherwise result in some or all Rights vesting because HPI has done relatively better than the comparator group companies in a declining market.

8. Remuneration Report - Audited (continued)

8.6 Performance - based remuneration - HPI Rights Plan

The Rights-based LTI plan was established in the 2017 reporting year. Under the Plan, participants will receive annual grants of Rights over HPI Securities. Each Right can be exercised to provide one HPI Security if the performance conditions attached to that Right are satisfied and the executive remains employed with the HPI Group until the vesting outcomes have been determined. To further maximise the alignment of interests between executives and Securityholders, for the period between vesting and exercise of a Right, the Company will remunerate the executive an amount equivalent to the distributions paid on a Security over that same period for each Right that vests.

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

Rights granted under the FY2017 Offer will vest if the following vesting conditions are met:

- HPI's Total Shareholder Return (TSR) measured over the three years from 1 July 2016 to 30 June 2019 (the Performance Period) is positive (i.e. a positive percentage);
- HPI's TSR measured over the Performance Period is ranked at or above the 50th percentile of the comparator group of ASX-listed real estate investment trusts;
- The proportion of the Rights in the FY2017 grant that vest will be determined according to HPI's relative TSR percentile ranking against the comparator group companies over the Performance Period, as follows:
    - At the 75th percentile of the peer group, or above: 100% of the Rights in the grant vest;
    - Between the 50th and 75th percentile of the peer group: the Rights in the grant vest on a straight line basis between 50% and 100%;
    - At the 50th percentile of the peer group: 50% of the Rights in the grant vest;
    - Below the 50th percentile of the peer group: no Rights in the grant vest; and
- The executive remains continuously employed by the Company from the Grant Date until the date on which the Board makes a determination as to whether the Vesting Conditions applicable to those Rights have been met.

Rights will be forfeited if they do not vest or on cessation of employment, with the proviso that participants who cease employment with the HPI Group for reasons such as ill-health, total and permanent disability, death, redundancy or sale of the business, unvested rights will vest pro rata according to the extent to which the relevant performance period has been completed as at the date on which employment ceases and having regard to the extent to which performance conditions have been achieved, as determined by the Board. For participants whose employment is terminated by the HPI Group all rights, entitlements, and interests in any Rights, including vested but unexercised Rights, will be forfeited. For participants leaving for any other reason the Board has a discretion to permit some or all of the unvested Rights held by an executive to vest.

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

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

8. Remuneration Report - Audited (continued)

8.7 Executive Service Agreements Details

The details of current executive service agreements are:

Executive	Chief Executive Officer – David Charles
Contract Duration	No fixed date
Remuneration	Year commencing 1 July 2016: • Fixed remuneration $425,000 p.a. (including superannuation) • LTI annual grant value $200,000 delivered in Rights over Securities and based on performance and continued service
Total Remuneration	$625,000 p.a. (68% fixed; 32% at-risk)
Termination by Executive	12 months notice
Termination by Company for cause	No notice
Termination by Company (other circumstances)	12 months notice
Post - employment restraints	12 months non compete

Executive	Chief Financial Officer – Blair Strik, commenced 27 April 2017
Contract Duration	No fixed date
Remuneration	Year commencing 1 July 2016: • Fixed remuneration $250,000 p.a. (including superannuation) • No LTI. LTI participation commences on 1 July 2017
Total Remuneration	$250,000 p.a. (100.0% fixed; 0% at-risk)
Termination by Executive	3 months notice
Termination by Company for cause	No notice
Termination by Company (other circumstances)	3 months notice
Post - employment restraints	6 months non compete

The Chief Financial Officer is not eligible to participate in the FY17 LTI program. For FY18 the Chief Financial Officer's LTI grant value is $100,000 and for subsequent years is $75,000.

8. Remuneration Report - Audited (continued)

8.8 Remuneration of the Company's Directors

During the year the Chairman of the Company received director's fees of $190,000 inclusive of statutory superannuation contributions and each independent non-executive Director received $75,000 plus statutory superannuation contributions. The Chairman of the Company's Board Audit and Risk Committee (BARC) was entitled to payment of $20,000 plus statutory superannuation contributions for that role. BARC members $10,000 plus statutory superannuation contributions for their service to the BARC.

Directors of the Company may also be reimbursed for all reasonable travelling and other expenses properly incurred in attending 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.

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

The Trust Company (RE Services) acted as Responsible Entity until 30 June 2016. Pursuant to a Deed of Appointment and Retirement, Hotel Property Investments Limited was appointed as Responsible Entity effective 1 July 2016. The prior year Company Secretary fees and directors' fees (if any) for acting as Directors of the Responsible Entity were paid by the Responsible Entity or its related bodies corporate and were not paid out of the assets or income of the Trust.

Fees paid to the Responsible Entity and its associates are disclosed in Note 29 to the financial statements.

8.10 Consequences of performance on shareholder wealth

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

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

[1] 2014 results are part year only

8.11 Key management personnel transactions - audited

Movements in securities

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

	Held at 1 July 2016	Received on exercise of options	Other changes*	Held at 30 June 2017
David Charles	34,998	-	-	34,998
Blair Strik	-	-	-	-

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

Details of non-executive Directors' Securityholdings are included in section 7 of the Directors' report.

Movements in options and rights

	Opening performance rights	Granted as remuneration	Forfeited / lapsed	Vested	Closing
David Charles	-	65,107	-	-	65,107
Blair Strik	-	-	-	-	-

8. Remuneration Report -Audited (continued)

8.12 Details of remuneration

Remuneration details 1 July 2016 to 30 June 2017

Amount of remuneration

	Short term				Post employment	Other long term	Termination benefits	Share-based payments	Total		
	Salary & Fees $	At-risk cash bonus $	Non-monetary benefits $	Total $	Superannuation benefits $	$	$	Options and rights $	$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Independent non-executive Director											
Michael Tilley (Chairman)	173,516	-	-	173,516	16,484	-	-	-	190,000	-	-
Raymond Gunston	95,000	-	-	95,000	9,025	-	-	-	104,025	-	-
Lachlan Edwards	85,000	-	-	85,000	8,075	-	-	-	93,075	-	-
John Russell [2]	85,000	-	-	85,000	8,075	-	-	-	93,075	-	-
Giselle Collins	16,782	-	-	16,782	1,594	-	-	-	18,376	-	-
Managing Director & Chief Executive Officer											
David Charles [1]	406,693	-	7,970	414,663	19,616	-	-	16,711	450,990	-	4%
Chief Financial Officer											
Jenny Romeo (former)	114,595	37,000	3,920	155,515	9,808	-	-	-	165,323	22%	-
Blair Strik (current)	41,056	-	1,350	42,406	3,269	-	-	-	45,675	-	-
	1,017,642	37,000	13,240	1,067,882	75,946	-	-	16,711 [3]	1,160,539	N/A	N/A

1. David Charles, commenced employment with HPI on 1 July 2016 upon internalisation of the HPI Group management. Prior to this date, Mr Charles was employed by the external services manager, Redcape Property Services Pty Ltd and as such, was not included in the 2016 remuneration report.
2. John Russell was previously the Chief Executive Officer of Redcape Group Ltd. Upon termination of the service agreement with Redcape Property Services Ltd, Mr Russell became an independent non-executive Director.
3. The value of option and rights reflects the expense recognised in the profit and loss for the period. Refer to the share-based payment accounting policy in note 3.

8. Remuneration Report – Audited (continued)

8.12 Details of remuneration (continued)

Remuneration details 1 July 2015 to 30 June 2016

Amount of remuneration

	Short term				Post employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
	Salary & Fees	At-risk cash bonus	Non-monetary benefits	Total	Superannuation benefits			Options and rights			
	$	$	$	$	$	$	$	$	$	%	%
Independent non-executive Director											
Michael Tilley (Chairman)	173,801	-	-	173,801	16,511	-	-	-	190,312	-	-
Raymond Gunston	95,217	-	-	95,217	9,046	-	-	-	104,263	-	-
Lachlan Edwards	85,194	-	-	85,194	8,093	-	-	-	93,287	-	-
Non-executive Director											
John Russell [4]	42,500	-	-	42,500	4,038	-	-	-	46,538	-	-
Chief Financial Officer											
Jenny Romeo	166,966	38,000	4,484	209,450	14,123	-	-	-	223,573	17%	-
	563,678	38,000	4,484	606,162	51,811	-	-	-	657,973	N/A	N/A

4. John Russell, who had previously elected not to receive any director's fees, commenced receiving fees on 1 January 2016.

9. Indemnification and insurance of officers and auditors

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

During the financial year, the HPI Group paid an insurance premium of $118,509 (2016: $108,062) in respect of the Directors and Officers of the Company.

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

10. Non-audit services

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

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

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

	$
Audit and review of financial statements	178,225
Compliance plan audit	9,500
AFSL audit	9,100
Total payable to KPMG	196,825

11. Likely developments

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

12. Lead auditor's independence declaration

A copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19 and forms part of the Directors' Report for the year ended 30 June 2017.

13. Environmental regulation

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

14. Rounding of amounts

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

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

Michael Tilley

Director

Melbourne

Dated this 23rd day of August 2017

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of Hotel Property Investments Limited, being the responsible entity for Hotel Property Investments Trust for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Dean Waters
Partner

Melbourne

23 August 2017

Hotel Property Investments
Report for the year ended 30 June 2017
Consolidated statement of profit or loss and other comprehensive income

	Note	2017 $'000	2016 $'000
REVENUE			
Rent from investment properties		44,659	43,749
Revenue from outgoings recovered		4,068	4,123
Total revenue		48,727	47,872
Other income			
Fair value adjustment to investment properties	13	69,501	32,515
Amortisation of Derivatives		593	997
Gain on sale of investment properties		1,530	1
Finance revenue		15	42
Sundry income		44	1
Total other income		71,683	33,556
Total income from operating activities		120,410	81,428
OPERATING EXPENSES			
Investment property outgoings and expenses		(6,589)	(6,861)
Other expenses	7	(3,249)	(4,100)
		(9,838)	(10,961)
Profit from operating activities		110,572	70,467
Non operating expenses			
Realised loss on derivative financial instruments		(702)	-
Change in fair value of derivative financial instruments		(531)	-
Finance costs	8	(10,438)	(10,324)
Total non operating expenses		(11,671)	(10,324)
Profit before tax		98,901	60,143
Tax expense	14	(2)	(15)
Profit for the year		98,899	60,128
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Cash flow hedges - effective portion of changes in fair value		706	(1,937)
Cash flow hedges - reclassed to profit and loss		1,231	-
Total comprehensive income		100,836	58,191
Profit / (loss) for the year attributable to:			
Unitholders of the Trust		101,568	60,094
Shareholders of the Company		(2,669)	34
		98,899	60,128
Basic and diluted earnings per security (cents)		67.71	41.15

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

Hotel Property Investments
Report for the year ended 30 June 2017
Consolidated statement of financial position

	Note	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	1,135	2,269
Trade and other receivables	10	225	469
Other current assets	11	421	248
Assets held for sale	12	-	8,290
Total current assets		1,781	11,276
Non-current assets			
Investment property	13	658,675	588,310
Plant & equipment		316	-
Other non-current assets	11	1,346	193
Deferred tax assets	14	103	68
Total non-current assets		660,440	588,571
TOTAL ASSETS		662,221	599,847
LIABILITIES			
Current liabilities			
Trade and other payables	15	4,423	2,694
Employee benefit liabilities	17	165	4
Provisions	19	14,458	13,787
Total current liabilities		19,046	16,485
Non-current liabilities			
Loans and borrowings	16	254,834	245,965
Employee benefit liabilities	17	4	-
Derivative financial instruments	18	1,135	3,985
Deferred tax liability	14	2	-
Total non-current liabilities		255,975	249,950
TOTAL LIABILITIES		275,021	266,435
NET ASSETS		387,200	333,412
EQUITY			
Contributed equity	20	262,640	262,640
Retained earnings	21	124,729	72,709
Reserves	22	(169)	(1,937)
TOTAL EQUITY		387,200	333,412

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

Consolidated statement of changes in equity

	Note	Contributed Equity $'000	Retained earnings $'000	Reserves $'000	Total Equity $'000
Balance at 1 July 2016		262,640	72,709	(1,937)	333,412
Total comprehensive income for the year					
Profit for the year		-	98,899	-	98,899
Hedging reserve movement	22	-	-	1,937	1,937
Total comprehensive income for the year		-	98,899	1,937	100,836
Transactions with owners in their capacity as owners recognised directly in equity					
Distribution to stapled security holders	25	-	(32,421)	-	(32,421)
Provision for distribution to stapled security holders	25	-	(14,458)	-	(14,458)
Share-based payment transactions	22	-	-	17	17
Purchase of treasury shares	22	-	-	(186)	(186)
Balance at 30 June 2017		262,640	124,729	(169)	387,200
Total recognised profit for the year is attributable to:					
- Trust					101,568
- Company					(2,669)
HPI Group					98,899

	Note	Contributed Equity $'000	Retained earnings $'000	Reserves $'000	Total Equity $'000
Balance at 1 July 2015		262,640	39,318	-	301,958
Total comprehensive income for the year					
Profit for the year		-	60,128	-	60,128
Hedging reserve movement				(1,937)	(1,937)
Total comprehensive income for the year		-	60,128	(1,937)	58,191
Transactions with owners in their capacity as owners recognised directly in equity					
Distribution to stapled security holders	25	-	(13,149)	-	(13,149)
Provision for distribution to stapled security holders	25	-	(13,588)	-	(13,588)
Balance at 30 June 2016		262,640	72,709	(1,937)	333,412

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 2017
Consolidated statement of cash flows

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Rent and outgoings recovered from investment properties (GST inclusive)		53,982	52,501
Payments to suppliers		(14,930)	(15,075)
Tax paid		(78)	-
Interest received		13	42
Net cash from operating activities	31	38,987	37,467
Cash flows from investing activities			
Proceeds from disposal of investment properties		9,833	722
Payment for additions to investment property		(448)	(503)
Payment for Plant & equipment additions		(348)	-
Payment for Treasury Shares		(186)	-
Net cash from investing activities		8,851	219
Cash flows used in financing activities			
Proceeds from borrowings		41,000	21,500
Repayments of borrowings		(31,623)	(26,000)
Borrowing costs paid		(10,788)	(10,058)
Payment for swap termination	18	(1,552)	-
Payment for distributions		(46,009)	(25,422)
Net cash used in financing activities		(48,972)	(39,980)
Net decrease in cash held		(1,134)	(2,293)
Cash and cash equivalents at the beginning of the period		2,269	4,562
Cash and cash equivalents at the end of the period	9	1,135	2,269

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

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 2017 comprises Hotel Property Investments Trust (the "Trust"), Hotel Property Investments Limited (the "Company") and their controlled entities (together "the HPI Group"). The Trust is a registered managed investment scheme under the *Corporations Act 2001*. The Company is a company limited by shares under the *Corporations Act 2001*. The Responsible Entity of the Trust is Hotel Property Investments Limited.

The 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, are 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 2017 was approved by the directors on 23 August 2017.

(c) Functional and presentation currency

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

The HPI Group is of a kind referred to in ASIC Corporations (Rounding in Financial and Directors' Reports) Instrument 2016/191 and in accordance with the Instrument, amounts in the financial report have been rounded 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 2017 are described in the following notes:

- Note 4a and Note 13 - investment property
- Note 4c and Note 30 - financial instruments

(e) Working capital

As at 30 June 2017, the HPI Group had an excess of current liabilities over current assets of $17.3 million. Notwithstanding this the financial report has been prepared on a going concern basis as the directors believe the HPI Group will continue to generate operating cash flows and has available debt facilities 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.

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.

Finance revenue

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

Outgoings and other revenue

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

(c) Finance income and finance costs

Finance revenue comprises interest income on bank deposits.

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

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

(d) Tax

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

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

The Company and its wholly owned 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% (2016: 30%)

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

(e) Goods and services tax

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

Note 3 Significant accounting policies (continued)

(f) Employee benefits

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

(g) Share-based payment transactions

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

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

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

(i) Investment property

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

Investment property is accounted for using the fair value model. Under the fair value model, investment properties are measured initially at cost. Transaction costs are included in the initial measurement. Subsequent to initial recognition, investment properties are stated at fair value, which is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and reflects market conditions at the reporting date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss in the 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 capitalisation rates have deteriorated, the directors will apply the average market capitalisation expansion to the market capitalisation rates of the remaining investment properties in determining the directors' valuations. Where external valuation market capitalisation rates have improved, the directors will maintain the existing capitalisation rate and use the present net rent in determining the directors' valuations. The directors will also take into consideration any property nuances, specific market factors, property location, and change in weighted average lease expiry before deciding on the final directors' valuation.

(j) Assets held for sale

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

(k) Plant & equipment

Recognition and measurement

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

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

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

Depreciation

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

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

(l) Financial instruments

(i) Non-derivative financial assets

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

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

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.

Note 3 Significant accounting policies (continued)

(l) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

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

Loans and receivables

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

Cash and cash equivalents

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

(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's non-derivative financial liabilities are loans and borrowings and trade and other payables.

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

(iii) Derivative financial instruments

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

Cash flow hedges

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

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

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

(iv) Issued units and issued shares

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

(m) Impairment

Non derivative financial assets

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

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

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

Note 3 Significant accounting policies (continued)

(m) Impairment (continued)

Non-financial assets

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

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

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these financial statements.

AASB 9 – Financial Instruments

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

The actual impact of adopting AASB 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, based on the Group's current positions the impact is not likely to be material.

AASB 15 – Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated interpretations. AASB 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The full impact of the standard is yet to be fully assessed, however there will be no impact on revenue generated by leases. The impact of the standard on other revenue sources is not expected to be material.

AASB 16 – Leases

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

AASB 16 replaces existing leases guidance including AASB 117 Leases and associated pronouncements and is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 *Revenue from Contracts with Customers* at or before the date of initial application of AASB 16. The full impact of the standard is yet to be fully assessed, however there will be no impact on revenue generated by leases.

Note 4 Determination of fair values

(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 13.

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

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

Note 4 Determination of fair values (continued)

(b) Trade receivables

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

(c) Derivatives

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

(d) Share-based payment transactions

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

Note 5 Financial risk management

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

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

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

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

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

Credit risk

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

Rental and outgoing receivables

The HPI Group's exposure to credit risk is influenced mainly by the individual characteristics of its tenants. The HPI Group has sought to reduce this tenancy risk by establishing leases with reputable tenants of multiple properties. These are considered to be experienced operators in the pub industry with a strong financial position. Approximately 92% of the HPI Group's rental revenue is attributable to one major tenant, the Coles Group.

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

Derivatives

The HPI Group has entered into derivative contracts to hedge its interest rate risk. The 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.

Note 5 Financial risk management (continued)

Market (price) risk

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

Interest rate risk

Interest rate risk for the HPI Group arises from borrowings on which interest is charged on a variable rate basis. This risk is mitigated by an interest rate swap as described in note 3 (l) (iii). Interest rate risk also exists for interest earned on cash and cash equivalents.

Property valuation risk

The HPI Group owns a number of investment properties. Those property valuations may increase or decrease from time to time. The HPI Group's Common Terms Deed ("CTD"), entered into on 2 December 2016 with its banks, contains financial covenants which include a Loan to Value Ratio ("LVR") covenant. The HPI Group monitors the risk of breach of these covenants by regularly performing sensitivity analysis.

Capital management

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

The HPI Group entered into the Common Terms Deed ("CTD") with its banks on 2 December 2016. The HPI Group considers its borrowings as part of its capital management strategy. The CTD contains financial covenants within which the HPI Group must always operate, and includes a LVR covenant and an Interest Cover Ratio (ICR) covenant. The Board monitors compliance with the financial covenants through forward projections to ensure that the HPI Group is unlikely to breach the covenants into the future. The HPI Group complied with the covenants for the year ended 30 June 2017.

Refer to the subsequent events disclosed in note 36 for changes made to the financing arrangements subsequent to balance date.

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

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

Note 6 Stapling

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

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

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

Note 7 Other expenses

	Note	2017 $'000	2016 $'000
Advisory and legal fees		60	853
Auditor's remuneration		197	200
Directors' fees		511	434
Employment expenses		1,263	240
Management fees		-	1,495
All other expenses		1,218	878
		3,249	4,100

On 1 July 2016 the HPI Group internalised its management and became the Responsible Entity for the Hotel Property Investments Trust, and all the staff previously providing third party services became employees of the HPI Group. Accordingly, the Group no longer incurs management fees The costs associated with management of the HPI Group are reflected within other expenses.

	2017 $	2016 $
Auditor's remuneration		
KPMG Australia		
- Audit and review of the financial reports	178,225	167,325
- Other assurance services	18,600	32,640
	196,825	199,965

Note 8 Finance costs

		2017 $'000	2016 $'000
Common Terms Deed ("CTD") / Syndicated Facility Agreement ("SFA")			
- interest expense		8,406	8,872
- interest rate swaps		1,137	1,116
- amortised borrowing costs and write off of deferred borrowing costs	(i)	843	268
- other finance costs		52	68
		10,438	10,324

(i) Represents the borrowing costs and associated amortisation related to the SFA which were capitalised on 9 December 2013. On execution of the CTD, the residual SFA borrowing costs were written off and the borrowing costs relating to the CTD were capitalised. The borrowing costs relating to the CTD are being amortised over the term of the loans.

Note 9 Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	1,135	2,269
	1,135	2,269

Note 10 Trade and other receivables	**2017 $'000**	**2016 $'000**
Trade receivables	223	424
Less: Allowance for impairment	-	-
Net trade receivables	223	424
Other receivables	2	45
	225	469

Note 11 Other current / non-current assets	**2017 $'000**	**2016 $'000**
Other current assets	421	248
Other non-current assets	1,346	193
	1,767	441

Other non-current assets comprises of costs paid in relation to raising of debt on the US Private Placement market. Borrowing costs will be capitalised on receipt of the debt. Refer to note 36.

Note 12 Assets held for sale		**2017 $'000**	**2016 $'000**
Investment properties held for sale		-	8,290
		-	8,290
Movements			
Carrying amount at the beginning of the year		8,290	-
Disposals		(8,290)	-
Transfer from investment property	13	-	8,290
Carrying amount at the end of the year		-	8,290

Payneham Tavern was classified as held for sale at 30 June 2016 with the transaction completing 6 September 2016.

Note 13 Investment property

(i) Investment property

All investment properties are freehold and 100% owned by the Company as appointed Responsible Entity of the Trust, with the exception of the Crown Hotel which is owned by CH Properties Services Pty Ltd as appointed trustee of CH Trust. (A 100% owned subsidiary of the Trust). Investment properties are comprised of land, buildings, fixed improvements and liquor and gaming licences. Plant and equipment located at the investment properties is held by the tenant.

(ii) Reconciliation of movements		2017 $'000	2016 $'000
Investment property		658,675	596,600
Investment properties held for sale	12	-	(8,290)
		658,675	588,310
Movements			
Carrying amount at the beginning of the year		588,310	563,490
Transfer to assets held for sale	12	-	(8,290)
Capital additions on investment properties		817	503
Straight line lease adjustment		47	92
Fair value adjustments		69,501	32,515
Carrying amount at the end of the year		658,675	588,310

(iii) Leasing arrangements

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

Remaining lease terms for all properties are on average 6.10 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.

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

(v) Fair value adjustments at 30 June 2017

Independent valuations were obtained for all investment properties as at 31 December 2016. These valuations were completed by CBRE Hotels Valuation & Advisory Services.

At 30 June 2017 all investment properties within the portfolio were valued by the directors of the Company.

	June 2017	June 2016
Market capitalisation rate range at last independent valuation	5.75% - 8.0%	6.75% - 8.75%

Note 13 Investment property (continued)

(vi) Fair value hierarchy

The fair value measurement for investment property of $658.7 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The table in section (ii) above shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

(vii) 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:*
	Net rent	Net rent was higher (lower)
- Additional land	Capitalisation rates	Capitalisation rates were lower (higher)
- Capital allowance	Additional land	Additional land was higher (lower) in value
- Other property specific factors	Capital allowance	Capital allowance was (smaller) larger
	Other property specific factors	

(viii) Property schedule

Pubs and On-site Specialty Leases Owned as at 30 June 2017			30 June 2017		30 June 2016	
Property	**Location**	**Date acquired**	**Cap'n rate** [1]	**Fair Value $'000**	**Cap'n rate** [1]	**Fair Value $'000**
Barron River Hotel	Stratford QLD	Feb-01	7.00%	7,430	8.00%	6,290
Beenleigh Tavern	Eagleby QLD	Oct-14	6.50%	12,500	7.90%	10,300
Berserker Tavern	Rockhampton QLD	May-04	7.00%	9,600	7.25%	8,960
Bonny View Tavern	Bald Hills QLD	Dec-06	7.00%	12,830	7.50%	11,640
Boomerang Motor Hotel	West Mackay QLD	Sep-01	8.00%	8,880	8.00%	8,580
Bribie Island Hotel	Bellara QLD	Aug-07	6.75%	16,070	7.00%	15,140
Brighton Hotel	Brighton QLD	Jul-05	6.75%	11,850	6.75%	11,460
Brighton Metro Hotel	Brighton SA	Jul-07	5.75%	16,860	6.75%	13,940
Caboolture Sundowner Hotel Motel	Caboolture QLD	Sep-03	6.75%	11,440	6.90%	10,720
Chancellors Tavern	Sippy Downs QLD	Aug-07	6.25%	13,830	7.00%	11,960
Cleveland Sands Hotel	Cleveland QLD	Dec-06	6.00%	28,930	7.10%	23,540
Cleveland Tavern	Cleveland QLD	Sep-03	6.25%	15,610	7.20%	13,140
Club Hotel	Gladstone QLD	Jan-05	7.00%	7,510	7.75%	6,450
Coomera Lodge Hotel	Oxenford QLD	Dec-06	6.50%	4,540	7.00%	4,550
Crown Hotel	Lutwyche QLD	Nov-05	6.50%	35,570	7.07%	32,520
Diamonds Tavern	Kallangur QLD	Mar-06	6.75%	9,350	7.45%	8,590

[1] Capitalisation rate at last independent valuation

Note 13 Investment property (continued)

(viii) Property schedule (continued)

			30 June 2017		30 June 2016	
Property	**Location**	**Date acquired**	**Cap'n rate[1]**	**Fair Value $'000**	**Cap'n rate[1]**	**Fair Value $'000**
Dunwoodys Tavern	Cairns QLD	Jan-97	6.75%	22,140	7.25%	19,960
Everton Park Hotel	Everton Park QLD	Dec-06	6.25%	25,140	6.75%	22,650
Ferry Rd Tavern	Southport QLD	Jul-06	6.00%	29,870	7.30%	26,150
Fitzys Loganholme	Loganholme QLD	Jun-06	6.50%	22,350	7.00%	20,060
Fitzys Waterford	Waterford QLD	Jun-06	6.75%	17,225	7.50%	15,050
Grafton Hotel	Edmonton QLD	Jun-94	7.00%	5,750	7.90%	6,470
Grand Junction Hotel	Pennington SA	Jul-07	6.25%	10,360	7.00%	9,000
Hotel HQ	Underwood QLD	Sep-14	6.00%	24,640	7.20%	19,890
Hotel Wickham	Fortitude Valley QLD	Jun-06	6.50%	11,490	6.80%	10,740
Kings Beach Tavern	Caloundra QLD	Aug-07	6.25%	17,500	7.00%	15,120
Kooyong Motor Hotel	North Mackay QLD	Mar-02	8.00%	6,550	8.30%	6,990
Leichhardt Hotel	Rockhampton QLD	Nov-04	7.75%	8,880	8.20%	8,050
Lord Stanley Hotel	East Brisbane QLD	Aug-07	6.25%	11,120	7.10%	9,240
Magnums Tavern	Airlie Beach QLD	Jan-15	6.50%	22,940	7.75%	18,660
Mi Hi Tavern	Brassal QLD	Dec-06	6.75%	17,040	7.50%	14,880
New Inala Hotel	Inala QLD	Jun-05	6.50%	11,900	7.00%	10,730
Palm Cove Tavern	Palm Cove QLD	Apr-04	6.50%	8,050	7.25%	7,000
Royal Hotel Townsville	West End QLD	Sep-98	7.50%	5,350	7.75%	5,600
Royal Mail Hotel	Tewantin QLD	Aug-07	6.50%	19,180	7.25%	16,660
Q Sports Bar*	Cairns QLD	Jun-05	6.50%	8,940	7.25%	7,810
The Hotel Allen	Northward QLD	May-00	8.00%	7,750	8.75%	16,000
The Regatta	Toowong QLD	Nov-06	6.00%	41,980	7.00%	35,040
The Wallaby Hotel	Mudgeeraba QLD	Jan-15	6.25%	12,620	7.85%	10,100
Tom's Tavern	Aitkenvale QLD	Dec-03	6.75%	22,280	7.50%	19,180
Trinity Beach Tavern	Trinity Beach QLD	Jun-05	6.75%	16,820	7.25%	15,120
Waterloo Tavern	Paralowie SA	Jul-07	6.25%	19,950	7.00%	17,230
Woodpecker Tavern	Burpengary QLD	Sep-03	6.50%	8,060	7.50%	7,150
			6.50%	658,675	7.29%	588,310
Held for sale						
Payneham Tavern **	Royston Park SA	Jul-07	-		7.00%	8,290
Total Pubs and On-site Speciality Leases			6.50%	658,675	7.28%	596,600

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

** Payneham Tavern was held for sale at the 30 June 2016 with the transaction completing September 2016.

[1] Capitalisation rate at last independent valuation

Note 14 Taxes	2017 $'000	2016 $'000
Tax expense		
(a) Tax expense recognised in profit or loss		
Current tax expense	35	67
Deferred tax expense	(33)	(52)
Tax expense attributable to profit from continuing operations	2	15
(b) Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit before tax	98,901	60,143
Income tax expense calculated at 30%	29,670	18,043
Trust income not subject to tax	(29,611)	(18,028)
Effect of permanent differences	(92)	-
Difference due to tax rate differential	35	-
Tax expense on profit before tax	2	15

(c) Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Accrued revenue	-	-	(2)	-	(2)	-
Plant & equipment	3	-	-	-	3	-
Accrued expenses	47	67	-	-	47	67
Employee liabilities	51	1	-	-	51	1
Recognition of tax losses	2	-	-	-	2	-
	103	68	(2)	-	101	68

(d) Movements in deferred tax balances during the year	2017 $'000	2016 $'000
Balance at the beginning of the year	68	16
Recognised in profit and loss	33	52
Balance at the end of the year	101	68
Balance represented as follows:		
Deferred tax asset	103	68
Deferred tax liability	(2)	-
	101	68

Note 15 Trade and other payables	**2017**	**2016**
	$'000	**$'000**
Current		
Trade payables	173	106
Due to related parties	-	288
Other payables	4,250	2,300
	4,423	2,694

Other payables includes $1.3m of accrued costs incurred raising the US Private Placement debt. Refer to notes 11 and 36.

Note 16 Loans and borrowings	**2017**	**2016**
	$'000	**$'000**
Non-current		
Bank loans	254,834	245,965
	254,834	245,965

During the year the HPI Group refinanced its loan facilities, replacing the previous Syndicated Facility Agreement with a Common Terms Deed and bilateral Facility Agreements with the Commonwealth Bank of Australia and Westpac Banking Corporation. The current weighted average loan term to expiry is 3.7 years at 30 June 2017. The aggregate limit of the facilities is $285.0 million which includes a $4.0 million bank guarantee facility.

	2017	**2016**
Syndicated Facility Agreement ("SFA")	**$'000**	**$'000**
Syndicated Facility Agreement ("SFA") - drawn down	-	246,623
Borrowing costs capitalised	(658)	(926)
Amortisation of borrowing costs	116	268
Borrowing costs written off	542	-
	-	245,965

Repayment schedule

Loans under the Syndicated Facility Agreement were repaid in full during period.

	2017	**2016**
Common Terms Deed ("CTD")	**$'000**	**$'000**
CTD - drawndown	256,000	-
Borrowing costs capitalised	(1,352)	-
Amortisation of borrowing costs	186	-
	254,834	-

Repayment schedule

Loans under the Common Terms Deed comprise two Tranches. Tranche A, totalling $105.0 million, is due to mature December 2019 and Tranche B, totalling $180.0 million, is due to mature December 2021.

Note 17 Employee benefit liabilities	**2017**	**2016**
	$'000	**$'000**
Short-term employee benefits	94	4
Post-employment benefits	75	-
	169	4
Represented as follows:		
Current liablities	165	4
Non-current liablities	4	-
	169	4

Note 18 Derivative financial instruments

	2017 $'000	2016 $'000
Derivative financial instruments - non current liability	1,135	3,985
	1,135	3,985
Derivative financial instruments at the beginning of the year	(3,985)	(3,046)
Fair value gain / (loss) for the year:		
- Cancelled derivatives	441	-
- Open derivatives	857	(939)
Close out of cancelled derivatives	1,552	-
Fair value of derivative financial instruments at end of the year	(1,135)	(3,985)

Note 19 Provisions

	2017 $'000	2016 $'000
Current		
Provision for distribution	14,458	13,588
Provision for capital works	-	199
	14,458	13,787

	Distribution	Capital works
Balance at the beginning of the year	13,588	199
Provisions made during the year	46,879	-
Provisions used / released during the year	(46,009)	(199)
Balance at the end of the year	14,458	-

Distribution
The provision for distribution relates to distributions to be paid to stapled security holders on 6 September 2017. This distribution will be funded via drawdown on the available loan facility.

Capital works
The provision for capital works related to expenditure incurred on capital development works which may not have been recovered in full from the tenant. The expenditure was recovered during the year and accordingly, this provision has been released as is no longer required.

Note 20 Contributed equity

	No. of units	$'000
2017		
On issue at 1 July 2016 - fully paid	146,105,439	262,640
On issue at 30 June 2017 - fully paid	146,105,439	262,640
2016		
On issue at 1 July 2015 - fully paid	146,105,439	262,640
On issue at 30 June 2016 - fully paid	146,105,439	262,640

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

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

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

Note 20 Contributed equity (continued)

Treasury shares

Contributed equity reflects the number of stapled securities on market at balance date, exclusive of the effect of treasury shares held. (Refer to note 22)

Note 21 Retained earnings

	Note	2017 $'000	2016 $'000
Balance at the beginning of the year		72,709	39,318
Profit for the year		98,899	60,128
Interim Distribution to stapled security holders		(32,421)	(13,149)
Provision for final distribution to stapled security holders		(14,458)	(13,588)
Balance at the end of the year		124,729	72,709

Note 22 Reserves

	Cash flow hedge reserve $'000	Treasury share reserve $'000	Share based payment reserve $'000	Total $'000
Opening balance at 1 July 2016	(1,937)	-	-	(1,937)
Effective portion of changes in fair value	706	-	-	706
Transfer to profit and loss	1,231	-	-	1,231
Acquisition of shares	-	(186)	-	(186)
Recognition of share based payment expense	-	-	17	17
Closing balance at 30 June 2017	-	(186)	17	(169)

	Cash flow hedge reserve $'000	Treasury share reserve $'000	Share based payment reserve $'000	Total $'000
Opening balance at 1 July 2015	-	-	-	-
Transfer to hedging reserve	(1,937)	-	-	(1,937)
Closing balance at 30 June 2016	(1,937)	-	-	(1,937)

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

Treasury share reserve

The Treasury share reserve is comprised of the cost of the HPI Group's securities which were purchased on-market during the year, and are held by the HPI Rights Plan Trust. At 30 June 2017, the HPI Group held 65,107 of the Company's securities (2016: Nil).

Share based payment reserve

The HPI Group introduced a long term incentive plan for executive employees during the period ended 30 June 2017. The amounts recognised in the reserve represent the amounts recognised under the plan and is the portion of the fair value of the total cost recognised of the unissued securities, which remain conditional on employment with the HPI Group at the relevant vesting date and certain market based performance hurdles being obtained.

Note 23 Net assets per stapled security

	2017 No of securities	2016 No of securities
Number of stapled securities on issue as at the end of the year	146,105,439	146,105,439
Less: Treasury shares	(65,107)	-
Adjusted number of stapled securities on issue as at the end of the period	146,040,332	146,105,439
Net assets at 30 June 2017	$387,199,654	$333,412,102
Per stapled security on issue	$2.65	$2.28

Note 24 Earnings per security

	2017 $	2016 $
Profit for the year	$98,899,000	$60,127,761
Weighted average number of securities	**No of securities**	**No of securities**
On issue at the beginning of the year	146,105,439	146,105,439
Effect of treasury shares held*	(33,891)	-
Weighted average number of securities	146,071,548	146,105,439
Basic and diluted earnings per security - cents	67.71	41.15

* The effect of treasury shares held is the weighted average of 65,107 shares held from date of acquisition to 30 June 2017.

Note 25 Distributions

Distributions to stapled security holders	Total distribution $'000	No of stapled securities	Distributions per stapled security cents
2017			
1 July 2016 to 31 December 2016	32,421	146,040,332	22.20
1 January 2017 to 30 June 2017	14,458	146,040,332	9.90
Total distribution for the year	46,879		32.10
2016			
1 July 2015 to 31 December 2015	13,149	146,105,439	9.00
1 January 2016 to 30 June 2016	13,588	146,105,439	9.30
Total distribution for the year	26,737		18.30

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

Note 26 Operating leases

The HPI Group leases out its investment properties under operating leases (see note 13). The future minimum lease receipts under non-cancellable leases are as follows:

	2017 $'000	2016 $'000
Leases as lessor		
Less than one year	44,894	44,741
Between one and five years	164,624	197,033
More than five years	92,343	115,491
	301,861	357,265

	2017 $'000	2016 $'000
Leases as lessee		
Less than one year	102	-
Between one and five years	345	-
More than five years	-	-
	447	-

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

No operating leases were in existence in the period ended 30 June 2016.

Note 27 Group entities

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

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

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

Note 28 Parent entity

As at and throughout the financial year ended 30 June 2017 the parent entity of the HPI Group was the Trust.

	2017 $'000	2016 $'000
Result of the parent entity		
Profit for the period	101,568	60,094
Other comprehensive income	1,937	(1,937)
Total comprehensive income	103,505	58,157
Financial position of the parent entity at period end		
Current assets	10,033	18,081
Total assets	661,503	599,426
Current liabilities	18,396	16,070
Total liabilities	274,365	266,020
Net assets	387,138	333,406
Total equity of the parent entity comprising of:		
Contributed equity	262,642	262,642
Retained earnings	124,496	72,701
Reserves	-	(1,937)
Total equity	387,138	333,406

The parent's contingent assets and commitments are the same as those of the HPI Group as disclosed in Notes 32 and 34. The parent's contingent liabilities comprises of a bank guarantee, as disclosed in note 33.

Note 29 Related parties

(a) Key management personnel

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

(b) Key management personnel compensation

Key management personnel compensation during the year comprised the following:

	2017	2016
	$	$
Short-term employee benefits	1,067,882	606,162
Post-employment benefits	75,946	51,811
	1,143,828	657,973

Post-employment benefits relate to defined contribution superannuation benefits.

(c) Other related party transactions

	Transaction values for the year ended 30 June		Balance outstanding as at 30 June	
	2017	2016	2017	2016
	$	$	$	$
Responsible entity fee	-	225,983	-	37,296
Services Manager fee	-	1,495,027	-	-

On 1 July 2016 the HPI Group internalised its management and became the Responsible Entity for the Hotel Property Investments Trust. Accordingly, no Responsible entity fees or Services manager fees were incurred during the period.

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

Note 30 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 2017 $'000	Note	Carrying amount Fair value hedging instruments	Carrying amount Loans and receivables	Carrying amount Other financial liabilities	Carrying amount Total	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
Financial assets not measured at fair value									
Trade and other receivables	10	-	225	-	225				
Cash and cash equivalents	9	-	1,135	-	1,135				
		-	1,360	-	1,360				
Financial liabilities measured at fair value									
Interest rate derivatives	18	(1,135)	-	-	(1,135)	-	(1,135)	-	(1,135)
		(1,135)	-	-	(1,135)				
Financial liabilities not measured at fair value									
Loans and borrowings	16	-	-	(254,834)	(254,834)				
Trade and other payables	15	-	-	(4,423)	(4,423)				
		-	-	(259,257)	(259,257)				

30 June 2016 $'000	Note	Carrying amount Fair value hedging instruments	Carrying amount Loans and receivables	Carrying amount Other financial liabilities	Carrying amount Total	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
Financial assets not measured at fair value									
Trade and other receivables	10	-	469	-	469				
Cash and cash equivalents	9	-	2,269	-	2,269				
		-	2,738	-	2,738				
Financial liabilities measured at fair value									
Interest rate derivatives	18	(3,985)	-	-	(3,985)	-	(3,985)	-	(3,985)
		(3,985)	-	-	(3,985)				
Financial liabilities not measured at fair value									
Loans and borrowings	16	-	-	(245,965)	(245,965)				
Trade and other payables	15	-	-	(2,694)	(2,694)				
		-	-	(248,659)	(248,659)				

Note 30 Financial instruments (continued)

(b) Credit risk

Exposure to credit risk

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

	2017	2016
	$'000	$'000
Cash and cash equivalents	1,135	2,269
Trade receivables	223	424
	1,358	2,693

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 2017	Impairment 2017	Gross 2016	Impairment 2016
		$'000	$'000	$'000	$'000
Pub tenant - rental receivables	Not past due	140	-	240	-
	Past due 0- 30 days	3	-	42	-
	Past due 31-120 days	3	-	54	-
		146	-	336	-
Specialty tenants - rental receivables	Not past due	28	-	42	-
	Past due 0- 30 days	20	-	21	-
	Past due 31-120 days	29	-	25	-
		77	-	88	-
		223	-	424	-

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 no impairment allowance is necessary in respect of trade receivables past due.

Note 30 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 $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2017							
Loans and borrowings	256,000	291,896	4,431	4,406	9,297	273,761	-
Trade and other payables	4,423	4,423	4,423	-	-	-	-
Provision for distribution	14,458	14,458	14,458	-	-	-	-
	274,881	310,777	23,312	4,406	9,297	273,761	-
2016							
Loans and borrowings	246,623	268,447	4,414	4,473	8,971	250,589	-
Trade and other payables	2,694	2,694	2,694	-	-	-	-
Provision for distribution	13,588	13,588	13,588	-	-	-	-
	262,905	284,729	20,696	4,473	8,971	250,589	-

The loans and borrowings have been refinanced after balance date. Refer note 36.

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

	Carrying amount $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2017							
Derivatives liability	1,135	1,135	170	618	347	-	-
2016							
Derivatives liability	3,985	3,985	281	1,211	1,701	792	-

The notional value of interest rate swaps (derivative liabilities) at 30 June 2017 was $62.5 million (2016: $125 million).

Note 30 Financial instruments (continued)

(d) Market risk

Interest rate risk

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

	2017 $'000	2016 $'000
Variable rate instruments		
Financial assets	1,135	2,269
Financial liabilities	(255,969)	(249,950)
	(254,834)	(247,681)

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
2017					
Cash at bank	1,135	11	-	(11)	-
Bank loans	(256,000)	(2,560)	-	2,560	-
Interest rate derivatives	(1,135)	771	-	(784)	-
	(256,000)	(1,778)	-	1,765	-
2016					
Cash at bank	2,269	23	-	(23)	-
Bank loans	(246,623)	(2,466)	(2,466)	2,466	2,466
Interest rate derivatives	(3,985)	-	2,749	-	(2,821)
	(248,339)	(2,443)	283	2,443	(355)

The notional value of interest rate swaps (derivative liabilities) at 30 June 2017 was $62.5 million (2016: $125 million).

(e) Fair values

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

Interest rate derivative financial instruments are carried at fair value (note 18). 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)".

Note 31 Statement of cash flows - additional information

	2017 $'000	2016 $'000
Reconciliation of cash flows from operating activities with profit attributable to the stapled security holders		
Profit for the period	98,899	60,128
Fair value adjustment to investment property	(69,501)	(32,607)
Gain on sale of investment property	(1,530)	(1)
Fair value adjustment of derivative financial instruments	(62)	(997)
Fair value loss on cancelled derivatives	702	-
Interest paid	9,369	10,058
Amortisation of borrowing costs	844	268
Depreciation on Plant & equipmenty	32	-
Tax benefit	2	15
Change in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	437	(58)
(Increase)/decrease in prepayments	(372)	446
Increase/(decrease) in trade and other payables	(240)	314
Increase/(decrease) in provisions	407	(99)
Net cash from operating activities	38,987	37,467

Note 32 Contingent assets

The HPI Group is not aware of any contingent assets at 30 June 2017 which may materially affect the operation of the business (2016: none).

Note 33 Contingent liabilities

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

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

The HPI Group is not aware of any other contingent liabilities at 30 June 2017 which may materially affect the operation of the business (2016: none).

Note 34 Commitments

The HPI Group is not aware of any commitments at 30 June 2017 which may materially affect the operation of the business. (2016: The HPI Group had a memorandum of understanding with its major tenant the Coles Group, to perform various capital maintenance works.)

Note 35 Segment information

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

Revenues from Coles Group represented approximately $40.8 million (2016: $40.0 million) of the HPI Group's total revenues.

Note 36 Subsequent events

On 23 June 2017, the HPI Group priced A$230 million long-term debt via the U.S. Private Placement ("USPP") market. The USPP issue comprises three tranches of unsecured, Australian Dollar denominated notes:
• A$100 million fixed with an 8 year tenor, maturing in August 2025;
• A$30 million fixed with a 10 year tenor, maturing in August 2027; and
• A$100 million floating with a 10 year tenor, maturing in August 2027.

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

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

Immediately following these changes to the Group's financing arrangements, HPI Group drawn debt was $256 million including $230 million under the USPP and $26 million under CTD. As $130 million or 50.7% of this drawn debt is on fixed interest terms the HPI Group cancelled its $62.5 million interest rate swap on 18 July 2017, at a payout cost of $1.2 million. Consequently, the HPI Group's weighted average term to expiry for its loans and borrowings has increased from 3.6 years to 8.0 years as at 11 August 2017.

No other item, transaction or event has occurred subsequent to 30 June 2017 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
Report for the year ended 30 June 2017
Directors' declaration

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

1. the consolidated financial statements and notes, set out on pages 20 to 49, 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 2017 and of its performance for the twelve months ended on that date; and

   (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

2. There are reasonable grounds to believe that the Hotel Property Investments Trust will be able to pay its debts as and when they become due and payable.

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

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

Michael Tilley

Director

Melbourne

Dated this 23rd day of August 2017

KPMG

Independent Auditor's Report

To the stapled security holders of Hotel Property Investments

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Stapled Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

KPMG

Key Audit Matters

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

- Valuation of Investment Properties
- Recognition of Rental Income

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

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

Valuation of Investment Properties ($658.7m)

Refer to Note 13 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The valuation of investment properties was a key audit matter as it constituted 99.5% of the Stapled Group's total assets as at 30 June 2017, we exercised auditor judgement and we are required to evaluate the experts engaged by the Stapled Group. The fair value of the investment properties was assessed by the Board of Directors based on a combination of external valuations conducted by CBRE and internally prepared valuations. The entire investment property portfolio was independently valued by external valuers as at 31 December 2016. We focused on the Stapled Group's capitalised income projections for internally valued investment properties. Capitalised income projections are based upon a property's estimate net market income, and application of a capitalisation rate in accordance with Stapled Group policy.	Our audit procedures included: • Obtaining the final signed external valuations conducted during the financial year and evaluating the appropriateness of the valuation methodologies and key assumptions used by the Stapled Group's external valuer in accordance with market practice and the accounting standards. • Assess the scope, competence and objectivity of the external valuer engaged by the Stapled Group. • Re-performing a sample of valuations using the capitalised income projections method by applying forecast rental income (obtained from the rental agreements that have effect into the forecast period) and capitalisation rate (sourced in accordance with Stapled Group policy criteria), and assessing the consistency of our calculations to the internally prepared valuations; and • Checking the valuation methodology adopted, in particular the relevant capitalisation rate, for consistency with the Stapled Group's valuation policy, accounting standards and industry practice.

Recognition of Rental Income ($44.7m)	
Refer to Note 3(b) to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The recognition of rental income was a key audit matter as it represents a significant portion of total income, which is distributed to stapled security holders and necessitates significant audit effort given the high volume of rental agreements. Additionally, the Stapled Group entered into new rental agreements with existing tenants, raising our audit effort. Rental income is recognised on a straight-line basis over the life of the rental agreement for leases where the rental income under the lease terms is fixed and measurable. For leases where the rent is determined with reference to current market information or inflationary measures e.g. the Consumer Price Index, the revenue is not straight-lined and is recognised in accordance with the rental agreement applicable for the accounting period.	Our procedures included: • Checking a sample of leases to the original signed lease contract; • For new, cancelled or variations to leases, we checked the lease terms to the Stapled Group's straight line schedule used to recognise revenue on a straight line basis; and • Performing a recalculation of the straight line adjustment to property revenue by using the fixed revenue over the lease term from the new or amended lease terms from the signed lease contract and comparing this to the Stapled Group's straight line schedule.

Other Information

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

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

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

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

KPMG

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

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

Report on the Remuneration Report of Hotel Property Investments Limited

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

Opinion

In our opinion, the Remuneration Report of Hotel Property Investments Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in the Directors' report of the Company, also included in pages 9 to 16 of Hotel Property Investment's annual report for the year ended 30 June 2017.

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

KPMG

KPMG

Dean Waters
Partner

Melbourne
23 August 2017

Substantial Security Holders

The number of stapled securities held by the HPI Group's substantial security holders as at 21 July 2017 is as follows:

Name	Stapled Securities
J P Morgan Nominees Australia Limited	30,171,592
HSBC Custody Nominees (Australia) Limited	29,480,097
Citicorp Nominees Pty Limited	8,587,926

20 Largest Security Holders

As at 21 July 2017

	Name	Number of Stapled Securities held	Percentage of Total Stapled Securities
1	J P Morgan Nominees Australia Limited	30,171,592	20.65%
2	HSBC Custody Nominees (Australia) Limited	29,480,097	20.18%
3	Citicorp Nominees Pty Limited	8,587,926	5.88%
4	National Nominees Limited	7,175,481	4.91%
5	Citicorp Nominees Pty Limited	1,981,084	1.36%
6	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp	1,643,370	1.12%
7	BNP Paribas Noms Pty Ltd	1,569,413	1.07%
8	Sandhurst Trustees Ltd	1,040,000	0.71%
9	RBC Investor Services Australia Nominees Pty Limited	1,004,590	0.69%
10	HSBC Custody Nominees (Australia) Limited - A/C 2	876,293	0.60%
11	Oxleigh Pty Ltd	800,713	0.55%
12	Mr David Calogero Loggia	729,579	0.50%
13	Powerwrap Limited	715,418	0.49%
14	BNP Paribas Nominees Pty Ltd	501,396	0.34%
15	Invia Custodian Pty Limited	476,924	0.33%
16	Mr David Stewart Field	455,000	0.31%
17	Brispot Nominees Pty Ltd	376,299	0.26%
18	Invia Custodian Pty Limited	356,558	0.24%
19	Warbont Nominees Pty Ltd	341,855	0.23%
20	Pershing Australia Nominees Pty Ltd	325,000	0.22%
	Total	**88,608,588**	**60.65%**

Distribution of Security Holders

As at 21 July 2017

Range	Total Holders	Stapled Securities	Percentage of Total Stapled Securities
1 - 1,000	1,504	868,397	0.59%
1,001 - 5,000	2,686	7,713,673	5.28%
5,001 - 10,000	1,208	9,341,380	6.39%
10,001 - 100,000	1,375	33,285,474	22.78%
100,001 and over	60	94,896,515	64.95%
Total	**6,833**	**146,105,439**	**100.00%**

As at 21 July 2017, there were 146,105,439 fully-paid stapled securities held by 6,833 individual security holders.

Corporate Directory

Hotel Property Investments

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Share Registry

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Fax: +61 2 9287 0303

www.linkmarketservices.com.au

Auditor

KPMG
Tower Two
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727 Collins Street
Melbourne VIC 3008 Australia

Responsible Entity

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

Company Secretary

Hotel Property Investments Limited
Blair Strik