

Appendix 4E
Full Year Report
Year Ended 30 June 2020

Name of entity

HOTEL PROPERTY INVESTMENTS (HPI)

ABN or equivalent company reference

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

Half yearly	Preliminary final	Reporting Period
	✓	1 July 2019 to 30 June 2020 (previous corresponding period 1 July 2018 to 30 June 2019)

Results for announcement to the market

	30 June 2020	30 June 2019	Variance
	A\$'000	A\$'000	%
Total revenue from investment properties	54,097	51,143	5.78%
Total income from operating activities	64,352	73,361	-12.28%
Profit for the period from operating activities after tax attributable to stapled security holders	40,943	49,238	-16.85%

	30 June 2020	30 June 2019	Variance
	\$ per security	\$ per security	%
Net assets per security	\$3.01	\$2.92	3.08%

	30 June 2020	30 June 2019	Variance
	cents per security	cents per security	%
Earnings per security	27.33	33.74	-19.00%

Distributions

Interim Distribution	Six Months Ended	Six Months Ended	Variance
	31 December 2019	31 December 2018	%
Trust distribution amount per stapled security (cents)	10.3	9.8	5.10%
Record date for determining entitlements to trust distribution	31 December 2019	31 December 2018	
Payment date for trust distribution	6 March 2020	6 March 2019	
Final Distribution	Six Months Ended	Six Months Ended	Variance
	30 June 2020	30 June 2019	%
Trust distribution amount per stapled security (cents)	9.7	10.1	-3.96%
Record date for determining entitlements to trust distribution	30 June 2020	28 June 2019	
Payment date for trust distribution	4 September 2020	6 September 2019	

Explanation of Results

- Rent revenue increased by 5.78% due to underlying rental income growing by around 3.3% and acquisitions of Gregory Hills Hotel and Acacia Ridge Hotel during the year.
- Total profit decreased by 16.85% due to lower year on year fair value adjustments to investment properties and no sale of properties during the year.

Other Details

- Final distribution consists of 9.7 cents from trading operations.
- Distribution reinvestment plan was in operation for the full financial year.
- There have been no changes to staff numbers, hours worked or remuneration as a result of the COVID-19 pandemic and the Company has not accessed jobkeeper.
- There were no associates or joint venture entities during the period.

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.

ANNUAL REPORT 2020



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



Front cover: Dunwoody's
Page 2: The Regatta Hotel

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DIRECTORS' REPORT



Barron River Hotel

INTRODUCTION

The Directors of Hotel Property Investments Limited as Responsible Entity (the “Responsible Entity”) for the Hotel Property Investments Trust (“the Trust”) present the consolidated financial report of the Trust, Hotel Property Investments Limited (“the Company”) and their controlled entities (together “the HPI Group”) for the year ended 30 June 2020.

The securities in the Company are stapled to the units in the Trust and cannot be traded or dealt with separately. The Company and its controlled entities and the Trust and its controlled entities are referred to as “the HPI Group”.

The Responsible Entity for the Trust 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 hpitrust.com.au/cms/corporate_governance.

DIRECTORS AND OFFICERS

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 listed on the following pages.

JOHN RUSSELL

INDEPENDENT NON-EXECUTIVE CHAIRMAN

Appointed as Non-executive Director on 23 May 2013 and as Chairman 1 November 2019

John Russell is an experienced executive having worked across large and small public and private companies in multiple industries, with an extensive background in hospitality and gaming. He was most recently Chief Executive Officer of pub operator Redcape Group Limited, which he joined from Customers Limited where he was Managing Director and Chief Executive Officer. Previously John has enjoyed senior executive roles as Chief Financial Officer of Australian Leisure and Hospitality Group Limited (“ALH”), General Manager Strategy and Operations at AWB Limited, and Group General Manager Operations at Tabcorp.

John holds a Bachelor of Economics (Honours) and a Master of Business Administration from the University of Adelaide. He is a Graduate Member of the Australian Institute of Company Directors.

John was the Chairman of HPI Group’s Human Resources Committee until 1 November 2019 and is currently a member of that Committee.

RAYMOND GUNSTON

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 19 November 2013

Raymond Gunston has over 35 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 the Non-executive Chairman of Sigma Healthcare Limited.

Raymond 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 (Honours) from the University of Melbourne and a Diploma of Education. Raymond is a Fellow of CPA Australia and is a Graduate Member of the Australian Institute of Company Directors.

Raymond is Chairman of HPI Group’s Board Audit and Risk Committee and its Responsible Entity Compliance Committee.

LACHLAN EDWARDS

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 19 November 2013

Lachlan Edwards is the founder of the advisory business Faraday Associates, having been the Co-Head of the advisory businesses at Lazard in Australia from 2013 until June 2018. 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. His previously held board positions include Director of NM Rothschild & Sons and Governor of the English National Ballet in London.

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 a number of boards including the Bell Shakespeare Company and the Turnaround Management Association in Australia. He is also a Trustee of the Historic Houses Trust of NSW (known as Sydney Living Museums).

Lachlan has a Bachelor of Economics from the University of Sydney and a Graduate Diploma in Applied Finance and Investments from the Securities Institute of Australia. He 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 Chairman of the Human Resources Committee.

GISELLE COLLINS

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 19 April 2017

Giselle Collins is a company Director with significant executive experience in property, tourism and financial services.

Giselle was previously Chairman of Aon Superannuation Pty Ltd (as Trustee for Aon Master Trust), The Travelodge Hotel Group and the Heart Research Institute, and served on the boards of Big4 Holiday Parks and Royal Australian Institute of Architects.

Giselle is currently Chairman of Darwin Hotel Pty Ltd, as nominee for Indigenous Business Australia. Giselle also sits on the boards of Generation Life Pty Ltd, (subsidiary of ASX-listed Generation Development Group Ltd) and the Royal Botanic Gardens and Domain Trust.

Giselle has a Bachelor of Economics from the University of Sydney, and a Graduate Diploma in Applied Finance and Investments from the Securities Institute of Australia, and is a Graduate Member of the Australian Institute of Company Directors. Giselle is also a Member of Chartered Accountants Australia and New Zealand.

Giselle is a member of HPI Group's Board Audit and Risk Committee and its Human Resources Committee.

DON SMITH

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed 1 October 2018 as Managing Director and Chief Executive Officer

Don Smith has more than 20 years of property and funds management experience with listed and unlisted companies. Prior to taking on his executive and board roles at HPI, Don was a member of the management team at OSK Property and previous to that held a range of roles at Vicinity Centres and Colonial First State.

Don is also a Board Member and Chairman of Melbourne Athenaeum Incorporated, a not-for-profit cultural institution.

Don holds a Bachelor of Applied Science—Planning and a Graduate Diploma—Banking and Finance.

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 has over 20 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 nine 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 Chartered Accountants Australia and New Zealand.

MICHAEL TILLEY

INDEPENDENT NON-EXECUTIVE CHAIRMAN (FORMER)

Retired 31 October 2019.

Michael Tilley 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. Michael was previously a non-executive Director of Tubi Limited from June 2013 until February 2020.

He holds a Post Graduate Diploma in Business Administration from Swinburne University and is a Fellow of The Australian Institute of Company Directors.

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 28 January 2020 the HPI Group agreed to extend 28 leases that were due to expire in June and December 2021. The leases over these 28 properties represented 57% of HPI's gross rental income at 31 December 2019.

As a result of the lease extensions the Weighted Average Lease Expiry by income ("WALE") measured at 31 December 2019 increased from 3.8 years to 11.8 years.

For 20 of the properties, the leases were extended a further 15 years and the rent and rent review mechanism remain unchanged.

The remaining 8 properties were extended by 10 years and the base rent reset \$3.0m (47%) lower than the base rent payable under those leases. The rent review mechanism remains unchanged and the new rent commenced 1 July 2020.

In conjunction with the lease extensions HPI committed to a \$30 million capital expenditure program across the portfolio over a two-year period commencing in early 2020. The works program aims to improve the quality and operational performance of the hotels and will be funded predominantly from existing undrawn debt facilities.

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

DISTRIBUTIONS AND DIVIDENDS

For the year ended 30 June 2020 the HPI Group paid an interim distribution of 10.3 cents per stapled security for the half year ended 31 December 2019 and has declared a final income distribution of 9.7 cents per stapled security to be paid on 4 September 2020. The aggregate income distribution of 20.0 cents per security is from trading operations. No provisions for, or payments of, dividends from The Company have been made during the year (2019: nil).

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No item, transaction or event has occurred subsequent to 30 June 2020 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.

REVIEW AND RESULTS OF OPERATIONS

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

COVID-19 PANDEMIC

The COVID-19 pandemic has impacted our people, our business and our tenants, and may continue to do so.

All Australian states implemented restrictions on pubs and hotels, which significantly affected the operations of our tenants. In all cases the pubs were required, at the direction of government, to close for extended periods, and once re-opened social distancing requirements and limits on the number of patrons in the venues were imposed. Although the closures have not materially impacted the financial performance of the HPI Group in the year to 30 June 2020, any ongoing interruptions to our tenants' business may affect future financial years.

In May 2020 the HPI Group agreed to defer a portion of rent payable by the HPI Group's principal tenant, Queensland Venue Company, totalling approximately \$7.5 million (excluding GST) that would otherwise be payable between April 2020 and September 2020. The deferred rent will be repaid between February 2021 and June 2022 and is secured by a bank guarantee and an offset arrangement in relation to HPI's capex obligation agreed as part of the lease extensions announced in January 2020. As at 30 June 2020 the rent deferred under this agreement was \$3.4 million excluding GST. Accordingly, the Financial Statements reflect corresponding movements in both trade receivables and drawn debt.

The HPI Group has also provided rent abatements to some specialty tenancies for rent totalling \$0.4 million (excluding GST) that would otherwise have been payable between April 2020 and June 2020. The HPI Group continues to monitor the circumstances of each tenant and may provide further abatements in future periods on a case-by-case basis.

The HPI Group's assets are long term assets with a WALE of 11.4 years. For 30 June 2020 the valuation of investment property has been undertaken in accordance with the Group's valuation policy with input from independent valuers on the hotel investment market, based on observable sales of similar assets in similar markets, and adjusted for any rent abatement agreements with our specialty tenants. The longer-term impact of COVID-19 on the operational performance of pubs generally, and individual pubs specifically, is not yet known and may adversely affect investment property valuations in the future.

The rent review mechanism for the majority of the HPI Group's leases references a minimum rental increase of the lower of two times the average five year historical Consumer Price Index (CPI) and 4% per annum. There is a risk that CPI is lower or negative due to impacts associated with the COVID-19 pandemic and that there is greater volatility in the Index. This may lead to lower rental revenue, lower distributions and lower investment property valuations in the future.

The COVID-19 pandemic also impacted the way we work. The HPI Group had previously implemented a comprehensive technology platform which enabled our people to seamlessly and effectively transition to a remote workplace. There have been no changes to staff numbers, hours worked or remuneration as a result of the pandemic and the Company has not accessed Jobkeeper.

The HPI Group will continue to monitor the impact of COVID-19 on its business and will update investors as required.

CURRENT YEAR PERFORMANCE

The HPI Group recorded a total profit after tax for the year of \$40.9 million. Operating revenues and expenses included rental income from investment properties of \$49.8 million, property cost recoveries of \$4.3 million, property outgoing costs of \$7.3 million, other trust and management costs of \$4.2 million, and financing expenses of \$11.9 million. Additionally, there was a fair value gain on investment property of \$10.2 million.

At 30 June 2020, 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. At 31 December 2019, independent valuations were obtained for 36 properties, including all 28 properties affected by the lease extensions described in the HPI Group's half year results (28 properties) and those eight properties that were last independently valued in December 2017 (8 properties). The current average capitalisation rate for the portfolio is 6.06%.

Adjusting profit after tax for fair value adjustments, non-cash finance costs and other minor items, the distributable earnings of the HPI Group were \$31.0 million. Adjusting further for maintenance capex of \$0.7 million, the Adjusted Funds from Operations was \$30.3 million.

FINANCIAL POSITION

At 30 June 2020 the HPI Group's net assets were \$472.0 million representing net assets per stapled security of \$3.01 (June 2019: \$2.92). Major assets and liabilities included investment property of \$785.9 million, borrowings of \$298.7 million and a provision for payment of distributions of \$15.2 million. During the period investment property values increased by \$77.4 million resulting mainly from acquisitions of Gregory Hills Hotel and Acacia Ridge Tavern for a combined value of \$63.1 (including costs), fair value gains of \$10.2 million, capital additions of \$3.7 million and straight-line lease adjustments of \$0.3 million.

At 30 June 2020, the HPI Group's total borrowing facilities of \$403.0 million were drawn to \$301.5 million, including \$230.0 million under the US Private Placement and \$71.5 million under the Common Terms Deed facility. At 30 June 2020, \$130 million or 43.1% of drawn debt is on fixed interest terms.

RISK MANAGEMENT

The HPI Group's business of investing directly in freehold property exposes it to certain risks which the HPI Group actively monitors and seeks to manage. The Company's Board Audit and Risk Committee ("BARC") assists the Board in fulfilling its responsibilities relating to the oversight of the HPI Group's risk profile. During the period the BARC and the Company's Board reviewed and updated the risk management framework, including the risk matrix. Interest rate risk, market 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, possible adverse impacts of inflation and the COVID-19 pandemic.

The Company's Board concluded that, with the exception of the COVID-19 pandemic, the material risks to which the HPI Group is exposed remain consistent with those previously identified. The HPI Group continues to maintain a level of fixed rate debt to mitigate interest rate risk and to continually monitor the Queensland regulatory environment.

BUSINESS STRATEGIES AND PROSPECTS

The HPI Group's key financial goal is to improve cash distributions to stapled securityholders whilst maintaining the key attributes of the HPI Group business. Distribution growth may be achieved organically from contracted annual rent increases across the portfolio and by prudent management of financing charges, management fees and other costs of the Trust. Further distribution growth may arise from development opportunities undertaken on surplus land with our tenants, or through accretive acquisitions.

The HPI Group will continue to pursue acquisition opportunities which meet its investment criteria, namely that target properties should be:

- in good condition
- in key regional or metropolitan locations with potential for long-term growth
- leased to experienced tenants on favourable lease terms.

DISTRIBUTIONS

For the year ended 30 June 2020 the HPI Group will distribute 100% of its full year Adjusted Funds From Operations ("AFFO"), which is calculated as profit for the year adjusted for fair value movements, losses or gains on hedging, other non-cash items, tax, and maintenance capital expenditure.

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

	30 June 2020
	\$'000
Profit after income tax for the year	40,943
Plus/(Less): Adjustments for non-cash items	
Net fair value (increments)/decrements to investment properties	(10,245)
Straight line lease adjustment	(265)
Share-based payments expense	79
Abandoned transaction costs	78
Non-cash finance costs	408
Income tax benefit	(13)
Total adjustments for non-cash items	(9,958)
Distributable earnings	30,985
Less maintenance capital expenditure	(682)
Adjusted funds from operations	30,303
Distribution from trading operations provided for	30,303

	30 June 2020
	Cents
Earnings and distribution per stapled security:	
Basic and diluted earnings	27.3
Earnings available for distribution per security	20.0
Interim distribution per security	10.3
Final distribution per security	9.7
Total distribution per security	20.0



Palm Cove Tavern

DIRECTORS' INFORMATION

DIRECTORSHIPS OF LISTED ENTITIES WITHIN THE LAST THREE YEARS

The following 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 Healthcare Limited	Non-executive Chairman	July 2010	-

SPECIAL RESPONSIBILITIES OF DIRECTORS

The following are the special responsibilities of each Director:

- John Russell is Chairman of the Board
- Raymond Gunston is Chairman of the BARC and the Responsible Entity Compliance Committee ("RECC")
- Lachlan Edwards is Chairman of the Human Resources Committee ("HRC") and a member of the BARC
- Giselle Collins is a member of the BARC and HRC

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 July 2019	Net Movement	Number held at 30 June 2020
John Russell	Independent Non-executive Chairman	56,450	-	56,450
Raymond Gunston	Independent Non-executive Director	125,714	-	125,714
Lachlan Edwards	Independent Non-executive Director	172,510	-	172,510
Giselle Collins	Independent Non-executive Director	20,000	4,000	24,000
Don Smith	Managing Director and Chief Executive Officer	10,000	11,794	21,794
Michael Tilley	Independent Non-executive Chairman (Former)	1,100,714	-	N/A ¹

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors held and of each Board Committee held during the year ended 30 June 2020 and the number of meetings attended by each Director at the time the Director held office during the year were:

	Board		BARC		RECC		HRC	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
John Russell	15	15	-	-	-	-	2	2
Raymond Gunston	15	15	4	4	4	4	-	-
Lachlan Edwards	15	15	4	4	-	-	2	2
Giselle Collins	15	15	4	4	-	-	2	2
Don Smith	15	15	-	-	-	-	-	-
Michael Tilley	3	3	-	-	-	-	-	-

¹ Number of securities held by Michael Tilley were 1,100,714 as at 31 October 2019.

REMUNERATION REPORT—AUDITED

This report provides details on the remuneration structure, decisions and outcomes for the year ended 30 June 2020 for Key Management Personnel ("KMP") of the HPI Group. KMP include the Non-executive Directors, the Managing Director and Chief Executive Officer ("CEO") and the Chief Financial Officer and Company Secretary ("CFO").

REMUNERATION GOVERNANCE

The remuneration arrangements for Non-executive Directors are distinct and separate from those for executives. The Board determines the fees payable to Non-executive Directors within the aggregate amount approved by securityholders, currently set at a maximum of \$900,000 per annum, and which can only be increased by the passing of an ordinary resolution of securityholders.

The HRC assists the Board by recommending to the Board policies and practices which enable the HPI Group to attract, develop, retain and motivate high calibre Directors and executives. The HRC reviews and makes recommendations on policies for remuneration, development, retention and determination of the KMP.

The Board appoints members to the HRC from time to time and reviews the composition of the HRC annually. The HRC consists of at least three Directors and is comprised solely of Non-executive Directors with a majority being independent (including the Chairman).

The HRC facilitates a Board performance assessment and review annually and makes recommendations to the Board on remuneration packages and policies applicable to the KMP.

The number of meetings held by the HRC and the members' attendance is set out on page 14 of the Directors' Report.

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 and in doing so it reflects the Group's risk culture and organisational values.

More specifically, the executive remuneration framework is intended to:

- provide fair remuneration outcomes for executives, having regard to relevant market remuneration levels and executives' ability, experience and contribution to the HPI Group's sustainable long-term performance
- be sufficiently closely linked to the HPI Group's growth goals and sustained growth performance so as to provide alignment with the interests of securityholders
- ensure that remuneration and remuneration outcomes are determined on a clear and transparent basis
- 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. During the year the Board has reassessed its growth objectives and consequently introduced a short-term incentive ("STI") plan to complement the existing equity-based long-term incentive plan ("LTI"). Under the current business model, the Board anticipates that the weighting of total remuneration will be towards fixed pay as it is reflective of the steady and predictable nature of HPI's current business.

SERVICES FROM REMUNERATION CONSULTANTS

No advice was sought from remuneration consultants by the HRC during the year.

EXECUTIVE REMUNERATION STRATEGY AND STRUCTURE

FIXED REMUNERATION

Fixed remuneration is the guaranteed salary component for executives and includes superannuation. 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 reviews fixed remuneration annually to ensure it is at a level that it believes is reasonable in relation to the market.

VARIABLE REMUNERATION

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

SHORT TERM INCENTIVE "STI"

The Board provides an STI plan to align management rewards with successful execution of the HPI business strategy and thereby strengthen the alignment of management and securityholders.

The plan encourages the CEO and CFO to identify and implement opportunities that will build securityholder value within the context of prudent risk management. The intent of the plan is to reward participants for the net economic value created for securityholders by management outside of the day-to-day administration of the HPI property portfolio and balance sheet management.

Under the plan an STI funding pool is created by allocating a percentage of the agreed adjusted funds from operations created in the first 12 months of completed acquisition and other development projects, after deducting both interest and equity charges as determined by the Board. The intent is that short-term rewards have a direct linkage to the economic value created for securityholders by management from initiatives endorsed by the Board.

Awards under the STI plan are paid in cash and are intended to reflect the timing of realisation of net economic value-add over the first full 12 months of the life of agreed projects. Awards are made by the Board having regard to the results achieved in terms of added securityholder value, its assessment of individual performance and contribution to those results, and the extent to which participants demonstrate the values of the Group.

Payments of awards will not be made if on the date of payment, the participant has ceased employment with the Company in circumstances where the Board determines that they do not merit, or the Board deems it is not appropriate to make, such payment.

STI awards in any one financial year will be capped at 60% of Total Fixed Remuneration of the CEO and 40% of Total Fixed Remuneration for the CFO.

The Board retains discretion with respect to operation of the STI plan, including the ability to modify or cancel the plan if it believes the Group's objectives can be more effectively or efficiently achieved by other means.

STI OUTCOMES

In applying the plan as described above, the Board's calculation of the STI funding pool recognised the securityholder value created by:

- materially expanding the portfolio WALE from 3.8 years to 11.8 years by the renegotiation of 57% of HPI Group's leases (by rental income) and introducing new debt facilities
- successfully completing two major pub acquisitions, totalling \$60 million.

The Board determined the economic value created by the WALE extension and pub acquisitions over the 12 months post-completion of these initiatives and determined an STI funding pool of \$146,000 for FY20. Having regard to the timing of realisation of anticipated net economic value add to securityholders, payment of 60% of the STI funding pool will be deferred until the lodgment of the FY21 Financial Accounts for the HPI Group. The individual awards are summarised in the details of remuneration section of this remuneration report.

LONG TERM INCENTIVE "LTI"

Under the LTI plan, participants receive annual grants of Rights over HPI Securities. Each Right may 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 with an amount equivalent to the distributions paid on a Security over that same period for each Right that vests.

The Board determined that HPI's relative Total Securityholder Return ("TSR"), as assessed over 3-year performance periods, and 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 grouping is selected to align with the complexity, size and nature of operations of the Group.

To maximise alignment with the returns experienced by securityholders, the Board imposed a gateway requirement that the HPI Group's TSR over each 3-year performance period be positive before any Rights are able to vest under the LTI plan. This ensures that Rights cannot vest to executives when securityholders have lost value over a performance period, even where HPI's relative TSR against the comparator group would otherwise result in some or all Rights vesting.

The number of Rights to be granted to executives under annual LTI grants is determined by dividing the annual LTI component of the executive's remuneration by the weighted average closing price for HPI Securities over the 20 trading days following release of HPI's audited statutory accounts 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 and at its absolute discretion. Rights expire on the earlier of five years after grant date (or the next business day) and the occurrence of any earlier lapsing or forfeiture event.

Rights granted under the LTI Plan will vest if the following vesting conditions are met:

- HPI's TSR measured over the three years (the performance period) is positive.
- 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 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.

The proportion of the Rights that vest will then be determined according to HPI's relative TSR percentile ranking against the comparator group companies over the performance period, as follows:

- Below the 50th percentile of the peer group, no Rights in the grant vest.
- At the 50th percentile of the peer group, 50% of the Rights in the grant vest.
- Between the 50th and 75th percentile of the peer group, Rights vest on a straight-line basis between 50% and 100%.
- At or above the 75th percentile of the peer group, 100% of the Rights in the grant vest.

Rights will be forfeited if they do not vest or upon cessation of employment, except in the case where a participant ceases employment with the HPI Group for reasons including ill-health, total and permanent disability, death, redundancy, retirement or sale of the business. In such cases unvested rights will vest pro rata according to the extent to which the relevant performance period has been completed at the date 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 the discretion to permit some or all of the unvested Rights held by an executive to vest.

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

FY20 LTI OUTCOMES

The FY18 LTI grant was tested over its performance period from 1 July 2017 to 30 June 2020. The pre-conditions for vesting were not met and accordingly all Rights issued under the LTI Plan for the FY18 year have lapsed.

Details of all relevant LTI holdings for Executives are presented in the following section.

DETAILS OF RIGHTS GRANTED TO EXECUTIVES

	Number of rights granted during the year ended 30 June 2020	Grant date	Fair value per right at grant date	Expiry date
Don Smith	57,632	24 October 2019	\$0.96	24 October 2024
Blair Strik	28,816	24 October 2019	\$0.96	24 October 2024
	Number of rights granted during the year ended 30 June 2019	Grant date	Fair value per right at grant date	Expiry date
Don Smith	63,333	19 December 2018	\$1.10	19 December 2023
Blair Strik	31,666	19 December 2018	\$1.10	19 December 2023
	Number of rights granted during the year ended 30 June 2018	Grant date	Fair value per right at grant date	Expiry date
Blair Strik	32,419	18 October 2017	\$1.40	Rights have lapsed

REMUNERATION MIX OF EXECUTIVE KMP

Executive KMP	Total Fixed Remuneration	At Risk Performance Based Remuneration	
		Cash	Equity
		STI	LTI
	%	%	%
Don Smith	76.8	16.3	6.9
Blair Strik	80.1	11.2	8.7

REMUNERATION OF THE COMPANY'S DIRECTORS

Board / Committee	Role	Fees per annum ¹ \$
Board	Chairman	173,516
	Non-executive Director	75,000
Board Audit and Risk Committee (BARC)	Chairman	20,000
	Member	10,000
Human Resources Committee (HRC)	Chairman	10,000
	Member	2,500

¹ Fees are exclusive of superannuation. The Chairman's fees are inclusive of all Committee fees.

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

CONSEQUENCES OF PERFORMANCE ON SECURITYHOLDER WEALTH

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

	2020	2019	2018	2017	2016
Distributable profit (\$m)	30.3	28.8	28.6	28.6	26.7
Distributions paid or payable (\$m)	30.3	29.0	28.6	46.9	26.7
Distributions per stapled security from trading operations (cents)	20.0	19.7	19.6	19.6	18.3
Distributions per stapled security from trust capital (cents)	-	0.2	-	12.5	-
Change in security price (cents)	-54.0	28.0	16.0	2.3	51.7
Total securityholder return (percent)	-10%	15%	12%	11%	28%

KEY MANAGEMENT PERSONNEL TRANSACTIONS—AUDITED

MOVEMENTS IN SECURITIES

The movement during the year 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 2019	Received on exercise of options	Other changes*	Held at 30 June 2020
Don Smith	10,000	-	11,794	21,794
Blair Strik	1,000	-	5,000	6,000

* Other changes represent securities that were purchased, or dividends reinvested during the year.

Details of Non-executive Directors' Security holdings are included in this Directors' Report.

MOVEMENTS IN OPTIONS AND RIGHTS

	Opening performance rights	Granted as remuneration	Forfeited / lapsed	Vested	Closing
Don Smith	63,333	57,632	-	-	120,965
Blair Strik	64,085	28,816	(32,419)	-	60,482

DETAILS OF REMUNERATION

Details of the remuneration of the KMP for the current year and the comparative year are set out in the following tables.

REMUNERATION DETAILS 1 JULY 2019 TO 30 JUNE 2020

	Short term				Post-employment
	Salary and Fees	STI cash bonus	Non-monetary benefits	Total	Super-annuation benefits
	\$	\$	\$	\$	\$
Independent Non-executive Director					
John Russell (Chairman)	136,634 ¹	-	-	136,634	12,980
Raymond Gunston	95,000	-	-	95,000	9,025
Lachlan Edwards	90,000 ²	-	-	90,000	8,550
Giselle Collins	87,500	-	-	87,500	8,313
Michael Tilley (Former)	57,839 ³	-	-	57,839	5,494
CEO					
Don Smith	437,500	98,000	-	535,500	25,000
CFO					
Blair Strik	318,750	48,000	-	366,750	25,000
	1,223,223	146,000	-	1,369,223	94,362

1 John Russell was appointed Non-executive Chairman of the Board in November 2019. Prior to becoming Chairman of the Board, John was Chairman of the HRC.

2 Lachlan Edwards was appointed Chairman of the HRC during the year.

3 Michael Tilley retired as Non-executive Chairman of the Board on 31 October 2019.

4 The value of options and rights reflects the amounts recognised in the consolidated statement of profit or loss and other comprehensive income at fair value for the year. Refer to the share-based payment accounting policy in note 3.

Leave entitlements	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related
\$	\$	Options and rights \$	\$	%
-	-	-	149,614	-
-	-	-	104,025	-
-	-	-	98,550	-
-	-	-	95,813	-
-	-	-	63,333	-
-	-	41,665	602,165	23.2%
-	-	37,527	429,277	19.9%
-	-	79,192⁴	1,542,777	

REMUNERATION DETAILS 1 JULY 2018 TO 30 JUNE 2019

	Short term				Post -employment
	Salary and Fees	STI cash bonus	Non-monetary benefits	Total	Superannuation benefits
	\$	\$	\$	\$	\$
Independent Non-executive Director					
Michael Tilley (Chairman) ¹	-	-	-	-	-
Raymond Gunston	95,000	-	-	95,000	9,025
Lachlan Edwards	87,500	-	-	87,500	8,313
John Russell	85,000	-	-	85,000	8,075
Giselle Collins	87,500	-	-	87,500	8,313
CEO					
Don Smith (Current)	300,000	-	-	300,000	18,750
David Charles (Former)	328,491 ²	-	3,668	332,159	7,791
CFO					
Blair Strik	300,062	-	3,668	303,730	24,938
	1,283,553	-	7,336³	1,290,889	85,205

1 Michael Tilley elected not to receive Directors' fees

2 Includes \$175,000 payment for past services rendered to HPI by David Charles.

3 Non-monetary benefits relate to car parking through November 2018.

4 Leave entitlements reflect long service leave and annual leave paid by HPI to David Charles upon retirement.

5 The value of options and rights reflects the amounts recognised in the consolidated statement of profit or loss and other comprehensive income at fair value for the year. Refer to the share-based payment accounting policy in note 3.

6 Accumulated share-based payment expenses related to David Charles was reversed upon his retirement in October 2018. Refer to note 21.

Leave entitlements	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related
\$	\$	Options and rights \$	\$	%
-	-	-	-	-
-	-	-	104,025	-
-	-	-	95,813	-
-	-	-	93,075	-
-	-	-	95,813	-
-	-	14,536	333,286	4.4%
122,255 ⁴	-	- ⁶	462,205	-
-	-	23,917	352,585	6.8%
122,255	-	38,453⁵	1,536,802	-

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 2001* 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: John Russell, Raymond Gunston, Lachlan Edwards and Giselle Collins.

During the financial year, the HPI Group paid an insurance premium of \$528,289 (2019: \$366,774) in respect of the Directors and officers of the Company.

No insurance premiums were paid out of the HPI Group with regards to insurance cover for 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 the *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.

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 Australian Financial Services Licence ("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*.

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

	\$
Audit and review of financial statements	164,656
AFSL audit	8,735
Compliance Plan audit	9,028
Total payable to KPMG	182,419

LIKELY DEVELOPMENTS

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

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 26 and forms part of the Directors' Report for the year ended 30 June 2020.

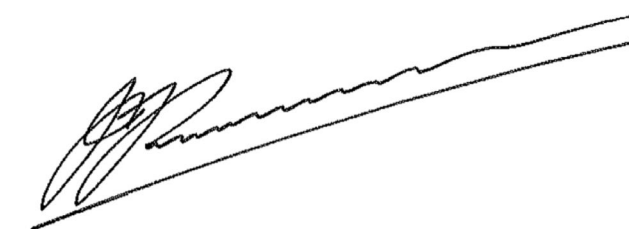
ENVIRONMENTAL REGULATION

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 license requirements and regulations. Furthermore, the Company Directors are not aware of any material breaches of these requirements.

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 to the nearest one thousand dollars, in accordance with that Instrument, except where otherwise indicated.

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



John Russell
Chairman
Melbourne
Dated this 18th day of August 2020



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

To the Directors of Hotel Property Investments Limited, being the responsible entity of Hotel Property Investment 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 of Hotel Property Investment Trust for the financial year ended 30 June 2020 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

Rachel Milum
Partner

Melbourne
18 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2020	2019
	Note	\$'000	\$'000
REVENUE			
Rent from investment properties		49,782	46,847
Revenue from outgoings recovered		4,315	4,296
Total revenue		54,097	51,143
Other income			
Fair value adjustment to investment properties	13	10,245	20,617
Gain on sale of investment properties		-	1,586
Finance revenue		10	15
Total other income		10,255	22,218
Total income from operating activities		64,352	73,361
OPERATING EXPENSES			
Investment property outgoings and expenses		(7,275)	(7,293)
Other expenses	8	(4,211)	(3,787)
Total expenses from operating activities		(11,486)	(11,080)
Profit from operating activities		52,866	62,281
Non-operating expenses			
Finance expenses	9	(11,936)	(13,030)
Total non-operating expenses		(11,936)	(13,030)
Profit before tax		40,930	49,251
Tax expense	14	13	(13)
Profit for the year		40,943	49,238
Other comprehensive income		-	-
Total comprehensive income		40,943	49,238
Profit/(loss) for the year attributable to:			
Unitholders of the Trust		44,061	52,300
Securityholders of the Company		(3,118)	(3,062)
Total comprehensive income attributable to the stapled securityholders of HPI		40,943	49,238
Basic earnings per security (cents)	23	27.33	33.74
Diluted earnings per security (cents)	23	27.30	33.74

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2020 \$'000	2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	1,080	586
Trade and other receivables	11	2,372	369
Other current assets	12	513	404
Total current assets		3,965	1,359
Non-current assets			
Investment property	13	785,870	708,500
Trade and other receivables	11	1,471	-
Plant and equipment		107	182
Right-of-use assets	25	133	-
Deferred tax assets	14	186	84
Total non-current assets		787,767	708,766
TOTAL ASSETS		791,732	710,125
LIABILITIES			
Current liabilities			
Trade and other payables	15	5,526	5,149
Employee benefit liabilities	16	101	94
Right-of-use liabilities	25	98	-
Provisions	18	15,213	14,740
Total current liabilities		20,938	19,983
Non-current liabilities			
Loans and borrowings	17	298,709	263,234
Employee benefit liabilities	16	11	1
Right-of-use liabilities	25	41	-
Deferred tax liability	14	37	-
Total non-current liabilities		298,798	263,235
TOTAL LIABILITIES		319,736	283,218
NET ASSETS		471,996	426,907
EQUITY			
Contributed equity	19	297,178	262,640
Retained earnings	20	175,348	164,708
Reserves	21	(530)	(441)
TOTAL EQUITY		471,996	426,907

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 2019					
		262,640	164,708	(441)	426,907
Total comprehensive income for the year					
Profit for the year		-	40,943	-	40,943
Total comprehensive income for the year		-	40,943	-	40,943
Transactions with owners in their capacity as owners recognised directly in equity					
Distribution to stapled securityholders	18	-	(15,090)	-	(15,090)
Provision for distribution to stapled securityholders	18	-	(15,213)	-	(15,213)
Issue of ordinary securities	19	29,109	-	-	29,109
Distribution reinvestment plan	19	5,429	-	-	5,429
Share-based payment transactions	21	-	-	79	79
Purchase of Treasury securities	21	-	-	(168)	(168)
Total transactions with owners		34,538	(30,303)	(89)	4,146
Balance at 30 June 2020		297,178	175,348	(530)	471,996
Balance at 1 July 2018					
		262,640	144,512	(424)	406,728
Total comprehensive income for the year					
Profit for the year		-	49,238	-	49,238
Total comprehensive income for the year		-	49,238	-	49,238
Transactions with owners in their capacity as owners recognised directly in equity					
Distribution to stapled securityholders	18	-	(14,302)	-	(14,302)
Provision for distribution to stapled securityholders	18	-	(14,740)	-	(14,740)
Share-based payment transactions	21	-	-	(17)	(17)
Purchase of Treasury securities	21	-	-	-	-
Total transactions with owners		-	(29,042)	(17)	(29,059)
Balance at 30 June 2019		262,640	164,708	(441)	426,907

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		2020	2019
	Note	\$'000	\$'000
Cash flows from operating activities			
Rent and outgoings from investment properties		55,742	57,791
Payments to suppliers		(15,718)	(16,793)
Interest receipts		10	15
Income tax (paid)/refunded		(18)	35
Net cash from operating activities	30	40,016	41,048
Cash flows from/(used in) investing activities			
Payment for acquisition of investment properties		(63,122)	-
Proceeds from disposal of investment properties		-	14,000
Payment for additions to investment properties		(3,668)	(1,103)
Payment for plant and equipment additions		(5)	(10)
Net cash from/(used in) investing activities		(66,795)	12,887
Cash flows from/(used in) financing activities			
Proceeds from borrowings		92,338	38,545
Repayments of borrowings		(57,025)	(51,280)
Proceeds from capital raising		29,109	-
Payment of borrowing costs		(12,491)	(13,250)
Payment for treasury securities		(168)	-
Payment of leasing liabilities		(89)	-
Payment of distributions		(24,401)	(28,604)
Net cash from/(used in) financing activities		27,273	(54,589)
Net increase/(decrease) in cash held		494	(654)
Cash and cash equivalents at the beginning of the year		586	1,240
Cash and cash equivalents at the end of the year	10	1,080	586

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



Trinity Beach Tavern

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 1 REPORTING ENTITY

The consolidated financial report of Hotel Property Investments as at and for the year ended 30 June 2020 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 securities under the *Corporations Act 2001*. The responsible entity of the Trust is Hotel Property Investments Limited (the "Responsible Entity").

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

The Company and its controlled entities and the Trust and its controlled entities are referred to as "the HPI Group".

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 securityholders on 10 December 2013, the Company has been determined to be a disclosing and reporting entity.

The principal activity of the HPI Group is real estate investment in the 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 Trust 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 consolidated financial report also complies with the International Financial Reporting Standards (IFRS) and the interpretations adopted by the International Accounting Standards Board (IASB).

b. BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis, except for the following that are measured at fair value:

- investment property, including investment property held for sale at reporting date
- share-based payment arrangements
- trade receivables.

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

The Consolidated Financial Report as at and for the year ended 30 June 2020 was approved by the Directors on 18 August 2020.

c. FUNCTIONAL AND PRESENTATION CURRENCY

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

The HPI Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report have been rounded 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 year 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 2020 are described in the following notes:

Note 4(a) and Note 13 — investment property

Note 3(l) and Note 29 — financial instruments

e. WORKING CAPITAL

As at 30 June 2020, the HPI Group had an excess of current liabilities over current assets of \$16.9 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 sufficient undrawn committed debt facilities to meet current liability obligations, and that the net current deficit does not impact the underlying going concern assumption applied in preparing these financial statements.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

a. BASIS OF CONSOLIDATION

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.

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.

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 measured based on the consideration specified in a contract and when the HPI Group transfers control over a product or service to the customer. 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 year relating to fixed increases in operating lease rentals in future periods. This receivable is considered to be a component 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.



Waterloo Station Hotel

c. FINANCE INCOME AND FINANCE EXPENSES

Finance revenue comprises interest income on bank deposits.

Finance expenses comprise interest expense, amortised borrowing costs and write off of deferred borrowing costs and other costs associated with unused 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 Trust is not liable to income tax, provided:

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

The Company and its wholly owned subsidiaries 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 27.5% (2019: 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 2020 this rate is 47% (2019: 47%).

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.

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 SECURITIES (TREASURY SECURITIES)

When securities recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased securities are classified as treasury securities and are presented in the treasury security reserve. When treasury securities 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 contributed equity.

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 properties are measured initially at cost. 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. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

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, rent abatements and change in WALE 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 year. Any subsequent gains or losses on re-measurement 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 profit or loss.

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 profit or loss 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.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- furniture and fittings 5 years
- computer hardware and software 5-7 years
- office equipment 15 years



I. FINANCIAL INSTRUMENTS

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.

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.

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.

DERIVATIVE FINANCIAL INSTRUMENTS

The HPI Group may hold derivative financial instruments to hedge its interest rate risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in Other Comprehensive Income (OCI) and accumulated in the hedging reserve.

ISSUED UNITS AND ISSUED SECURITIES

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, adverse changes in the payment status of borrowers or issuers and observable date indicating that there was a measurable decrease in the expected cash flows from a group of financial assets. The HPI Group allocates each exposure to credit loss risk based on data that is determined to be predictive of the risk of loss and apply experienced credit judgement.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between the asset's 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. When the HPI Group considers that there were no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss will be reversed through profit or loss.

NON-FINANCIAL ASSETS

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

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

n. ACCOUNTING STANDARDS IMPLEMENTED IN THE PERIOD

AASB 16 – LEASES

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the previous standard. That is lessors continue to classify leases as finance or operating leases. AASB 16 replaces existing leases guidance including AASB 117 Leases and associated pronouncements and is effective for annual periods beginning on or after 1 January 2019.

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

At initial adoption, the Group measured the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments based on an explicit rate. On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities was 3.8%.

NOTE 4 DETERMINATION OF FAIR VALUES

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

a. INVESTMENT PROPERTY

Independent valuations of investment properties which the HPI Group intends to hold are obtained from suitably qualified independent valuers as discussed in notes 3 (i) and 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.

Alternatively, a components valuation approach is adopted whereby fair value is determined with reference to the value of the gaming authorities, the remaining lease income and the value of the land. Valuations reflect the creditworthiness of the tenant including market perceptions of the tenant's creditworthiness, the responsibility and division of property holding costs between the lessor and the lessee, the remaining economic life of the property and having regard to specific current market conditions at each location. Properties held for sale are valued at the fair value as at the previous reporting period. Any subsequent gains or losses on remeasurement are recognised in profit or loss.

b. SHARE-BASED PAYMENT TRANSACTIONS

The fair value of the share-based payments as at the grant date is determined independently using a Monte Carlo simulation. A Monte Carlo simulation model simulates the path of the security price according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the option value. Service and non-market performance conditions attached to the arrangements are not taken into account in measuring fair value.

c. TRADE RECEIVABLES

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



NOTE 5 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.

a. 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 88.7% of the HPI Group's rental revenue is attributable to one major tenant, QVC.

In the event of rental defaults by any of the HPI Group's pub tenants or if a lease comes to an end the liquor and gaming licenses 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.

b. 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 35–45% range) to mitigate liquidity risk associated with refinancing.

c. 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 within these parameters.

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 a portion of fixed rate debt. 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 and their valuations may increase or decrease from time to time. The HPI Group's loan agreements contain financial covenants which include a gearing ratio covenant and a total asset covenant. The HPI Group monitors the risk of breach of these covenants by regularly performing sensitivity analysis.

d. 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. The HPI Group monitors the return on equity as well as capitalisation rates on the property portfolio.

The HPI Group considers its borrowings as part of its capital management strategy. The borrowing agreements contain financial covenants within which the HPI Group must always operate, including a gearing covenant, an interest cover ratio covenant and a net assets 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 2020.

The HPI Group has targeted a gearing ratio in the range of 35% to 45% 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 in the borrowing agreements, which requires the HPI Group to have a gearing ratio of less than 60%.

The distribution policy of the HPI Group has been established taking into consideration the covenants of the borrowing agreements and may be adapted to maintain gearing within the range of 35–45% 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 acquirer due to its large relative size to the Company.

In a business combination achieved as a consequence of stapling, the acquirer receives no equity interests in the acquiree. Therefore 100% of the acquiree's equity is attributable to the securityholders 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 AUDITOR'S REMUNERATION

	2020	2019
	\$	\$
KPMG Australia		
Audit of financial reports	164,656	180,556
Audit of AFSL	8,735	9,513
Audit of compliance plan	9,028	9,931
	182,419	200,000

NOTE 8 OTHER EXPENSES

	2020	2019
	\$'000	\$'000
Advisory and legal fees	512	248
Auditor's remuneration	182	200
Directors' fees	467	400
Employment expenses	1,437	1,580
Insurance	567	358
All other expenses	1,046	1,001
	4,211	3,787

NOTE 9 FINANCE EXPENSES

	2020	2019
	\$'000	\$'000
Interest expense	11,444	12,391
Amortised borrowing costs	408	361
Borrowing costs expensed	-	213
Other finance costs	84	65
	11,936	13,030

NOTE 10 CASH AND CASH EQUIVALENTS

	2020	2019
	\$'000	\$'000
Cash at bank and on hand	1,080	586

NOTE 11 TRADE AND OTHER RECEIVABLES

	2020	2019
	\$'000	\$'000
Current trade receivables	2,372	369
Less: Allowance for impairment	-	-
Non-current trade receivables	1,471	-
Less: Allowance for impairment	-	-
Net trade receivables	3,843	369
	3,843	369

On 1 May 2020, the HPI Group reached a commercial agreement with Queensland Venue Company ("QVC"), to defer part of the rent for the period April 2020 to September 2020 totalling approximately \$7.5 million excluding GST. The deferred rent will be payable in full to the HPI Group between February 2021 and June 2022. As at 30 June 2020 \$3.4 million excluding GST of rent has been deferred.

NOTE 12 OTHER CURRENT ASSETS

	2020	2019
	\$'000	\$'000
Other current assets	513	404
	513	404

Other current assets held at 30 June 2020 are comprised of prepaid insurances.



NOTE 13 INVESTMENT PROPERTY

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

RECONCILIATION OF MOVEMENTS	2020	2019
	\$'000	\$'000
Investment property	785,870	708,500
Carrying amount at the beginning of the year	708,500	700,220
Acquisition of investment properties	63,122	-
Disposal of investment properties	-	(12,030)
Capital additions on investment properties	3,738	1,103
Straight line lease adjustment	265	(1,410)
Fair value adjustments	10,245	20,617
Carrying amount at the end of the year	785,870	708,500

LEASING ARRANGEMENTS

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

VALUATION OF INVESTMENT PROPERTIES

The valuations of individual properties are prepared inclusive of liquor and gaming licenses 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.

Alternatively, a components valuation approach is adopted whereby fair value is determined with reference to the value of the gaming authorities, the remaining lease income and the value of the land. 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. Any subsequent gains or losses on remeasurement are recognised in profit or loss.

FAIR VALUE ADJUSTMENTS AT 30 JUNE 2020

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

At 30 June 2020 all investment properties within the portfolio were valued by the Directors of the Company in accordance with the HPI Group policy.

	2020	2019
Market capitalisation rate range at last independent valuation	5.50% - 7.50%	5.75% - 8.0%

FAIR VALUE HIERARCHY

The fair value measurement for investment property of \$785.9 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

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

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 observable inputs and fair value measurement
Capitalisation of rent allowing for the following adjustments:	Net rent	The estimated fair value would increase (decrease) if: Net rent was higher (lower)
	Capitalisation rates	Capitalisation rates were lower (higher)
	• Additional land	Additional land was higher (lower) in value
	• Capital allowance	Capital allowance was (smaller) larger
	• Other property specific factors including rent abatements	Other property specific factors
Components basis	Gaming authorities	Gaming authorities were higher (lower)
	NPV remaining lease	NPV remaining lease was higher (lower)
	Comparable land sales	Comparable land sales were higher (lower)

ASSETS OWNED AS AT 30 JUNE 2020

Property	Location	Note	2020		2019	
			Cap'n rate ¹	Fair value \$'000	Cap'n rate ¹	Fair value \$'000
Acacia Ridge Hotel	Acacia Ridge, QLD	4	5.50%	20,000	-	-
Barron River Hotel	Stratford QLD	2	6.75%	4,100	6.75%	8,400
Beenleigh Tavern	Eagleby QLD	2	6.25%	12,000	6.50%	12,800
Berserker Tavern	Rockhampton QLD	2	6.75%	10,600	7.00%	10,500
Bonny View Tavern	Bald Hills QLD	2	6.25%	7,520	7.00%	13,900
Boomerang Motor Hotel	West Mackay QLD	2	7.00%	4,900	8.00%	9,700
Bribie Island Hotel	Bellara QLD	3	6.50%	18,200	6.50%	18,200
Brighton Hotel	Brighton QLD	2	6.00%	14,700	6.75%	12,900
Brighton Metro Hotel	Brighton SA	2	5.75%	15,700	5.75%	18,300
Caboolture Sundowner Hotel Motel	Caboolture QLD	2	6.00%	13,570	6.75%	12,300
Chancellors Tavern	Sippy Downs QLD	2	6.00%	15,380	6.00%	15,500
Cleveland Sands Hotel	Cleveland QLD	2	5.75%	33,300	6.00%	31,200
Cleveland Tavern	Cleveland QLD	2	6.00%	17,670	6.25%	17,100
Club Hotel	Gladstone QLD	2,6	7.00%	4,200	n/a	3,600
Coomera Lodge Hotel	Oxenford QLD	2	6.00%	4,520	6.75%	5,600
Crown Hotel	Lutwyche QLD	2	6.00%	42,290	6.50%	37,900
Diamonds Tavern	Kallangur QLD	2	6.00%	11,850	7.00%	9,800
Dunwoodys Tavern	Cairns QLD	2	5.75%	26,200	6.75%	24,000
Everton Park Hotel	Everton Park QLD	2	5.75%	30,100	6.25%	27,300
Ferry Road Tavern	Southport QLD	2	5.75%	33,000	6.00%	32,100
Fitzys Loganholme	Loganholme QLD	2	5.75%	27,200	6.25%	25,200
Fitzys Waterford	Waterford QLD	2	5.50%	21,700	6.50%	19,300
Grafton Hotel	Edmonton QLD	2	6.50%	4,400	7.00%	5,700
Grand Junction Hotel	Pennington SA	2	6.00%	11,600	6.25%	11,300
Gregory Hills Hotel	Gregory Hills, NSW	5	5.50%	40,000	-	-
Hotel HQ	Underwood QLD	2	5.75%	28,220	6.00%	26,600
Kings Beach Tavern	Caloundra QLD	2	6.00%	18,500	6.25%	19,000
Kooyong Motor Hotel	North Mackay QLD	2,6	7.50%	7,970	n/a	3,500
Leichhardt Hotel	Rockhampton QLD	2	7.00%	9,700	7.75%	9,800

Property	Location	Note	2020		2019	
			Cap'n rate ¹	Fair value \$'000	Cap'n rate ¹	Fair value \$'000
Lord Stanley Hotel	East Brisbane QLD	3	6.00%	13,000	6.00%	12,700
Magnums Tavern	Airlie Beach QLD	3	6.50%	25,300	6.50%	24,500
Mi Hi Tavern	Brassal QLD	2	5.50%	23,100	6.50%	19,200
New Inala Hotel	Inala QLD	2	6.00%	14,400	6.25%	13,500
Palm Cove Tavern	Palm Cove QLD	2	6.50%	8,900	6.75%	8,500
Royal Hotel Townsville	West End QLD	2,6	7.00%	3,600	n/a	3,200
Royal Mail Hotel	Tewantin QLD	3	6.50%	21,200	6.50%	20,700
Quest Griffith	Griffith NSW	2	7.50%	16,900	7.44%	15,900
Q Sports Bar	Cairns QLD	2	6.00%	10,400	6.50%	9,700
The Hotel Allen	Northward QLD	2,6	7.00%	11,000	n/a	6,300
The Regatta Hotel	Toowong QLD	3	5.75%	49,300	5.75%	50,200
The Wallaby Hotel	Mudgeeraba QLD	2	6.00%	12,380	6.25%	13,400
Tom's Tavern	Aitkenvale QLD	2	6.50%	21,900	6.75%	21,000
Trinity Beach Tavern	Trinity Beach QLD	3	6.50%	19,100	6.50%	18,800
Waterloo Tavern	Paralowie SA	3	6.50%	21,100	6.50%	20,700
Woodpecker Tavern	Burpengary QLD	2	6.00%	5,200	6.50%	8,700
Total Investment Property			6.06%	785,870	6.42%	708,500

1 Capitalisation rate at last independent valuation

2 Independent valuation obtained as at 31 December 2019

3 Independent valuation obtained as at 31 December 2018

4 Acquired on 27 March 2020

5 Acquired on 8 April 2020

6 Valued on a components basis as at 30 June 2019

NOTE 14 TAXES

	2020	2019
	\$'000	\$'000
TAX EXPENSE		
a. Tax expense recognised in profit or loss		
Current tax expense	52	4
Deferred tax expense	(65)	9
Tax expense/(benefit) attributable to profit from continuing operations	(13)	13
b. Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit before tax	40,930	49,251
Income tax expense calculated at 30%	13,225	14,775
Trust income not subject to tax	(13,186)	(14,768)
Effect of permanent differences	(59)	5
Under provision in prior years	7	-
Difference due to tax rate differential	-	1
Tax expense/(benefit) on profit before tax	(13)	13

c. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Plant and equipment	16	12	-	-	16	12
Accrued expenses	101	43	-	-	101	43
Employee liabilities	31	29	-	-	31	29
Leases	38	-	37	-	1	-
	186	84	37	-	149	84

(d) Movements in deferred tax balances during the year

	2020	2019
	\$'000	\$'000
Balance at the beginning of the year	84	93
Recognised in profit or loss	65	(9)
	149	84
Balance represented as follows:		
Deferred tax asset	186	84
Deferred tax liability	(37)	-
	149	84

NOTE 15 TRADE AND OTHER PAYABLES

	2020	2019
	\$'000	\$'000
CURRENT		
Trade payables	-	26
Accrued interest	2,770	2,956
Other payables	2,756	2,167
	5,526	5,149

NOTE 16 EMPLOYEE BENEFIT LIABILITIES

	2020	2019
	\$'000	\$'000
Short-term employee benefits	75	57
Post-employment benefits	37	38
	112	95
Represented as follows:		
Current liabilities	101	94
Non-current liabilities	11	1
	112	95

NOTE 17 LOANS AND BORROWINGS

	2020	2019
	\$'000	\$'000
Non-current		
USPP Notes	228,937	228,768
Loans	69,772	34,466
	298,709	263,234

U.S. PRIVATE PLACEMENT ("USPP") NOTES

	2020	2019
	\$'000	\$'000
USPP - drawn	230,000	230,000
Borrowing costs capitalised	(1,556)	(1,553)
Accumulated amortisation of borrowing costs	493	321
	228,937	228,768

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.

The USPP issue comprises three tranches of unsecured, Australian Dollar denominated notes:

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

LOANS	2020	2019
	\$'000	\$'000
<i>Common Terms Deed ("CTD")</i>		
CTD—drawn	71,528	34,715
Borrowing costs capitalised	(2,536)	(793)
Accumulated amortisation of borrowing costs	567	331
Accumulated borrowing costs expensed	213	213
	69,772	34,466

There are two facilities, each bilaterally provided under the Common Terms Deed ("CTD") and totalling \$173 million as at 30 June 2020. Of these facilities, \$73 million expires on 1 July 2022 and \$100 million expires on 24 December 2024.

FACILITY LIMITS

The available facilities and the amounts drawn are summarised below:

2020	USPP \$'000	CTD \$'000	Guarantee \$'000	Total \$'000
Facility limit	230,000	173,000	5,078	408,078
Drawn	(230,000)	(71,528)	(4,578)	(306,106)
Available	-	101,472	500	101,972

The guarantee facility limit was increased to \$5.1 million in 2020 (2019: \$4.1 million).

2019	USPP \$'000	CTD \$'000	Guarantee \$'000	Total \$'000
Facility limit	230,000	74,000	4,078	308,078
Drawn	(230,000)	(34,715)	(4,078)	(268,793)
Available	-	39,285	-	39,285

NOTE 18 PROVISIONS

	2020	2019
	\$'000	\$'000
<i>Provision for distribution</i>		
Balance at the beginning of the year	14,740	14,302
Provisions made during the year	30,303	29,042
Provisions used during the year	(29,830)	(28,604)
Balance at the end of the year	15,213	14,740

DISTRIBUTION

The provision for distribution relates to distributions to be paid to stapled securityholders on 4 September 2020. This distribution will be funded via drawdown on the existing CTD loan facility.

NOTE 19 CONTRIBUTED EQUITY

	No. of securities	\$'000
On issue at 30 June 2019—fully paid	146,105,439	262,640
Units issued under the DRP on 6 September 2019	610,514	3,4284
Units issued under capital raising	9,287,926	3,2300
Transaction costs		(891)
Units issued under the DRP on 4 March 2020	1,042,677	3,1967
On issue at 30 June 2020 – fully paid	157,046,556	297,178

On issue at 30 June 2018 – fully paid	146,105,439	262,640
On issue at 30 June 2019 – fully paid	146,105,439	262,640

STAPLED SECURITIES

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

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 security of the distribution in proportion to the number of units held by them. All issued units are fully paid.

TREASURY SECURITIES

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

DISTRIBUTION REINVESTMENT PLAN (DRP)

The HPI Group has a DRP whereby securityholders are free to choose the proportion of their distribution entitlements satisfied by the issue of new units rather than cash.

NOTE 20 RETAINED EARNINGS

	2020	2019
	\$'000	\$'000
Balance at the beginning of the year	164,708	144,512
Profit for the year	40,943	49,238
Distribution to stapled securityholders	(15,090)	(14,302)
Provision for distribution to stapled securityholders	(15,213)	(14,740)
Balance at the end of the year	175,348	164,708

NOTE 21 RESERVES

	Treasury security reserve	Share based payment reserve	Total
	\$'000	\$'000	\$'000
Opening balance at 1 July 2019	(490)	49	(441)
Purchase of treasury securities	(168)	-	(168)
Recognition of share-based payment expense	-	79	79
Closing balance at 30 June 2020	(658)	128	(530)
Opening balance at 1 July 2018	(490)	66	(424)
Recognition of share-based payment expense	-	38	38
Reversal of share-based payment expense	-	(55)	(55)
Closing balance at 30 June 2019	(490)	49	(441)

TREASURY SECURITY RESERVE

The Treasury security reserve comprise the cost of the HPI Group's securities which were purchased on-market and are held by the HPI Rights Plan Trust. At 30 June 2020, the HPI Group held 213,866 securities (30 June 2019: 162,363).

SHARE BASED PAYMENT RESERVE

The share-based payments reserve comprises amounts recognised under the long-term incentive plan for executive employees and is the portion of the fair value of the total cost recognised in profit and loss 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 22 NET ASSETS PER STAPLED SECURITY

	2020	2019
	\$	\$
Number of stapled securities on issue as at the end of the year	157,046,556	146,105,439
Less treasury securities	(213,866)	(162,363)
Adjusted number of stapled securities on issue as at the end of the year	156,832,690	146,105,439
Net assets at balance date	\$471,995,573	\$426,907,191
Net assets per stapled security	\$3.01	\$2.92

NOTE 23 EARNINGS PER STAPLED SECURITY

	2020	2019
Profit for the year	\$40,943,000	\$49,238,000
WEIGHTED AVERAGE NUMBER OF STAPLED SECURITIES		
On issue at the beginning of the period	146,105,439	146,105,439
Add: Distribution reinvestment securities 6 September 2019	498,447	-
Add: Capital raising securities	3,053,565	-
Add: Distribution reinvestment securities 4 March 2020	337,085	-
Less: Effect of treasury securities held*	(196,792)	(162,363)
WEIGHTED AVERAGE NUMBER OF STAPLED SECURITIES	149,797,744	145,943,076
Basic earnings per stapled security – cents	27.33	33.74
Diluted earnings per stapled security – cents	27.30	33.74

* The effect of treasury securities held is the weighted average of 196,792 (2019: 162,363) securities held from date of acquisition to the end of the year.

NOTE 24 DISTRIBUTIONS

Number of stapled securities on issue as at the end of the year	Total distribution	No. of stapled securities	Distribution per stapled securities
	\$'000		(cents)
2020			
1 July 2019 to 31 December 2019	15,090	146,502,087	10.3
1 January 2020 to 30 June 2020	15,213	156,832,690	9.7
	30,303		20.0
2019			
1 July 2018 to 31 December 2018	14,302	145,943,076	9.80
1 January 2019 to 30 June 2019	14,740	145,943,076	10.10
	29,042		19.90

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

NOTE 25 LEASES

The HPI Group leases out its investment properties under operating leases (refer to note 13). The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

LEASES AS LESSOR

FY2020 – Operating leases under AASB 16	\$'000
Less than one year	50,823
One to two years	52,233
Two to three years	52,127
Three to four years	53,266
Four to five years	79,336
More than five years	413,287
Total	701,072

FY2019 – Operating leases under AASB 117	\$'000
Less than one year	49,508
Between one and five years	117,272
More than five years	53,521
Total	220,301

The Company leases its head office space and printing equipment which are classified as finance leases under AASB 16. Information about lease payments for which the Responsible Entity is a lessee is presented below.

LEASES AS LESSEE	2020	2020	2020
	Property	Equipment	Total
	\$'000	\$'000	\$'000
Right of use asset			
Balance as at 1 July	221	7	228
Depreciation charge for the year	(91)	(4)	(95)
Balance at 30 June	130	3	133

LEASES AS LESSEE	2020	2020	2020
	Future minimum lease payments	Interest	Present value of minimum lease payments
	\$'000	\$'000	\$'000
Lease liabilities			
Less than one year	101	(4)	98
Between one and five years	42	-	41
More than five years	-	-	-
	143	(4)	139

Payments made under finance leases reduce the right of use liability by the difference between the interest cost which is recognised in profit or loss and the total amount of payment.

NOTE 26 GROUP ENTITIES

Subsidiaries	Country of incorporation	Ownership interest
The C.H. Trust	Australia	100%
HPI Hold Trust No. 1	Australia	100%
HPI Retail Fund No. 1	Australia	100%
HPI Vic Sub Trust No. 1	Australia	100%
HPI NSW Sub Trust No.1	Australia	100%
HPI Acacia Ridge Trust	Australia	100% ^{1,2}
HPI ABH Trust	Australia	100% ^{1,2}
Hotel Property Investments Limited	Australia	100% ²
C.H. Properties Pty Ltd	Australia	100% ²
HPI LTIP Pty Ltd	Australia	100% ²
HPI Holdings No.1 Pty Ltd	Australia	100% ²
HPI Retail Fund No. 1 Pty Ltd	Australia	100% ²
HPI Sub Fund No. 1 Pty Ltd	Australia	100% ²
HPI Acacia Ridge Pty Ltd	Australia	100% ²
HPI ABH Pty Ltd	Australia	100% ²
HPI Rights Plan Trust	Australia	³

1 Established in February 2020.

2 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, HPI Holdings No. 1 Pty Ltd, HPI Retail Fund No. 1 Pty Ltd, HPI Sub Fund No. 1 Pty Ltd, HPI LTIP Pty Ltd, HPI Acacia Ridge Pty Ltd and HPI ABH Pty Ltd are 100% subsidiaries of Hotel Property Investments Ltd.

3 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.



Gregory Hills Hotel

NOTE 27 PARENT ENTITY

As at and throughout the financial year ended 30 June 2020 the parent entity of the HPI Group was the Trust.

	2020	2019
	\$'000	\$'000
RESULTS OF THE PARENT ENTITY		
Profit for the year	36,772	47,807
Other comprehensive income	-	-
Total comprehensive income	36,772	47,807
FINANCIAL POSITION OF THE PARENT ENTITY AT YEAR END		
Current assets	48,114	25,017
Total assets	758,264	681,715
Current liabilities	20,249	20,139
Total liabilities	318,958	283,373
Net assets	439,306	398,342
TOTAL EQUITY OF THE PARENT ENTITY COMPRISING OF:		
Contributed equity	297,178	262,640
Retained earnings	142,128	135,702
Total equity	439,306	398,342

The parent's contingent assets and commitments are the same as those of the HPI Group as disclosed in notes 31 and 33. The parent's contingent liabilities comprise of a bank guarantee, as disclosed in note 32.

NOTE 28 RELATED PARTIES

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 and Managing Director, and the Chief Financial Officer and Company Secretary.

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation during the year comprised the following:

	2020	2019
	\$	\$
Short-term employee benefits	1,369,223	1,290,889
Post-employment benefits	94,362	85,205
Leave entitlements	-	122,255
Share-based payment expense	79,192	38,453
	1,542,777	1,536,802

Post-employment benefits relate to defined contribution superannuation benefits.

No other related party transactions were entered during the year.

NOTE 29 FINANCIAL INSTRUMENTS

ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information of financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2020	Carrying amount		
		Financial assets at amortised cost	Other financial liabilities	Total
		\$'000	\$'000	\$'000
Financial assets not measured at fair value				
Trade and other receivables	11	3,843	-	3,843
Cash and cash equivalents	10	1,080	-	1,080
		4,923	-	4,923
Financial liabilities not measured at fair value				
Loans and borrowings	17	-	(298,709)	(298,709)
Trade and other payables	15	-	(5,526)	(5,526)
		-	(304,235)	(304,235)

2019	Note	Carrying amount		Total
		Financial assets at amortised cost	Other financial liabilities	
		\$'000	\$'000	\$'000
Financial assets not measured at fair value				
Trade and other receivables	11	369	-	369
Cash and cash equivalents	10	586	-	586
		955	-	955
Financial liabilities not measured at fair value				
Loans and borrowings	17	-	(263,234)	(263,234)
Trade and other payables	15	-	(5,149)	(5,149)
		-	(268,383)	(268,383)

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:

	2020	2019
	\$'000	\$'000
Cash and cash equivalents	1,080	586
Trade receivables	3,843	369
	4,923	955

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

CONCENTRATIONS OF CREDIT RISK

The HPI Group's maximum exposure to credit risk for aged trade receivables as at the reporting date by type of customer was as follows:

		Gross	Impairment	Gross	Impairment
		2020	2020	2019	2019
		\$'000	\$'000	\$'000	\$'000
Hotel tenants	Not past due	3,739	-	40	-
	Past due 0 – 30 days	6	-	172	-
	Past due 31 – 120 days	67	-	115	-
		3,812	-	327	-
Specialty tenants	Not past due	14	-	4	-
	Past due 0 – 30 days	7	-	33	-
	Past due 31 – 120 days	10	-	4	-
		31	-	41	-
		3,843	-	368	-

On 1 May 2020, the HPI Group reached a commercial agreement with Queensland Venue Company ("QVC"), to defer part of the rent for the period April 2020 to September 2020 totalling approximately \$7.5 million excluding GST. The deferred rent will be payable in full to the HPI Group between February 2021 and June 2022. As at 30 June 2020 \$3.4 million excluding GST of rent has been deferred.

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. The HPI Group therefore believes that no impairment allowance is necessary in respect of trade receivables past due.

LIQUIDITY RISK

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

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Loans and borrowings	301,528	370,969	5,910	5,856	11,070	104,741	243,393
Trade and other payables	5,526	5,526	5,526	-	-	-	-
Provision for distribution	15,213	15,213	15,213	-	-	-	-
	322,267	391,708	26,649	5,856	11,010	104,741	243,393

2019

Loans and borrowings	264,715	344,763	5,821	5,813	11,629	66,741	254,759
Trade and other payables	5,149	5,149	5,149	-	-	-	-
Provision for distribution	14,740	14,740	14,740	-	-	-	-
	284,604	364,652	25,710	5,813	11,629	66,741	254,759

MARKET RISK

INTEREST RATE RISK

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

	2020	2019
	\$'000	\$'000
VARIABLE RATE INSTRUMENTS		
Financial assets	1,080	586
Financial liabilities	(171,528)	(134,715)
	(170,448)	(134,129)

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
2020					
Cash at bank	1,080	11	-	(11)	-
Loans and borrowings	(171,528)	(1,715)	-	1,715	-
	(170,448)	(1,704)	-	1,704	-
2019					
Cash at bank	586	6	-	(6)	-
Loans and borrowings	(134,715)	(1,347)	-	1,347	-
	(134,129)	(1,341)	-	1,341	-

FAIR VALUES

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

NOTE 30 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2020 \$'000	2019 \$'000
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES WITH PROFIT ATTRIBUTABLE TO THE STAPLED SECURITYHOLDERS		
Profit for the year	40,943	49,238
ADJUSTED FOR NON-CASH ITEMS:		
Fair value adjustment to investment property	(10,245)	(20,617)
Straight lining of rental income	(265)	1,410
Amortisation of borrowing costs	408	574
Depreciation expense	80	78
Depreciation of right-of-use asset	96	-
Share-based payments expense	79	(17)
Tax (benefit)/expense	(13)	13
INVESTING ACTIVITIES:		
Gain on sale of investment property	-	(1,586)
Interest paid	11,936	13,030
CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase)/decrease in trade and other receivables	(3,474)	(18)
(Increase)/decrease in other current assets	(109)	(190)
Increase/(decrease) in trade and other payables	563	(796)
Increase/(decrease) in provisions	17	(71)
Net cash from operating activities	40,016	41,048

NOTE 31 CONTINGENT ASSETS

The HPI Group is not aware of any contingent assets as at 30 June 2020 which may materially affect the operation of the business (2019: nil).

NOTE 32 CONTINGENT LIABILITIES

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

The parent has issued bank guarantees totalling \$4.5 million to the Company in its capacity of Responsible Entity (2019: \$4 million).

The HPI Group is not aware of any other contingent liabilities at 30 June 2020 which may materially affect the operation of the business (2019: nil).

NOTE 33 COMMITMENTS

The HPI Group has committed to a \$30 million capital expenditure program across the portfolio over a two-year period which commenced on February 2020 (2019: nil). As at 30 June 2020, \$27.4 million of the commitment remains.

Other than the commitment noted above, the HPI Group is not aware of any commitments at 30 June 2020 which may materially affect the operation of the business.

NOTE 34 SEGMENT INFORMATION

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

Revenues from QVC represented approximately \$47.9 million (2019: \$44.1 million) of the HPI Group's total revenues.

NOTE 35 SUBSEQUENT EVENTS

No item, transaction or event has occurred subsequent to 30 June 2020 that is likely in the opinion of the Directors to significantly affect the operations of the HPI Group, the results of those operations, or the state of affairs of the HPI Group in future financial periods.

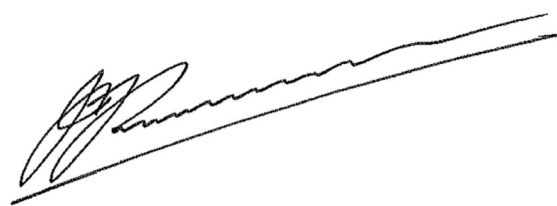
DIRECTORS' DECLARATION

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

- the consolidated financial statements and notes, set out on pages 27 to 63, are in accordance with the *Corporations Act 2001*, including:
 - giving a true and fair view of the Hotel Property Investments Group financial position as at 30 June 2020 and of its performance for the twelve months ended on that date; and
 - complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- 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 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.



John Russell
Chairman
Melbourne
Dated this 18th day of August 2020



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 of the Company 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 2020 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 2020;
- 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 the Hotel Property Investments Trust 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 (including Independence Standards)* (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.

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 judgement, 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 (\$785.9m)

Refer to Note 13 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties was a key audit matter as it made up 99.3% of the Stapled Group's total assets as at 30 June 2020, and its determination was subject to significant judgement and estimation. Further, there is increased uncertainty posed by the COVID-19 outbreak.</p> <p>The fair value of the investment properties was assessed by the Board of Directors based on internally prepared valuations. Complying with their internal valuation policy, 36 (out of 45) investment properties were independently valued by external valuers as at 31 December 2019. These 36 properties made up \$559.0 million of total investment properties of \$785.9 million as at 30 June 2020.</p> <p>We focused on the key inputs used in the Stapled Group's income capitalisation approach. Capitalised income projections are based upon a property's estimated net market income, and application of a capitalisation rate in accordance with Stapled Group policy, which are comparable to external sources. Unique attributes of each property such as location and building conditions have implications on property values. Further, the rapid changes in Government's measures and business disruptions caused by COVID-19 were considered in estimating net market income, paying particular attention whether such government measures and business disruptions existed at year end.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Working with our valuation specialists our audit procedures included:</p> <ul style="list-style-type: none"> • Determining if the inputs used by the directors for the computation of the fair value of the properties are reasonable and consistent with reference to the market update report completed by CBRE, and also from our enquires with CBRE; • 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 valuers in accordance with market practice and the accounting standards; • Assessing the scope, competence and objectivity of the external valuers engaged by the Stapled Group; • Challenging the inputs to the valuations, including adjustments made in relation to expected changes to the contractual lease payments; • Assessing the ability of the tenants to pay rents due, by reference to publicly available trading evidence, current business restrictions by location and any securitisation and guarantees in place; • Re-performing a sample of valuations using the capitalised income projections method by applying forecast rental income (obtained from the rental agreements, and any applicable side agreements that have effect into the forecast period) and capitalisation rate (based on comparable properties), and assessing the consistency of our calculations to the internally

	<p>prepared valuations;</p> <ul style="list-style-type: none"> • 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; and • Assessing events after 30 June 2020 for adjusting events which require the Stapled Group to adjust the valuations recognised in its financial statements.
Recognition of Rental Income (\$49.8m)	
Refer to Note 3(b) to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>Additionally, the Stapled Group entered into new rental agreements with existing tenants, raising our audit effort.</p> <p>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.</p> <p>Rental abatements and deferrals provided during the COVID-19 crisis were subjected to assessment for lease modification accounting under AASB 16 Leases.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Checking a sample of monthly rental invoices and agreeing to the original signed lease contracts and cash receipts; • Creating an expectation to compare to actual revenue reported by management by adjusting last year's audited revenue balance for any disposals or acquisitions and applying the weighted average annual increase; • 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; • 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; • Analysing contractual arrangements to defer or abate rent to assess for lease modifications; and • Assessed the recoverability of rent receivables (including deferred amounts) by reference to publicly available trading evidence, understanding impacts of current business restrictions on trading activities by location and considering any third party guarantees in place.



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 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 opinions.

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.

Responsibilities of the Directors for the Financial Report

The Directors 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; and
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 the 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Hotel Property Investments Limited for the year ended 30 June 2020, 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 pages 15 to 23 of the Directors' report for the year ended 30 June 2020.

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

KPMG

Rachel Milum
Partner
Melbourne
18 August 2020

SECURITYHOLDER INFORMATION

SUBSTANTIAL SECURITYHOLDERS

The number of stapled securities held by the HPI Group's substantial securityholders as at 14 July 2020 is as follows:

	NAME	Securities held
1	Yarra Capital Mgt	11,947,078
2	L1 Capital	11,006,209
3	Vanguard Investments Australia	10,455,512

20 LARGEST SECURITYHOLDERS

AS AT 14 JULY 2020

	Name	Number of Stapled Securities held	Percentage of Total Stapled Securities
1	Yarra Capital Mgt	11,947,078	7.6%
2	L1 Capital	11,006,209	7.0%
3	Vanguard Investments Australia	10,455,512	6.7%
4	Morgan Stanley	7,650,491	4.9%
5	Resolution Capital	5,870,887	3.7%
6	Vanguard Group	4,741,922	3.0%
7	Alceon Group	3,450,180	2.2%
8	BlackRock Investment Mgt (Australia)—Index	3,218,131	2.0%
9	APN Funds Mgt	2,980,017	1.9%
10	Norges Bank Investment Mgt	2,888,185	1.8%
11	Construction and Building Industry Super—Cbus	2,653,998	1.7%
12	Dimensional Fund Advisors	2,372,903	1.5%
13	Realindex Investments	2,211,084	1.4%
14	Vinva Investment Mgt	2,078,281	1.3%
15	Mr Ian D Allen	2,001,980	1.3%
16	Maple-Brown Abbott	1,805,767	1.1%
17	First Sentier Investors—Australian Small Companies	1,657,424	1.1%
18	Private Clients of HOSTPLUS Choiceplus	1,529,458	1.0%
19	JPMorgan Securities Australia	1,501,173	1.0%
20	Private Clients of HUB 24 Custodial Services	1,471,635	0.9%
	Total	83,492,315	53.1%

DISTRIBUTION OF SECURITYHOLDERS

AS AT 14 JULY 2020

Range	Securities	%	No. of holders	%
100,001 and over	106,019,502	67.51	45	0.52
10,001 to 100,000	30,165,931	19.21	1,334	15.41
5,001 to 10,000	10,517,384	6.70	1,384	15.99
1,001 to 5,000	9,134,896	5.81	3,414	39.45
1 to 1,000	1,208,843	0.77	2,478	28.63
Total	157,046,556	100.00	8,655	100.00

As at 14 July 2020, there were 157,045,556 fully paid stapled securities held by 8,655 individual securityholders. The number of securityholders holding less than a marketable parcel of stapled securities is 375.



The Sundowner Motel

CORPORATE DIRECTORY

HOTEL PROPERTY INVESTMENTS

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RESPONSIBLE ENTITY

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

COMPANY SECRETARY

Blair Strik
Hotel Property Investments Limited



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