

**Mantra Group Limited and its controlled entities**  
**Appendix 4E for the year ended 30 June 2017**  
**Preliminary final report**

The following information should be read in conjunction with the attached financial report for the year ended 30 June 2017.

**1. Company details**

Name of entity	Mantra Group Limited
ABN	69 137 639 395
Reporting period	For the year ended 30 June 2017
Comparative reporting period	For the year ended 30 June 2016

**2. Results for announcement to the market**

	2017 \$'000	2016 \$'000	Change \$'000	Change %
Revenues from continuing operations	688,973	606,076	82,897	13.7
Underlying* earnings before interest, taxation, depreciation, amortisation and impairment (EBITDAI)	101,210	89,822	11,388	12.7
Profit from ordinary activities after tax attributable to members	45,597	37,149	8,449	22.7
Net profit attributable to members	45,597	37,149	8,449	22.7

\*Underlying EBITDAI excludes transaction costs associated with business combinations

*Dividends – ordinary shares*

	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credits
<i>Current period</i>			
Interim dividend per share for the year ended 30 June 2017 - paid	5	5	30%
Final dividend per share for the year ended 30 June 2017 – unpaid	6	6	30%
<i>Comparative reporting period</i>			
Interim dividend per share for the year ended 30 June 2016 - paid	5	5	30%
Final dividend per share for the year ended 30 June 2016 – paid	5.5	5.5	30%

Final dividend dates	
Ex-dividend date	4 September 2017
Record date	5 September 2017
Payment date	6 October 2017

**Key Terms of the Dividend Reinvestment Plan (DRP)**

- The DRP will not operate for the final dividend

Please refer to the Operating and Financial Review contained in the attached financial report for a review of operations and activities for the year ended 30 June 2017.

**3.NTA backing**

	2017	2016
	Cents	Cents
Net tangible assets /(liabilities) per ordinary security	(12)	(2)

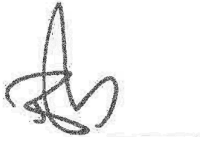
**4. Audit qualification or review**

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

**5. Attachments**

The Financial Report of Mantra Group Limited for the year ended 30 June 2017 is attached. Refer to the Financial Report for all other disclosures in respect of the Appendix 4E.

A handwritten signature in black ink, appearing to be 'Kerry Robert East', written over a faint horizontal line.

Date: 28 August 2017

Kerry Robert East  
Chief Executive Officer  
Gold Coast

# MANTRA GROUP LIMITED

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ANNUAL REPORT YEAR ENDED 30 JUNE 2017

ABN: 69 137 639 395 ASX CODE: MTR





## Annual report - 30 June 2017

### **MANTRA GROUP LIMITED** ABN 69 137 639 395

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#### **NOTE REGARDING NON-IFRS FINANCIAL INFORMATION**

Within this report, Mantra Group has included certain non-IFRS financial information. This information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. Mantra Group uses these measures to assess the performance of the business and believes that the information is useful to investors.

The following non-IFRS measures have not been audited but have been extracted from Mantra Group's audited financial statements:

- EBITDAI - Group profit before interest, taxation, depreciation, amortisation and impairment, or reversals of impairment;
- Underlying EBITDAI - EBITDAI before transaction costs associated with business combinations; and
- Underlying NPAT - Net profit after tax before transaction costs associated with business combinations, impairment or reversals of impairment and certain deferred tax adjustments.

The Directors believe that these measures provide useful information about the financial performance of Mantra Group as they remove the impact of key accounting adjustments, financing charges and taxation. These measures, however, should be considered as supplements to the income statement and cash flow measures that have been presented in accordance with the Australian Accounting Standards and not as a replacement for them. Because these non-IFRS financial measures are not based on Australian Accounting Standards, they do not have standard definitions, and the way Mantra Group calculates these measures may differ from similarly titled measures used by other companies. Readers should therefore not place undue reliance on these non-IFRS financial measures.

A reconciliation of underlying EBITDAI and underlying NPAT to the nearest measure prepared in accordance with IFRS is included in note A1, segment information and note G1, earnings per share, respectively.

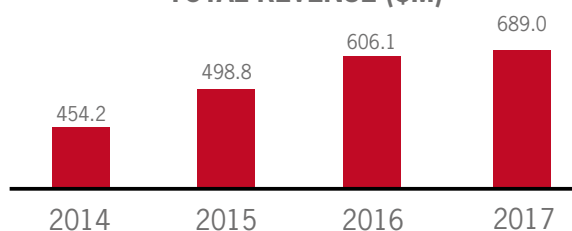




## Results at a glance

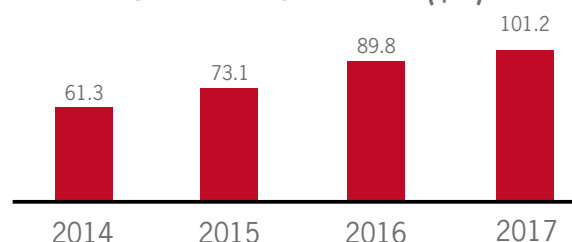
**TOTAL REVENUE**  
**\$689.0M** **13.7%**

**TOTAL REVENUE (\$M)**



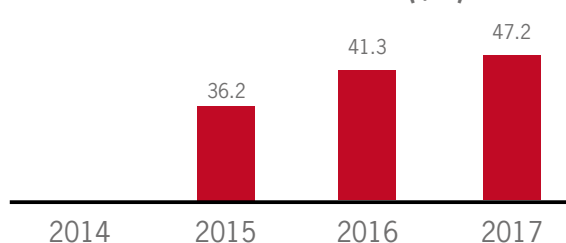
**UNDERLYING EBITDAI\***  
**\$101.2M** **12.7%**

**UNDERLYING EBITDAI\* (\$M)**



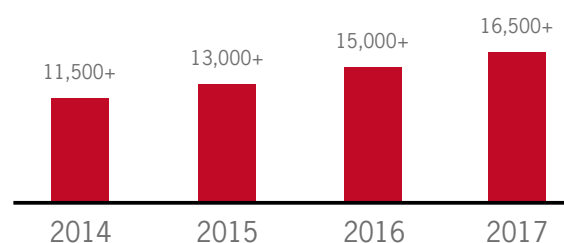
**UNDERLYING NPAT\*\***  
**\$47.2M** **14.2%**

**UNDERLYING NPAT\* (\$M)**



**KEYS UNDER MANAGEMENT**  
**16,500+** **10%**

**KEYS UNDER MANAGEMENT**



\*Excluding business combination related transaction costs expensed in the year

\*\*Excluding business combination related transaction costs expensed in the year, net reversal of impairment and an impairment related deferred tax adjustment.



# Highlights

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## PIPELINE - GEOGRAPHIC



Pipeline characterised by:

- Mix of all property models and brands
- Continued diversification with properties across six of Australia's states and territories, New Zealand and Asia
- More than 4,200 keys in buildings scheduled

2

## HAWAII



- Financial performance met expectations
- Occupancy growth 5.7% and ADR growth 4.7% on prior period
- Integration completed with new leadership and Mantra Group systems implemented during FY2017
- F&B improvements identified and underway

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## LEISURE



- Strong leisure market particularly in Sunshine Coast (RevPAR +11.7%), Tropical North Queensland (RevPAR +5.2%) and New Zealand (RevPAR +15.2%)
- Market supported by strong short term domestic travel and group demand from both corporate and Asian inbound markets

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## CBD



- Sydney (RevPAR +6.5%), ACT (RevPAR +10%) and Tasmania (RevPAR +2.5%) all performed strongly
- Melbourne occupancy strong at 89.8%
- Continued decline in the infrastructure projects in Darwin and supply increases in Perth and Brisbane not yet absorbed by increased demand

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## SYSTEMS AND PROGRAMS



- Property and revenue management systems internationally scalable and best in class
- mantrahotels.com launched, Mantra Group's new global booking channel with all properties from the Group's three brands featured on one all-inclusive website
- My kind of wonderful brand campaign launch
- Mantra+ loyalty programme launched in March 2017 achieving 137,000 members since launch date

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## TEAM & TRAINING & DEVELOPMENT



- Winner of HRD magazine (HRD) Employer of Choice for 2017
- Recognised by HRD as a top performing company in the categories of career development, diversity and inclusion and learning and development
- 86.3% employee satisfaction rating
- Continued focus on Women in Mantra and diversity initiatives

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## CSR



- Continued strong partnership with Luke Batty Foundation
- Benchmarking of properties' environmental footprint completed
- Ala Moana Hotel by Mantra (Hawaii), Mantra The Observatory (Port Macquarie) and Peppers Noosa (Noosa), awarded for demonstrating environmental responsibility

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## ASSETS & OWNERS



- Significant additional tenure negotiated across various caretaking, letting and service agreements in nine properties
- 1,425 keys and 11 common areas refurbished by Mantra Group's specialist in-house refurbishment team with over 1,000 achieved by targeted in-house refurbishment campaigns
- Launch of Mantra Group's 'residences' dedicated marketing platform with the acquisition of Mantra Residences @ Southport Central and the September 2017 opening of FV Peppers Residences
- Cost effective approach minimises room displacement





## Chair and CEO's overview

On behalf of the Board of Directors, Management and all Mantra Group Team Members, it is our pleasure to present Mantra Group's report for the year ended 30 June 2017.

FY2017 has been a successful year for Mantra Group growing our portfolio with sizeable and quality acquisitions in key strategic destinations resulting in a 10% increase in keys under management and acquiring 6 properties into our portfolio. Full year contributions from properties acquired since July 2015, the performance of CR&D as a result of increased bookings through central distribution channels, strong demand in key CBD and leisure markets driven by additional room inventory, increases in domestic and international airline capacity, group demand and inbound Asian travellers, all added to the FY2017 result.

As the second largest accommodation operator in Australia, Mantra Group now accommodates over 2.5 million guests a year and has a workforce of over 5,500.



## "Another strong growth year in all segments"

Growth and development of the portfolio continued throughout FY2017 with a focus on larger or portfolio acquisitions. Additional resources in the development team in FY2016 placed the business in a solid position to drive this growth. Key highlights include:

- Ala Moana by Mantra, Hawaii which settled in July 2016 – this acquisition demonstrated our capability and flexibility to transition the entire operation of this property to a fully fledged Mantra property within a year. This accomplishment endorses our strategy to pursue further development in the region as well as other key international growth destinations.
- Mantra Residences @ Southport Central, acquired in August 2016 - a permanent rental property in one of Gold Coast's most established and popular precincts added to the Group's existing permanent rental portfolio under a dedicated marketing platform 'Mantra Residences'.
- Peppers Kings Square Hotel, Mantra's first Peppers property in Western Australia and CBD Perth opened in November 2016;
- Mantra the Observatory in Port Macquarie settled in December 2016 - the Group's fourth property on the New South Wales North Coast and a popular choice among families and corporate travellers;
- Mantra Club Croc, Airlie Beach re-opened in February 2017 with a new-look and rebranded under Mantra following a \$5 million refurbishment bringing fresh design and upgraded facilities to the property;



- Tribe West Perth, operating under the Tribe brand, an innovative and contemporary modular construction with high-end interior design opened in May 2017.
- Mantra Sydney Airport Hotel opened in July 2017 - another standout for Mantra Group. Optimally located alongside the domestic Sydney airport terminal, this acquisition is already proving to be in high demand, offering high quality accommodation and hotel services.

We are pleased to report for the year ended 30 June 2017, the Group achieved earnings in line with guidance given in February 2017. The Group delivered total revenue of \$689 million representing a 13.7% increase on FY2016. Underlying NPAT was \$47.2m, up \$5.9m on FY2016 and underlying EBITDAI of \$101.2m up 12.7% on FY2016. A strong operating cash flow and balance sheet means Mantra Group is well placed to continue to deliver on its key strategies.

In addition to the fully franked interim dividend of 5 cents per share, the Board is pleased to deliver a fully franked final dividend of 6 cents per share in respect of the year to 30 June 2017 bringing the total fully franked dividend for FY2017 to 11 cents per share.

The Group achieved year-on-year growth in each of our key operating segments. Highlights include:

- Resorts delivered revenue of \$316.2m and underlying EBITDAI of \$45.6m, increases on FY2016 of 29.6% and 31% respectively. Underpinning this growth was the addition of three new properties in FY2017, namely Ala Moana by Mantra, Mantra Residences @ Southport Central and Mantra the Observatory, Port Macquarie. In respect of organic operations, while the Gold Coast region (Mantra's largest resorts market) performed below expectation primarily driven by external factors such as the Dreamworld tragic incident, increased occupancy and average room rate particularly in TNQ, Sunshine Coast and New Zealand markets contributed to this positive result.
- CBD delivered revenue of \$316.6m, a year-on year increase of 1.6% and underlying EBITDAI of \$46.7m, a year-on-year increase of 1.5%. Sydney, Canberra and Tasmania markets produced strong occupancy and average room rates, however continued decline in infrastructure projects in Darwin and increased supply in Perth and Brisbane impacted the overall CBD result. Softness in these markets is currently expected to continue during FY2018.
- Central Revenue and Distribution (CR&D) delivered revenue of \$52.3m and underlying EBITDAI of \$35.3m representing increases on FY2016 of 10.3% and 5.4% respectively. Increased bookings through central distribution channels driven by additional rooms in the portfolio contributed to this result.

#### INITIATIVES IN FY2017 CONTRIBUTING TO RESULTS:

- The Group combined its portfolio under a new single consumer brand 'Mantra Hotels' delivering ease of access to our suite of properties, brands 'Peppers, Mantra and BreakFree' and locations across Australia, New Zealand, Hawaii and Bali.
- Supporting Mantra Group's growing portfolio, we launched our revitalised loyalty program Mantra+ offering guests additional benefits and more value.
- With an emphasis on growth through acquisitions and asset management, additional specialist resources were appointed to the legal team. St. John Lord (General Counsel) was promoted to the Executive Committee endorsing the focus on growth and development.
- The ongoing long term targeted refurbishment program delivered quality room inventory and hotel and resort facilities contributing to the overall guest experience across each brand. The implementation of a 'virtual interactive display' enables apartment owners to remotely view fully interactive refurbishment options when considering refurbishment. Notable refurbishments include the multi-million dollar refurbishments at

Mantra 2 Bond Street, Sydney transforming guest rooms into a contemporary urban oasis with lashings of New York loft-style charm and the Mantra Southbank, Melbourne refurbishment of 118 one and two bedroom apartments combining the ultimate in guest comfort with a contemporary elegant design.

- Ongoing optimisation of distribution channels by capitalising on increasing trends towards online central reservation channels.
- Corporate cost control and efficiencies throughout the business continues to be a Management focus.
- Continued investment in Team Member development via increased internal training and online career platforms. Mantra Group was awarded the HRD Magazine Employer of Choice for 2017.
- Online training conducted to improve capabilities in hosting the increasing number of arrivals from Asian markets.

## "Growth via increased room inventory in key destinations"

#### 2018 GROWTH OUTLOOK

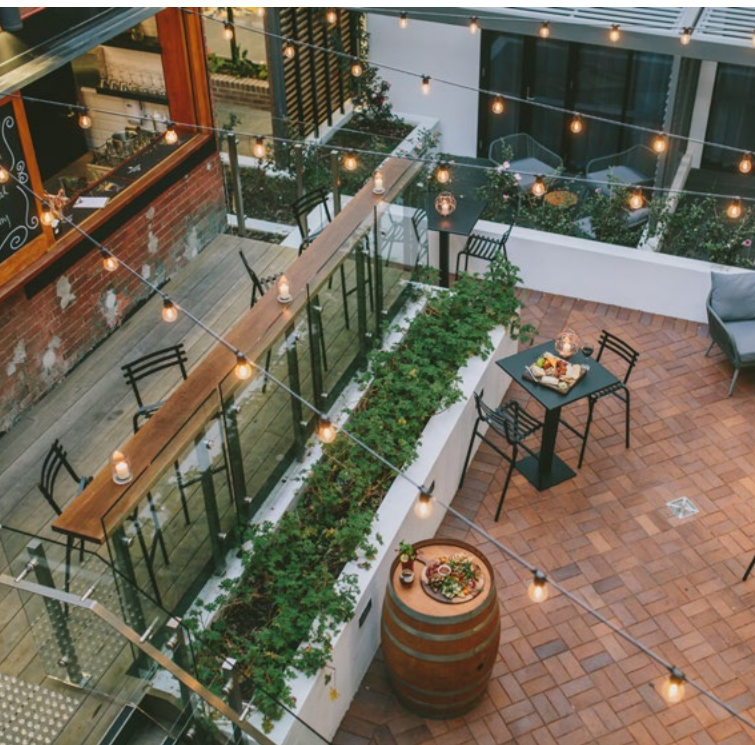
In line with Mantra Group's ongoing strategy to deliver growth via increased room inventory in key destinations, in addition to the extensive pipeline of opportunities, a number of properties scheduled to enter the portfolio during FY2018 have been secured – notable are:

- The Art Series Hotel Group, due to settle in late 2017 (subject to customary settlement conditions) has again demonstrated our ability to identify and secure sizeable assets. This acquisition enhances our already extensive portfolio with a selection of unique properties in cultural hubs in Australian capital cities offering our guests additional experience options under this unique brand.
- Mantra MacArthur Hotel in Canberra and FV Peppers Residences, Brisbane are scheduled to join the portfolio in September 2017. FV Peppers Residences was awarded the 'under \$50m deal of the year' by HotelsWorld in July 2017.



- Mantra Albury NSW, and Mantra Southport Sharks, Gold Coast are expected to be completed in the second half of FY2018.
- Properties currently secured, under construction and scheduled to enter the portfolio beyond FY2018 include:
  - › Peppers Queenstown, Peppers Southbank, Melbourne, Mantra 900 Hay Street, Perth, Mantra Epping, Melbourne, Mantra Wallaroo Shores Resort, South Australia and Mantra Sky Hotel, Tekapo are all on target for completion in FY2020.

All these factors secure the growth, success and sustainability of the business into future years for all stakeholders.



## STRATEGY

With a commitment to drive ongoing growth and deliver shareholder value in FY2018 and beyond, we will continue to focus on our key strategies to deliver shareholder value:

- Grow room inventory - secure strategically aligned acquisitions in key destinations;
- Achieve significant growth - explore diversified and sizeable asset acquisition opportunities optimising on learnings and successes in key international regions and portfolio acquisitions;

Peter Bush  
Chair of the Board

Kerry Robert East  
Chief Executive Officer

- Deliver quality room inventory and service – ongoing targeted refurbishment and service programs;
- Brand promotion - via the recently launched 'my kind of wonderful' marketing campaigns and Mantra+ loyalty program.
- Optimise opportunities – capitalise on the benefits and opportunities from the Commonwealth Games on the Gold Coast in April 2018 – the first time the Commonwealth Games has been hosted on the Gold Coast;
- Capitalise on increasing demand in domestic and international tourism - position Mantra Group to take advantage of increased domestic and international low cost airline capacity, proximity and desirability of location;
- Team Member development – continued investment in the growth and development of Team Members at every level of the business aimed at improving overall performance of the business; and
- Ongoing investor relation engagement.

In the year ahead Mantra Group remains well positioned to capitalise on growth and development via asset and investment opportunities in strategically appropriate locations and properties and take advantage of our strong acquisition pipeline.

*"The Group remains well positioned to capitalise on growth and development"*

We would like to thank our Owners, loyal Guests, Investors and all our stakeholders for their ongoing support of Mantra Group during FY2017.

We also thank the Board, Management and all our Team Members for their significant contributions during the year and their efforts in seamlessly transitioning new hotels and resorts into our growing portfolio. Noteworthy is the significant efforts in securing The Art Series Hotel Group (subject to customary settlement conditions) – another significant asset acquisition.

We look forward to continuing to build on the growth and successes of the Mantra Group in the year ahead.









PEPPERS

PEPPERS  
KINGS SQUARE HOTEL

PEPPERS  
KINGS SQUARE HOTEL  
PERTH

PARKING



# Mantra Group Brand Overview



## PEPPERS

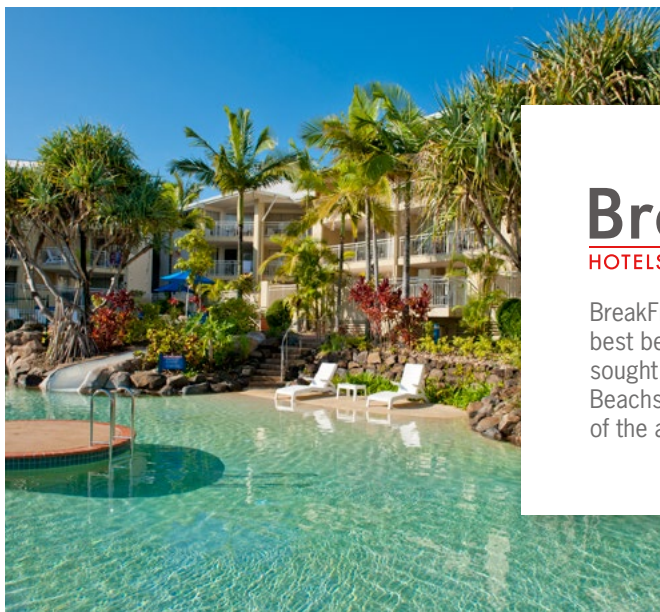
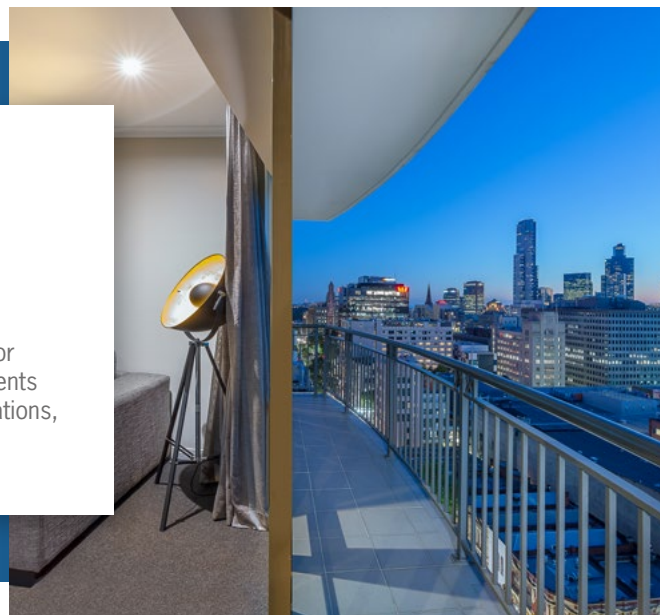
RETREATS • RESORTS • HOTELS

Peppers Retreats, Resorts and Hotels offers an indulgent range of escapes selectively located in spectacular and iconic destinations. From country estates, relaxing beachside resorts, and chic city stays, to world-class golf resorts, private villas and romantic vineyard retreats.

## mantra®

hotels resorts apartments

Mantra Hotels, Resorts and Apartments offers premium accommodation and a warm welcome. Whether for business or leisure, the extensive collection of hotels, resorts and apartments captures the natural charm and ambience of their diverse locations, from bustling cities to serene coastal getaways.



## BreakFree®

HOTELS • RESORTS • APARTMENTS

BreakFree Hotels, Resorts and Apartments offers access to the best beaches, city highlights and holiday attractions in the most sought after locations throughout Australia and New Zealand. Beachside or CBD, BreakFree guests enjoy comfort in the centre of the action, with no hidden extras and without the premium price.

# Mantra Group Philosophy

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## **OUR Vision:**

To be the favourite.

## **OUR Mantra:**

Knowing what matters.

## **OUR purpose:**

Attract and foster guests, owners and the best team members.

## **OUR values:**

### **Trusted:**

Our stakeholders place us in a position of trust - act with the integrity this trust deserves.

### **Friendly:**

Everything begins with a friendly attitude, we build from this point.

### **Focused:**

We understand and focus on what matters.

### **Passionate:**

We dream and achieve our destiny - with passion we can make a difference.

### **Adventurous:**

We look beyond the traditional and explore innovative ways to be the favourite.











## Directors' report

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Your Directors present their report on the consolidated entity, referred to hereafter as Mantra Group or the Group, consisting of Mantra Group Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2017.

## OPERATING AND FINANCIAL REVIEW

### ABOUT MANTRA GROUP

Mantra Group is the leading Australian-based hotel and resort operator. Mantra Group's portfolio consists of 127 properties and over 16,500 keys under management across Australia, Hawaii, New Zealand and Indonesia. Through its portfolio, Mantra Group operates the second largest network of accommodation properties in Australia (by total room number).

Over 2.5 million guests per year stay in Mantra Group branded accommodation. In addition to providing accommodation, Mantra Group's core services include management of guest relations and reception areas, restaurants and bars, conference and function centres, pool and entertainment facilities and offices.

Properties in Mantra Group's portfolio range from luxury retreats and coastal resorts to serviced apartments and hotels in CBD and key leisure destinations. Mantra Group operates its portfolio under three key brands: Peppers, Mantra and BreakFree. These brands have an increasing level of consumer awareness and target a cross section of consumers in both the domestic and international visitor segments.

### MANTRA GROUP OVERVIEW

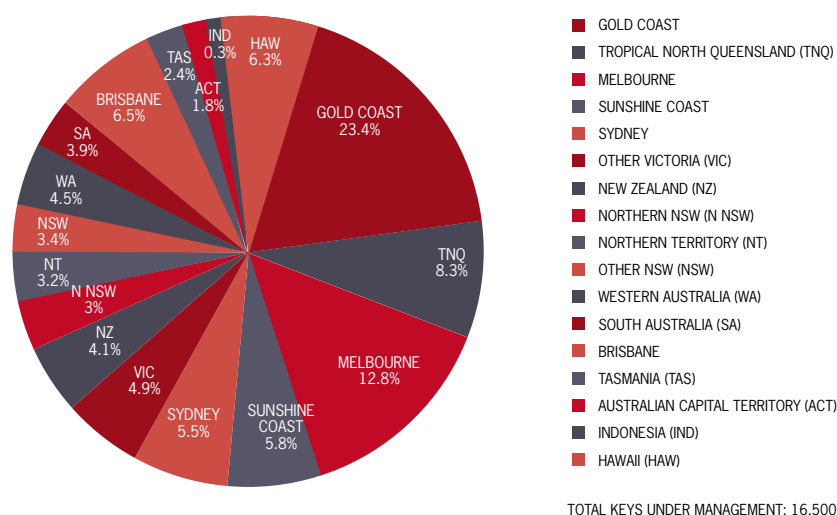
The Group has three core operating segments. These are supported by a corporate function, the Group's fourth segment. Details of the operating segments are as follows:

BUSINESS SEGMENT	CBD	RESORTS	CENTRAL REVENUE AND DISTRIBUTION
SEGMENT DESCRIPTION	<ul style="list-style-type: none"> <li>Operates accommodation properties in capital cities throughout Australia targeted towards business travellers</li> <li>Utilises all Mantra Group's brands</li> </ul>	<ul style="list-style-type: none"> <li>Provides leisure retreats and resorts throughout Australia, New Zealand, Hawaii and Indonesia</li> <li>Utilises all Mantra Group's brands</li> </ul>	<ul style="list-style-type: none"> <li>Mantra Group's in-house customer management, online booking service and digital marketing platforms</li> <li>Includes Management Agreements</li> <li>Distribution services</li> </ul>
KEY FEATURES	<ul style="list-style-type: none"> <li>Relatively stable occupancy throughout economic cycles</li> <li>Benefits from cyclical upside in economy</li> <li>Higher margin</li> </ul>	<ul style="list-style-type: none"> <li>Benefits from cyclical upside in the tourism sector as economic activity increases</li> </ul>	<ul style="list-style-type: none"> <li>Systems are internationally scalable and best in class</li> </ul>
OPERATING STRUCTURES	<ul style="list-style-type: none"> <li>Primarily leases</li> </ul>	<ul style="list-style-type: none"> <li>Primarily Management Letting Rights</li> </ul>	<ul style="list-style-type: none"> <li>Management Agreements (revenue from this operating structure is recognised in this segment)</li> </ul>
FY2017 REVENUE \$'000	316,592	316,210	52,272
FY2017 UNDERLYING EBITDAI \$'000	46,716	45,621	35,280



The split of keys under management by geographic location as at 30 June 2017 was as follows:

## KEYS UNDER MANAGEMENT BY GEOGRAPHIC LOCATION:



## OVERVIEW OF OPERATING STRUCTURES

Mantra Group utilises five operating structures to operate the properties in its portfolio. Each operating structure provides varying degrees of risk and exposure to the underlying accommodation business being operated in relation to the property. Each structure is “capital light” as Mantra Group does not hold material assets in any of the properties in its portfolio. This allows Mantra Group to operate a nationwide portfolio of quality properties with relatively low upfront and on-going capital commitments.

The operating structures used by Mantra Group are as follows:

- Lease Rights (LRs)
- Management Letting Rights (MLRs)
- Hotel Management Rights (HMRs)
- Management Agreements (MAs)
- Marketing Services Agreements (MSAs)

The key terms of each of these structures are as follows:

### LEASE RIGHTS

Model summary	Mantra Group leases the property from the owner on a long-term basis and runs the business independently.
Revenue model	Mantra Group collects 100% of customer revenue from accommodation and related services.
Costs	Mantra Group pays the owner of the property a monthly or quarterly rental payment depending on the agreement. Rental payments can be calculated via a number of methods.

### MANAGEMENT LETTING RIGHTS

Model summary	Mantra Group purchases the rights to operate the letting business of the property under which Mantra Group lets the individual rooms/apartments to its customers under its own brands. Mantra Group will also typically conduct the caretaking and manage associated real estate assets required to operate the letting business (e.g. restaurant, lobby, reception, administration offices). Mantra Group enters into contractual arrangements with owners of individual rooms/apartments to facilitate generation and distribution of room revenue and to apportion the costs associated with operating the letting business.
Revenue model	Mantra Group derives revenue by earning a letting fee as contracted with the owner. Mantra Group also derives revenue by providing ancillary services such as cleaning of rooms, food and beverage, conferencing, tour booking and other services. Income for conducting services on behalf of the body corporate for caretaking, maintaining, cleaning and repairing common property is also earned.
Costs	Costs associated with operating the letting business are typically shared between Mantra Group and the owner in accordance with the individual letting agreements held with each owner. Mantra Group typically incurs a cost for conducting services on behalf of the body corporate.

## HOTEL MANAGEMENT RIGHTS

Model summary	The Group purchases the right to manage a property which operates under hybrid operating agreements such as a long term lease with a caretaking agreement or a letting and management agreement with an operating license.
Revenue model	The Group derives revenue in accordance with the terms of the agreement. In some cases it will be derived through a management fee and in other cases it could be derived in a similar way to a Lease Right.

## MANAGEMENT AGREEMENTS

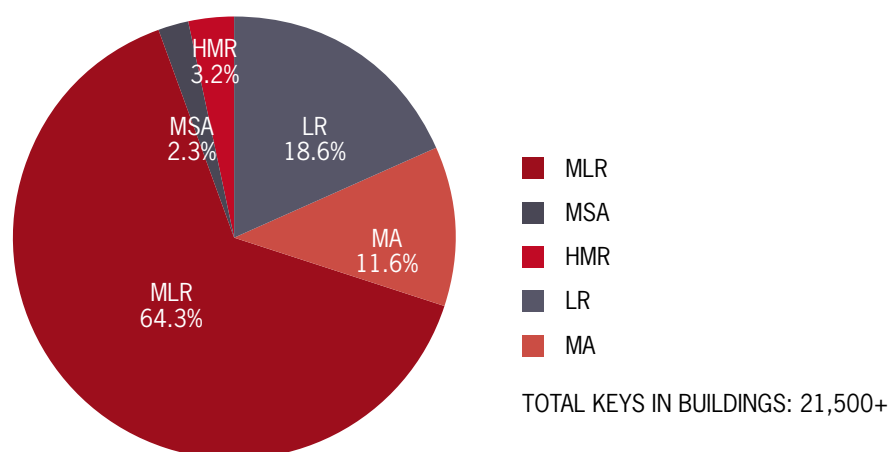
Model summary	Mantra Group manages the property on behalf of the owner or for a third party management rights owner (for the benefit of multiple owners in an MLR business) in exchange for management fees.
Revenue model	The fees paid to Mantra Group under these types of agreements typically include: a base fee; an incentive management fee; and reservation and group services fees.

## MARKETING SERVICES AGREEMENTS

Model summary	The property owner operates their property directly under one of Mantra Group's brands. In exchange for paying fees to Mantra Group, the owner can utilise Mantra Group's distribution and marketing platforms, whilst maintaining day-to-day operating control of the property.
Revenue model	The fees paid to Mantra Group under these types of agreements include: a licence fee; a marketing services fee; and a booking fee.

The split of keys in buildings by operating model as at 30 June 2017 was as follows:

### KEYS IN BUILDINGS BY OPERATING MODEL:



## TEAM MEMBERS

Mantra Group has more than 5,500 team members who carry out the core functions including operations, central reservations, marketing and distribution, portfolio and asset management, information technology, and corporate activities.

## MANTRA GROUP STRATEGY

Our strategy is to grow shareholder value through maintaining and growing our position in the accommodation industry. This will be achieved through the following core strategies:

MANTRA GROUP STRATEGIC PRIORITIES	TO BE ACHIEVED BY	FY2017 PROGRESS
Pipeline	Growth domestically and internationally through property and management acquisitions and owner relationships, with a focus on sizeable portfolio acquisitions.	<p>Six properties added in FY2017. A number of acquisitions secured for settlement and opening in FY2018 and beyond.</p> <p>Ala Moana Hotel by Mantra, the Group's largest single asset, joined the portfolio in July 2016 and has performed in line with expectations.</p> <p>FV Peppers Residences, Brisbane, was awarded deal of the year under \$50m by HotelsWorld in July 2017.</p>
Blue sky and funding options	<p>Exploring growth opportunities in similar asset classes via innovative acquisition models.</p> <p>Exploring opportunities for funding models to capitalise on growth opportunities.</p>	Continued to explore opportunities both in complementary and well aligned asset classes as well as funding options to provide additional capital for blue sky projects.
Engagement	<p>Engagement through:</p> <ul style="list-style-type: none"> <li>• Customer attraction and retention;</li> <li>• Guest technology;</li> <li>• Product improvement and service delivery; and</li> <li>• China Ready Program phase 2 rollout</li> </ul>	<p>Total Group occupancy for FY2017 increased to 79.5%, an increase of 1.8%</p> <p>Launch of Mantra+, Mantra Group's revitalised loyalty program, which provides benefits for guests, including free wifi and exclusive email deals.</p> <p>Using app and SMS technology to better engage with guests before and during their stay.</p> <p>Targeted refurbishment programs continued in FY2017, including refurbishment of 1,425 rooms and 11 public areas, including restaurants, foyer, reception areas and conference venues.</p> <p>Increased Revinate score, the Group's measure of guest feedback</p>
Distribution and brand	<p>Investing in, positioning and promoting Mantra Group's three brands in market.</p> <p>Ensuring distribution platforms are best-in-class.</p>	<p>Successful advertising campaigns run for all three brands and launch of combined 'My kind of wonderful' TV campaign in early July 2017.</p> <p>Launched <a href="http://www.mantrahotels.com">www.mantrahotels.com</a>, Mantra Group's new global booking channel, featuring all properties from the Group's three brands on one all-inclusive website.</p> <p>Maintaining relationships with Online Travel Agents (OTAs).</p> <p>RevPAR increase of 5.5% in FY2017.</p>
People	Investing in people through training and leadership programs and improving the employee value proposition.	<p>Awarded the 2017 HRD Employer of Choice Gold medal (500+ employees category).</p> <p>Also recognised by HRD as a top performer in the following categories:</p> <ul style="list-style-type: none"> <li>• Career progression</li> <li>• Diversity and inclusion</li> <li>• Learning and development</li> </ul> <p>More than 36,000 hours internal training and more than 7,500 hours external training completed during FY2017.</p> <p>Rolled out the unconscious bias training program in conjunction with International Women's Day 2017.</p> <p>Annual leadership programs run.</p> <p>Launch of Mantra Group's award-winning integrated recruiting solution.</p> <p>Continued focus on Women in Mantra and diversity initiatives.</p>



Efficiency	Continuing to improve systems and centralise support systems.	<p>Successfully aligned key systems and processes at Ala Moana Hotel by Mantra to be consistent with those of Mantra Group.</p> <p>Improved payroll systems through increased automation.</p> <p>Consolidation of brand marketing and sales under mantrahotels.com.</p> <p>Centralisation of food and beverage marketing activity.</p>
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## RISKS AND OPPORTUNITIES

While pursuing these strategic objectives, Mantra Group adopts a rigorous approach to understanding and proactively managing the risks it faces in its business. Mantra Group recognises that making business decisions that involve calculated risks and managing these risks within acceptable tolerances is fundamental to creating long-term value for shareholders and meeting commitments to owners, guests and employees.

There are various risks that could impact our business and the nature and potential impact of these risks change over time. The risks include, but are not limited to:

RISK	RESPONSE AND OPPORTUNITIES
Slower overall market growth in challenging economic cycles	<p>Continue to focus on retaining a strong balance sheet with low gearing.</p> <p>Concentrate on efficiency and cost management.</p>
Lack of opportunities for expansion or opportunities do not reach expected potential	<p>Continue to invest in the acquisition and development team to ensure sufficient time and skills to establish and grow strong relationships with property developers and other key industry players. Consider alternative investment opportunities.</p> <p>Mantra Group aims to ensure all opportunities pass stringent investment tests prior to investment.</p>
Changes in consumer preferences or loss of brand value	<p>Continue to monitor and respond to customer feedback.</p> <p>Continue to invest in room and facility refurbishment programs, guest service, staff training and F&amp;B initiatives to maintain brand value.</p> <p>Maintain diversity of models and geographies used in operations.</p>
Loss of key properties, keys under management or the ability to provide property related services	<p>Continue to maintain strong relationships with property owners and bodies corporate.</p> <p>Continue to manage all property and property related contracts such that negotiations are completed in advance of renewal dates.</p>
Keeping up with technology and consumer preferences in a rapid changing environment	<p>Ensure digital and marketing resources are sufficient to address the challenges of technological advances and rapidly changing consumer preferences.</p>
Reduction in use of Mantra Group's direct booking engine in favour of OTAs	<p>Continue to monitor the cost/benefits of internal marketing initiatives to supporting OTAs.</p>
Risk of injury to staff or guests	<p>Continue in-house training for all staff and sufficient information for guests such that risks are highlighted and responses to incidences are known and understood.</p>
Global pandemics or unrest that can temporarily alter travel plans	<p>Monitoring the threat of these types of risks at all times.</p>
Risk of non-compliance with laws and regulations impacting the Group	<p>Continue to keep abreast of developments in key areas of the business and monitor changes in regulations.</p> <p>Continue to maintain a strong compliance framework.</p> <p>Resources in legal department increased.</p> <p>Legal counsel appointed to Executive Committee.</p>

## REVIEW OF OPERATIONS

A comparison of the reported results to last year's results is included in the table below:

	STATUTORY ACTUAL JUNE 2017 \$'000	STATUTORY ACTUAL JUNE 2016 \$'000	CHANGE \$'000	CHANGE %
Revenue	688,973	606,076	82,897	13.7
<b>UNDERLYING EBITDAI**</b>	101,210	89,822	11,388	12.7
Transaction costs arising from business combinations	(1,749)	(7,258)	(5,509)	(75.9)
<b>EBITDAI*</b>	99,461	82,564	16,897	20.5
<b>NPAT</b>	45,597	37,149	8,448	22.7
<b>UNDERLYING NPAT***</b>	47,156	41,301	5,855	14.2

\*Earnings before interest, taxation, depreciation, amortisation and impairment (EBITDAI) exclude a net reversal of impairment of \$1.4 million (2016: \$2.1 million).

\*\*Underlying EBITDAI is EBITDAI excluding transaction costs of \$1.7 million (2016: \$7.3m) incurred in respect of business combinations.

\*\*\*Underlying NPAT is NPAT excluding transaction costs of \$1.7 million (2016: \$7.3 million) incurred in respect of business combinations, reversal of impairment of \$1.4 million (2016: \$2.1 million) and an impairment related deferred tax expense of \$1.2 million (2016: benefit of \$1.0 million).

Group revenue for the year ended 30 June 2017 increased by \$82.9 million or 13.7% to \$689.0 million from \$606.1 million in the previous year. \$59.5 million of this increase was driven by new properties. Excluding the increase attributable to new properties, group revenue increased by \$23.4 million (3.9%). This increase was principally attributable to the following:

- \$10.7 million increased contribution from properties added after 1 July 2015. These properties contributed their first full year of results in FY2017.
- Strong revenue growth from key markets including Sydney (2.2%), Melbourne (1.7%), ACT (8.8%) Gold Coast (3.3%) and Sunshine Coast (7.7%); and
- \$4.9 million increase in revenue from Central Revenue & Distribution (CR&D).

The Group attained occupancy of 79.5% and RevPAR of \$139.38 compared to occupancy and RevPAR of 78.1% and \$132.14 respectively for the previous comparable period ('pcp').

Available rooms increased by 9.8% in the year, from 4.2 million to 4.7 million, principally as a result of the acquisitions completed during the year. Refer to discussion of results by segment below for further information.

Total operating expenses increased by \$65.9 million or 12.6% to \$589.5 million in FY2017 compared to \$523.6 million in FY2016. This increase is attributable to \$50.1 million of costs associated with new properties as well as cost increases in line with revenue growth. Total operating margin from property segments increased by 0.1 percentage points to 14.6%.

The depreciation and amortisation expense of \$27.7 million increased by \$4.4 million from \$23.3 million in FY2016. This increase resulted from the acquisition of new properties into the portfolio and expenditure on property refurbishments.

In FY2017 a net impairment reversal of \$1.4 million compares to a net impairment reversal of \$2.1 million in FY2016. As required by the accounting standards, each year an exercise is undertaken to consider whether there are any indicators of impairment or reversal of impairment of intangible and tangible assets. Given the diverse nature of the property base, each year there are certain individual factors impacting specific properties which can result in an impairment or reversal of impairment of predominately the intangible assets attached to properties. In a change from the prior year, impairment and reversal of impairment has been excluded from underlying EBITDAI and underlying NPAT in order to isolate the trading result for the year.

Underlying earnings before interest, taxation, depreciation, amortisation and impairment (underlying EBITDAI\*\*) for the year was \$101.2 million, an increase of \$11.4 million or 12.7% on the pcp. The underlying EBITDAI margin decreased by 0.1% to 14.7%. New properties contributed \$9.4 million to underlying EBITDAI in the year.

Transaction costs of \$1.7 million (2016: \$7.3 million) were incurred during the year. \$0.9 million (2016: \$5.3 million) of these transaction costs, principally stamp duty, were in respect of properties added to the portfolio as business combinations during FY2017. The remaining \$0.8 million (2016: \$2.0 million) transaction costs is predominately in respect of foreign exchange losses incurred in respect of monies held in US dollars to fund the Ala Moana business combination which completed in July 2016. The transaction costs associated with these business combinations have been expensed in the consolidated statement of comprehensive income. The transaction costs have been included in the Corporate segment.

Underlying net profit after tax (underlying NPAT\*\*\*) for the year of \$47.2 million was \$5.9 million (14.2%) higher than the underlying net profit after tax in the pcp. After taking account of the transaction costs incurred in respect of business combinations, removing the benefits of the reversal of impairment and the impairment related deferred tax adjustment, net profit after tax of \$45.6 million was \$8.4 million (22.7%) higher than the pcp. Net profit after tax was impacted by lower net finance costs (down \$0.5 million) as a result of the decreased cost of borrowing and an increased tax expense (up \$3.9 million). The effective tax rate was 33.5%. The effective tax rate is higher than 30% primarily as a result of the higher effective tax rate in respect of US operations (38%) and the impairment related deferred tax adjustment. The underlying effective tax rate was 31.7%.

Mantra Group's revenue and underlying EBITDAI by business segment is summarised below with a comparison to revenue and underlying EBITDAI in the pcp.



## REVENUE BY BUSINESS SEGMENT

	ACTUAL JUNE 2017 \$'000	ACTUAL JUNE 2016 \$'000	CHANGE \$'000	CHANGE %
Resorts	316,210	244,071	72,139	29.6
CBD	316,592	311,457	5,135	1.6
CR&D	52,272	47,403	4,869	10.3
Corporate	3,899	3,145	754	24.0
<b>TOTAL REVENUE</b>	<b>688,973</b>	<b>606,076</b>	<b>82,897</b>	<b>13.7</b>

## UNDERLYING EBITDAI\*\* BY BUSINESS SEGMENT

	ACTUAL JUNE 2017 \$'000	ACTUAL JUNE 2016 \$'000	CHANGE \$'000	CHANGE %
Resorts	45,621	34,766	10,855	31.0
CBD	46,716	45,963	753	1.5
CR&D	35,280	33,513	1,767	5.4
Corporate	(26,407)	(24,420)	1,987	8.1
<b>TOTAL UNDERLYING EBITDAI**</b>	<b>101,210</b>	<b>89,822</b>	<b>11,388</b>	<b>12.7</b>

\*\*Underlying EBITDAI is EBITDAI excluding transaction costs of \$1.7 million (2016: \$7.3 million) incurred in respect of business combinations.

Mantra Group's financial performance in the current year compared to the prior year by segment is as follows:

### RESORTS

Resorts revenue increased by \$72.1 million, from \$244.1 million to \$316.2 million, an increase of 29.6%. Resorts underlying EBITDAI grew by \$10.9 million or 31.0% to \$45.6 million. EBITDAI margin increased from 14.2% to 14.4%.

New properties in the Resorts segment included Ala Moana Hotel by Mantra, the Group's first property in the US market, Mantra Residences @ Southport Central, Gold Coast and Mantra The Observatory in Port Macquarie. Excluding these new properties, the increase in revenue and underlying EBITDAI was driven by increased occupancy and average room rate, particularly in the Tropical North Queensland, Sunshine Coast and New Zealand regions where increases in occupancy of 1.8%, 3.7% and 0.4% to 73.7%, 76.2% and 85.5% and average room rate increases of \$5.15, \$13.60 and \$23.23 were achieved respectively. These regions are continuing to benefit from strong short term domestic travel demand and group demand from both corporate and Asian inbound markets.

### CBD

CBD revenue increased by \$5.1 million, from \$311.5 million to \$316.6 million, an increase of 1.5%. The strongest growth in revenue came from Sydney (2.2%), ACT (8.8%) and Melbourne (1.7%).

CBD delivered underlying EBITDAI of \$46.7 million representing a year-on-year increase of 1.5% in underlying EBITDAI. The continued decline in infrastructure projects in Darwin and increased supply in Perth and Brisbane which has yet been absorbed by increased demand impacted business in these regions. Excluding these three regions, underlying EBITDAI increased by \$3.7m or 12.0%. Sydney, Canberra and Tasmania performed strongly supported by the reopening of the Sydney Convention Centre and events more generally and strong government business with RevPAR increases of 6.5%, 10% and 2.5% respectively. EBITDAI margin was maintained at 14.8%.

### CENTRAL REVENUE & DISTRIBUTION

Revenue from the Central Revenue & Distribution (CR&D) segment increased by \$4.9 million from \$47.4 million to \$52.3 million, an increase of 10.3%. Underlying EBITDAI in the CR&D segment increased by \$1.8 million, from \$33.5 million to \$35.3 million, or 5.4%. The increase is attributable principally to the increased central reservations commissions driven by on-line booking volumes through central distribution channels as a result of the increased number of keys in the portfolio.

### CORPORATE

Corporate segment includes the costs of centralised shared services which provide the management team, sales, marketing, IT, finance, legal, acquisitions and asset management support. Net costs of \$26.4 million increased by \$2.0 million or 8.1% compared to the pcp. The increase in corporate costs primarily related to increased resources in the development and legal teams, all focused on business growth.

## CONSOLIDATED BALANCE SHEET

	ACTUAL JUNE 2017 \$'000	ACTUAL JUNE 2016 \$'000	MOVEMENT \$'000	MOVEMENT %
Cash and cash equivalents	62,923	117,091	(54,168)	(46.3)
Other current assets	67,231	60,007	7,224	12.0
Property, plant and equipment	157,658	121,869	35,789	29.4
Intangible assets	513,352	469,397	43,955	9.4
Other non-current assets	5,095	660	4,435	672
<b>TOTAL ASSETS</b>	<b>806,259</b>	<b>769,024</b>	<b>37,235</b>	<b>4.8</b>
Borrowings	135,252	125,097	10,155	8.1
Creditors and provisions	101,129	93,016	8,113	8.7
Deferred tax liabilities	91,930	87,844	4,086	4.7
Shareholders' equity	477,948	463,067	14,881	3.2
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>806,259</b>	<b>769,024</b>	<b>37,235</b>	<b>4.8</b>

Total assets increased by \$37.2 million from \$769.0 million to \$806.3 million. This increase was mainly due to acquisitions completed during the year. Intangible assets increased by \$44.0 million and tangible assets increased by \$35.8 million as a result of the FY2017 acquisitions. The Group continued its investment in property refurbishments, with a targeted refurbishment program completed during FY2017, at a total spend of \$6.3 million.

The year-end cash and cash equivalents balance decreased from \$117.1 million to \$62.9 million, a decrease of \$54.2 million (46.3%). The year-end cash balance as at 30 June 2016 was inflated in anticipation of the settlement of the Ala Moana acquisition which completed in July 2016. \$63.2million was used to fund the Ala Moana acquisition, 8.3m of which was paid as a deposit in FY2016. Excluding the balance of funds due in FY2017, the FY2016 year end cash balance was \$62.3 million.

Borrowings increased by \$10.2 million from \$125.1 million to \$135.3 million. In September 2015, the Group extended the Syndicated Facility Agreement (SFA) with the addition of a second tranche of debt (Tranche B) of \$40 million. Borrowings were drawn down during the year to fund property acquisitions. There were no changes to the Group's borrowing facilities during FY2017.

Deferred tax liabilities increased by \$4.1 million primarily as a result of business combinations completed during the year.

## CONSOLIDATED CASH FLOW

	ACTUAL JUNE 2017 \$'000	ACTUAL JUNE 2016 \$'000	MOVEMENT \$'000	MOVEMENT %
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	738,797	655,629	83,168	12.7
Payments to suppliers	(646,386)	(568,655)	77,731	13.7
	92,411	86,974	5,437	6.3
Net interest, tax and other payments	(29,090)	(32,560)	(3,470)	(10.7)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>63,321</b>	<b>54,414</b>	<b>8,907</b>	<b>16.4</b>
<b>NEW CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(97,187)</b>	<b>(126,262)</b>	<b>29,075</b>	<b>23.0</b>
<b>NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES</b>	<b>(19,403)</b>	<b>105,826</b>	<b>(125,229)</b>	<b>(118.3)</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(53,269)</b>	<b>33,978</b>	<b>(87,247)</b>	<b>(256.8)</b>

Net cash inflow from operating activities increased by \$8.9 million (16.4%) compared to FY2016, principally as a result of three factors. Firstly there was a net increase in receipts from customers less payments to suppliers and employees, following the acquisition of new properties, driving revenue and cash in FY2017. Secondly, the transaction costs associated with business combinations decreased by \$4.4 million. Finally, these cash inflows have been offset by increased income taxes paid as a result of growing profitable operations.

Net cash outflow from investing activities of \$97.2 million decreased by \$29.1 million as a result of a decrease in cash outflow for acquisitions in FY2107.

Net cash outflow from financing activities totalled \$19.4 million in the 12 months to 30 June 2017 compared to a net cash inflow of \$105.8 million in FY2016 as a result of the equity raising in FY2016.



## OUTLOOK

Mantra Group is well placed to continue to deliver profitable growth in FY2018 and beyond.

On 7 August 2017, Mantra Group signed an agreement, subject to customary completion conditions, to acquire The Art Series Hotel Group, comprising a portfolio of seven luxury hotels. This transaction is expected to complete in late 2017.

Mantra Hotel at Sydney Airport was opened in July 2017 and is trading in line with expectations.

Based on the current contracted pipeline, at 30 June 2017 at least 18 properties are due to be added to the Group's portfolio, including the Art Series Hotel Group. Additional pipeline opportunities are expected to be secured as opportunities present themselves, as they have in previous years.

Mantra Group is currently experiencing a mixed outlook in terms of property performance. Markets, including Sydney, ACT, Sunshine Coast and Tropical North Queensland, are enjoying favourable market conditions, including strong inbound and domestic leisure demand, a recovering corporate travel market and low supply growth. Melbourne continues to enjoy strong occupancy and the Gold Coast region is expected to significantly benefit from the 2018 Gold Coast Commonwealth Games next year.

By contrast, other markets, including, Perth, Brisbane and Darwin are facing challenging trading conditions from the continued decline in the resources and infrastructure sectors as well as new supply entering the Perth and Brisbane markets.

Mantra Group has a strong balance sheet and a healthy pipeline of opportunities for future growth. These attributes, as well as the sound base business, provide an excellent platform for the Group to continue to deliver value to shareholders.

In our commitment to drive growth and deliver shareholder value in FY2018, Mantra Group will continue to focus on its six strategic priorities as follows:

STRATEGIC PRIORITY	COMMITMENT
Pipeline	Continue to invest in the development team to ensure they have the resources to pursue opportunities aimed at increasing shareholder value. Prioritise sizeable portfolio assets in domestic and international markets.
Blue sky and funding options	To pursue opportunities to invest in asset classes aligned with the Group's strategy. To investigate alternative funding sources to enable further investment and growth.
Engagement	Increasing use of digital technology to engage guests. Continue to respond to guest feedback. Continue to deliver quality room inventory and F&B facilities via the dedicated refurbishment program enhanced by the implementation of the 'virtual interactive display' enabling owners to view fully interactive refurbishment options when considering refurbishment. Ongoing emphasis on owner engagement through regular hosted owner events following Annual General Meetings. Refresh the employee value proposition to enhance engagement with employees. Continue investor relations engagement.
Distribution and brand	To promote Mantra Group brands to become favourite in the market place, for example through 'my kind of wonderful' brand campaign.
People	Team member training to continue to deliver quality service.
Efficiency	Continue to review processes and procedures aimed at improved efficiency and cost control.

# CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is recognised as a priority at Mantra Group. Through the delivery of a number of engagement programs and partnerships, Mantra Group is continuously working to improve its level of social and ethical responsibility and create positive change within Mantra Group's four CSR cornerstones: community, environment, marketplace and workplace.

## COMMUNITY

Mantra Group is proud to be connected with and support local communities in which we have customers, shareholders, employees and other stakeholders. Mantra Group and its Team Members support these communities via donations, fundraising events and community partnerships. A volunteer leave policy enables Team Members to support approved charities and their initiatives throughout the year.

Mantra Group is an advocate against family violence and is committed to supporting the Luke Batty Foundation, providing financial and other support. The Regional CSR committees assisted in driving Team Member awareness throughout the business, by encouraging engagement in fundraising initiatives and campaigns in support of the Luke Batty Foundation and its philosophies.



FY2017 achievements in the community cornerstone include:

- Donated \$100,000 to the Luke Batty Foundation in support of their fight against Family Violence.
- Gifted over 2,000 gifts to underprivileged families in refuges and crisis accommodation over the Christmas period.
- Provided financial and other support, including accommodation, to local charities including the Salvation Army, Share the Dignity, Mission Educate and the Alison Baden Clay Foundation.
- As part of its significant refurbishment program, Mantra Group continues to recycle used furniture and fittings for the benefit of local charity organisations.
- Approximately 80% of the refurbishment product sourced is Australian made.

## ENVIRONMENT

Mantra Group's commitment to protecting and minimising the impact on the environment is supported at all levels of the business. The environmental policy requires all Team Members to support environmental strategies and to consider managing and reducing the negative impact of energy, waste, water and biodiversity resources in all areas of the business.

Mantra Group's sustainability committee is responsible for the ongoing improvement and development of Mantra Group's environmental platform. Mantra Group's complex business model often impedes its ability to operate under common environmental practices; however, it is committed to creating positive environmental change in innovative ways. Ongoing education has minimised the business' environmental impact by identifying, implementing and endorsing best practice processes and procedures in the areas of printing, stationery, travel, freight, food waste, water consumption and procurement.

Towards the end of FY2017, Mantra Group re-invigorated its Corporate Social Responsibility program to recognise the United Nations Year of Sustainable Tourism for Development. Data was gathered to determine the sustainability of each property, which will be used to set benchmarks and implement initiatives aimed at ongoing improvement and achieving goals outlined by the United Nations.

FY2017 achievements in the environment cornerstone include:

- 59 properties throughout Australia and New Zealand participated in Earth Hour 2017.
- A company-wide survey on property sustainability was conducted to capture current levels of participation for recycling, energy and water usage. These results will be used to implement best practice processes and procedures aimed at minimising the impact of the Group's operations on the environment.
- Select properties participate in recycling initiatives such as Soap Aid, Mobile Muster, Planet Ark and Shred X.
- While sustainability is an on-going focus, specific property achievements include:
  - › Mantra The Observatory, Port Macquarie has been recognised as one of the Australia's most carbon neutral hotels.
  - › Peppers Noosa Resort & Villas has partnered with the Noosa District Land Care Group working together on an initiative to offset the carbon footprint impact which means that for every day a conference delegate attends the property, a tree is planted in the endangered regional ecosystem. Since the start of this initiative, more than 2,000 trees have been planted.
  - › Ala Moana Hotel by Mantra, Hawaii received a Green Award by the Hawaii Green Business program in recognition of its commitment to caring for the natural environment and operating as an environmentally conscious and responsible hotel.



## MARKETPLACE

Mantra Group is positioned as an ethical and socially responsible accommodation provider aligned with various governing bodies, associations and government departments.

During the year, Mantra Group continued or extended its relationships with the following bodies:

- Tourism Australia
- Tourism and Events Queensland
- Signed a gold level partnership with the Australian Tourism Export Council (ATEC)

## WORKPLACE

Mantra Group has strived to promote the employee value proposition and to be recognised as an 'Employer of Choice'. During the year Mantra Group launched a mobile online training program and online career platform. The platform enables Team Members to easily manage their career development and for Managers to identify Team Member skills and expertise for internal recruitment and career development. Internal leadership programs such as 'Emerging Leaders' and 'Rising Stars' provide Mantra Group potential leaders with skills for future development.

Our FY2017 achievements in the workplace cornerstone include:

- Awarded HRD Magazine Employer of Choice 2017. Also recognised as a top performer in the following categories:
  - › Career progression
  - › Diversity and inclusion
  - › Learning and development
- Achieved overall Team Member satisfaction rating of 86.3% - increasing from 85% in 2015
- More than 36,000 internal training hours and over 7,500 external training hours were delivered to Team Members, an increase of 21.1% internal hours and 224% external hours.
- Trained a further 100 trainees as part of Mantra Group's workforce sustainability program
- The Women in Mantra program continues to gain momentum, and during FY2017 focused on its key initiatives to promote women in leadership roles. Unconscious bias training, launched to coincide with International Women's Day 2017, has been delivered to over 300 Team Members who are involved in recruitment and development of our Team Members.
- Mantra Group is a culturally diverse company employing Team Members from over 69 countries. Mantra Group celebrates cultural diversity in the workplace in a number of ways including participation in 'A Taste of Harmony' annual event.



Mantra Group Human Resources Team





From left to right Andrew Cummins, Melanie Willis, Bob East, Peter Bush, Elizabeth (Liz) Savage and David Gibson

## INFORMATION ON DIRECTORS

The following information is current as at the date of this report.

### PETER BUSH

*Chair of the Board - Independent Non-Executive Director*

Peter was appointed to the Board in February 2014. Peter is a member of the Audit and Risk Management Committee and the Nomination and Remuneration Committee.

Background	Peter has extensive experience in marketing, brands and the consumer products sector. Peter has held directorship and senior executive roles in a broad range of industries since 1990, including Chief Executive Officer of ABG-McNair Australia Limited, Schwarzkopf Australasia and McDonalds.  Peter holds a Bachelor of Arts from Macquarie University and is a Fellow of the Australian Marketing Institute.
Former directorships in last 3 years	Non-Executive Director of Insurance Australia Group Limited from 2010 until 2015 Non-Executive Chair of Pacific Brands Limited until it was de-listed in July 2016
Other current directorships	Non-Executive Chair of the Board of Southern Cross Media Group Limited Non-Executive Chair of the Board of Inghams Group Limited
Interests in shares	Ordinary shares in Mantra Group Limited: 30,000



**ANDREW CUMMINS***Independent Non-Executive Director*

Andrew was appointed in July 2009, serving as Chair of the Board until 30 May 2014. Andrew is a Member of the Audit and Risk Management Committee and the Nomination and Remuneration Committee.

Background	<p>Andrew has a wide range of experience having been a director of a number of global companies in a broad range of industries including Inchcape Plc, Pacific Brands Limited, Samsonite Corporation Inc. and Nine Entertainment Co Pty Ltd. Andrew was a partner of CVC Asia Pacific in Hong Kong, an advisor to the CVC Pan Asia team and a Director of a number of CVC portfolio companies, from which he retired in February 2015. Until November 2016, Andrew was a Director of Helloworld Limited where he also served as Chair of the Remuneration and Nomination Committee.</p> <p>Andrew's in-depth understanding of the Mantra Group business, coupled with his extensive business knowledge brings significant experience and expertise to the Mantra Group Board.</p> <p>Andrew received a Bachelor's degree in Engineering from Monash University, a Graduate Business Degree from The University of Newcastle and an MBA from Stanford University.</p>
Former directorships in last 3 years	<p>Asia Bottles Holdings Ltd from 2007 to 2014</p> <p>STS UK Holdings II Ltd from 2009 to 2016</p> <p>Helloworld Limited from 2009 to 2016</p>
Other current directorships	Director of a number of private investment companies
Interests in shares	Ordinary shares in Mantra Group Limited: 1,551,727

**DAVID GIBSON***Independent Non-Executive Director*

David was appointed in March 2011. David is Chair of the Nomination and Remuneration Committee and a Member of the Audit and Risk Management Committee.

Background	<p>David has extensive experience in the tourism and hospitality real estate industry in Australia and the Asia Pacific region. David was Chief Executive Officer of Jones Lang LaSalle Hotels Asia Pacific and an International Director of Jones Lang LaSalle for 14 years prior to 2010.</p> <p>David holds a Diploma in Financial Markets from the Securities Institute of Australia and he is a Licensed Real Estate Agent.</p> <p>David is a member of the Australian Institute of Company Directors.</p>
Former directorships in last 3 years	None
Other current directorships	David is currently a Non-Executive Trustee Director of industry superannuation fund Host-Plus Pty Ltd.
Interests in shares	Ordinary shares in Mantra Group Limited: 109,797

**MELANIE WILLIS***Independent Non-Executive Director*

Melanie joined the Board in October 2014 and is Chair of the Audit and Risk Management Committee. Until December 2016, Melanie was a member of the Nomination and Remuneration Committee.

Background	<p>Melanie has extensive financial and professional services experience in both Executive and Non-Executive roles in a wide range of businesses. Melanie is a former fund manager (direct in property and tourism assets and indirect investments), CEO and senior investment banker. She has been a Non-Executive Director for more than 10 years in the financial services, infrastructure, property, professional services, retirement and aged care and tourism and leisure industries.</p> <p>Melanie is a Committee Member of the Big Issue Women's Subscription and an Events Committee member of Chief Executive Women.</p> <p>Melanie holds a Bachelor of Economics (University of Western Australia), a Masters of Taxation (Melbourne University), and is a Fellow of the Australian Institute of Company Directors.</p>
Former directorships in last 3 years	<p>Non-Executive Director of Crowe Horwath Australasia Ltd from 2006 to 2015 and Club Assist Ltd from 2011 to 2015</p>
Other current directorships	<p>Non-Executive Director of Ardent Leisure Group Ltd and Chair of the Audit &amp; Risk Committee</p> <p>Non-Executive Director of Pepper Group Ltd and a member of the Audit &amp; Risk Committee</p> <p>Non-Executive Director of Southern Cross Media Group Ltd and Chair of the Audit &amp; Risk Committee.</p>
Interests in shares	Ordinary shares in Mantra Group Limited: 28,718

**LIZ SAVAGE***Independent Non-Executive Director*

Liz was appointed in November 2016. Liz is also a member of the Nomination and Remuneration Committee.

Background	<p>Liz has extensive commercial leadership and strategic development experience, having held senior executive roles scaling international corporations easyJet Plc, Monarch Travel Group and, most recently, as Group Executive Commercial of Virgin Australia Airlines Pty Ltd. Liz also has in-depth expertise in the travel and tourism industries and strong operational knowledge of digital and eCommerce.</p> <p>In 2012, Liz established a successful consulting practice advising well-recognised corporations in the travel and tourism, retail, automotive, telecommunications and technology sectors with a focus on strategic development, customer experience and change leadership.</p> <p>Liz holds a Bachelor of Engineering from Bristol University UK, a Master of Science from Cranfield University UK and completed a Management Development Programme at Harvard Business School, USA. Liz is a member of the Australian Institute of Company Directors and a Fellow of the Institute of Directors, UK.</p>
Former directorships in last 3 years	None
Other current directorships	<p>Non-Executive Director of Triathlon Australia Pty Ltd</p> <p>Non-Executive Director of Brisbane Marketing Pty Ltd and Chair of the Remuneration Committee</p> <p>Advisory Board Member of Madison Technologies Pty Ltd, Noel Robinson Architects Pty Ltd and Appster Pty Ltd (including as Chair).</p>
Interests in shares	Ordinary shares in Mantra Group Limited: 10,000

**BOB EAST***Chief Executive Officer and Executive Director*

Bob joined Mantra Group in 2006 and has held the position of Chief Executive Officer since 2007.

Background	<p>Bob has been responsible for the consolidation and strengthening of the Mantra Group brands and has developed the Group into one of the leading accommodation providers and marketers in Australasia.</p> <p>Bob's enthusiastic leadership style and vision has seen Mantra Group grow from 41 properties in 2006 to more than 128 properties in 2017. He led the company to a successful ASX listing in June 2014 which culminated in its inclusion into the ASX 200 list in 2015 – its first year as a public company.</p> <p>With over 20 years' industry experience, Bob is well positioned to lead Mantra Group's future growth prospects.</p> <p>Bob holds a Master of Business Administration and is a member of the Australian Institute of Company Directors.</p>
Former directorships in last 3 years	None
Other current directorships	<p>Chairman of Tourism and Events Queensland (TEQ)</p> <p>Board Member of Tourism Australia</p> <p>Non-Executive Director of Gold Coast Suns Football Club (AFL)</p>
Interests in shares and performance rights	<p>Ordinary shares in Mantra Group Limited: 765,638</p> <p>Performance rights over ordinary shares: 302,716</p>

Unless otherwise stated, all directors were directors during the whole of the financial year and up to the date of this report.



## MEETINGS OF DIRECTORS

The number of Board meetings held (including Board Committee meetings) and number of meetings attended by each of the Directors of the Company during the financial year are listed below.

	FULL MEETINGS OF DIRECTORS		MEETINGS OF COMMITTEES			
			AUDIT AND RISK MANAGEMENT		NOMINATION AND REMUNERATION	
	A	B	A	B	A	B
Peter Bush	11	11	5	5	7	7
Andrew Cummins	10	11	5	5	7	7
Bob East	11	11	*	*	*	*
David Gibson	11	11	4	5	7	7
Melanie Willis	11	11	5	5	4	4
Liz Savage	6	6	*	*	4	4

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the Committee during the year.

\* = Not a member of the relevant Committee.

## CORPORATE GOVERNANCE STATEMENT

Mantra Group and the Board are committed to achieving and demonstrating the highest standards of corporate governance. Mantra Group has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The Company's corporate governance statement which can be viewed at [www.mantragroup.com.au](http://www.mantragroup.com.au) is current as at 28 August 2017 and reflects the Company's corporate governance practices in place throughout the reporting period.

## PRINCIPAL ACTIVITIES

During the year the principal activities of the Group consisted of the provision of accommodation and hotel related services, food and beverage operations and central reservations.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the Group's state of affairs during the year.

## EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 7 August 2017 Mantra Group entered into an agreement, subject to customary completion conditions, to acquire The Art Series Hotel Group comprising a portfolio of seven luxury hotels. This transaction is expected to complete in late 2017.

On 28 August 2017 Mantra Group's directors declared a final dividend for the year ended 30 June 2017 of 6.0 cents per share.

No other material matters have arisen since 30 June 2017.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in Mantra Group's operations and the expected results of operations has been included in the outlook section on page 21 and in the Chair and CEO's overview on page 4.

## ENVIRONMENTAL REGULATION

The Group is not affected by any significant environmental regulations in respect of its operations.



# Meet our Executive Committee

Supporting the Board is the Executive Committee, a team of individuals with varied background and experience who lead the day to day operations of the Group. Led by Bob East, the Executive Committee has significant combined experience in Mantra Group and has driven the company to achieve many goals including growing the company from 41 properties to 127 properties since 2006, a successful ASX listing in 2014 and a significant international expansion in 2016.

## **1 Bob East** *Chief Executive Officer*

Bob has been responsible for the consolidation and strengthening of the Mantra Group brands and has developed the Group into one of the leading accommodation providers and marketers in Australasia.

Bob's enthusiastic leadership style and vision has seen Mantra Group grow from 41 properties in 2006 to more than 128 properties in 2017. He led the company to a successful ASX listing in June 2014 which culminated in its inclusion into the ASX 200 list in 2015 – its first year as a public company.

With over 20 years' industry experience, Bob is well positioned to lead Mantra Group's future growth prospects.

## **2 Tomas Johnsson** *Chief Operating Officer*

Tomas joined Mantra Group in July 2007 and was appointed as Chief Operating Officer in March 2016. Tomas has responsibility for the Operations, Sales, Marketing, Revenue, Distribution, IT and Digital functions across the Group. Tomas has over 25 years' experience in senior management roles in the tourism industry.

## **3 Fiona van Wyk** *Company Secretary*

Fiona joined Mantra Group in 2007 as Group Company Secretary. Fiona has over 20 years' experience in the company secretariat sector. Prior to migrating from South Africa in 2006, Fiona worked for KPMG, where she headed the Company Secretarial Department within the Private Business Services Division.

## **4 Cherie McGill** *Executive Director Human Resources*

Cherie joined Mantra Group in 2004. As Executive Director Human Resources, Cherie is responsible for the human resources practices for all brands across the organisation, including payroll, WH&S, learning and development and corporate social responsibility. Cherie has over 20 years' experience in the human resources sector.

## **5 Michael Moret-Lalli** *Executive Director Acquisitions*

Michael joined Mantra Group in June 2008 and was appointed as Executive Director Acquisitions in 2010. Michael is responsible for driving the expansion of Mantra Group's Peppers, Mantra and BreakFree brands into the Australian and international markets. Michael has more than 20 years' experience in the hospitality sector.

## **6 Stephen Hobson** *Chief Financial Officer*

Stephen joined Mantra Group in February 2017. Stephen has over 20 years' senior financial management, commercial and operational experience holding executive roles in well recognised global industries, mainly in the hospitality, tourism and travel sectors.

## **7 Luke Moran** *Executive Director Sales, Revenue and Distribution*

Having been with the Group since 2009, Luke is directly responsible for Mantra Group's sales and revenue management teams, central reservation contact centre and the Mantra Group distribution platform (MAX). Luke has over 20 years' experience in the hospitality industry both internationally and in Australia, and has held senior operational roles across multiple international brands, including Holiday Inn, Starwood, Hayman Island and The Langham Group.

## **8 Mark Hodge** *Executive Director Operations*

As Executive Director Operations, Mark has operational responsibility across all three Mantra Group brands. Mark has over 30 years' senior experience in the tourism and hospitality industry spanning both corporate and leisure portfolios, including 11 years with Mantra Group.

## **9 Michelle Lalli** *Executive Director Asset Management*

Michelle joined Mantra Group as Group Asset Manager in 2005. Michelle is responsible for the protection and renewal of all contracts relating to Mantra Group's Management Letting Rights business, managing investor relationships and ensuring all company policies and business processes are in accordance with applicable legislation and stakeholder alignment. Michelle has more than 17 years' experience in the hospitality industry.

## **10 Garry Rich** *Executive Director Information Technology*

Garry joined Mantra Group in August 2005. As Executive Director IT, Garry is responsible for developing and delivering business technology services and infrastructure for Mantra Group. Garry has over 20 years' experience in the IT industry.

## **11 St. John Lord** *General Counsel*

Following many years of providing external advice and legal guidance to Mantra Group on matters ranging from compliance to acquisition, St. John Lord joined Mantra Group in 2016 to head up Mantra Group's legal team and was subsequently appointed to the Company's executive team in 2017. As general counsel for the Group, St. John manages the legal aspects of the business. St. John has over 15 years' experience providing legal, commercial, structuring and transactional advice in all areas of hospitality, accommodation, construction and development.

## **12 Kevan Funnell** *Executive Director Finance*

Having been with the Group since 2006, Kevan is responsible for the management of Mantra Group's operational finance functions including historical and forecast reporting and analysis of all segments. Kevan has over 22 years' experience in senior finance roles in the hospitality industry.



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ABN 69 137 639 395

Dear Shareholder

On behalf of the Board, I am pleased to present Mantra Group's FY2017 Remuneration Report. Our aim is to present this report clearly and transparently to give you the best possible information you need to consider our remuneration policy.

Over the years, Mantra Group has strived to attain a competitive remuneration program to attract, retain and motivate its talented executives. As an ASX 200 listed company, the remuneration programs should follow best practice and reward senior executives for delivering value aligned to Mantra Group's strategy and the interests of our shareholders.

Following the benchmarking of the CEO and CFO's remuneration packages for FY2016 and the first grant of performance rights under the Long Term Incentive Plan, also in FY2016, there has been little change to the remuneration packages during the year. Of note this year is the reduction in the short term incentives being awarded to Executive Key Management Personnel following the non-attainment of certain financial targets.

The remuneration report included in the following pages provides Mantra Group's remuneration framework and the alignment of Mantra Group's incentive pay plans with shareholder interests.

During this year, the Board initiated a review of the company's performance and reward frameworks. The Board appointed independent external remuneration consultants to assist it with updating the incentive plan and to ensure latest market best practice relevant to Mantra's strategy was considered. Although the current remuneration framework is aligned to general market practice, in the Board's view, it was sub-optimal in driving the desired results for Mantra Group. In particular the Board has sought improvements that are demonstrably linked to Mantra's strategy and which improve alignment between senior executives and shareholders value creation. This review is substantially complete. Details are included in the remuneration report and as required will be presented to shareholders for approval at the company's Annual General Meeting in November 2017. If approved, the revised remuneration framework will apply from 1 July 2018.

In addition, independent external remuneration consultants, 3 Degrees Consulting, was engaged to review the remuneration of the Chief Executive Officer compared to market prior to setting his FY2018 remuneration. This review is complete.

Yours faithfully



David Gibson

Chair, Mantra Group Nomination and Remuneration Committee



# REMUNERATION REPORT

The Directors present the Group's 2017 audited remuneration report, outlining key aspects of the remuneration policy and framework, and remuneration awarded this year.

## KEY MESSAGES

The Board is committed to an executive remuneration framework that is focused on driving a performance culture and linking executive pay to the achievement of the Group's strategy and business objectives aimed at driving ongoing shareholder value.

Senior executive remuneration is set at levels which are competitive with executives in comparable companies and roles. This is vital to attracting and retaining the best people and reflects the executive's contribution and competencies.

A summary of the key remuneration matters for the FY2017 year is as follows:

## FIXED REMUNERATION

Following a benchmarking exercise of the CEO and CFO remuneration packages against the market in May 2015, no further external benchmarking took place in respect of salaries for FY2017. Key Management Personnel (KMP) salaries were increased by between 2% and 6% for FY2017 which was considered to be appropriate based on an internal review compared to market benchmarks. The only exception to these increases was Tomas Johnsson's fixed remuneration which increased by 12% to reflect the increased responsibilities assumed by Tomas following his appointment to Chief Operating Officer late in FY2016.

There were no changes to the fees awarded to directors during the year.

## ANNUAL SHORT TERM INCENTIVE

At least 50% of executive KMP's remuneration is linked to the achievement of a target EBITDAI. The target EBITDAI was not met in FY2017. The level of annual short term incentive is therefore significantly reduced compared to FY2016. Other financial and non-financial targets were met in FY2017, resulting in between 0% and 39% of short term incentives being paid, amounting to \$338,502 in total.

## LONG TERM INCENTIVE SCHEME

The Group introduced a Long Term Incentive Plan (LTIP) in FY2015 in order to align the interests of certain employees with the interests of shareholders. A second tranche of performance rights was granted in November 2016 in relation to the three year period 2017-2019. Certain performance measures are required to be met in order that the performance rights awarded under the LTIP vest. The first year the LTIP may vest is FY2018 in relation to performance rights granted on 26 November 2015.

## FUTURE CHANGES TO INCENTIVES

The purpose of the independent external remuneration review undertaken during the year was to:

- Improve alignment with shareholder experiences and expectations by increasing senior executive shareholding in the company;
- Improve the level of understanding and ownership of those factors that are the focus of the link between performance and reward for senior executives, amongst the executives subject to the incentives. This involved replacing certain measures, with measures that were most strongly linked to how senior executives can create value for shareholders; and
- Improve linkages between incentives and the Company's current strategy, including a focus on:
  - › Improving EBITDAI;
  - › Growing the core business, including through acquisition and platform development; and
  - › The efficient use of capital to maximise economic profits and sustainably fund dividend growth for shareholders.

Details of the changes, which if approved will apply from 1 July 2018, are included on pages 41-42 of this report.

## DIRECTORS AND EXECUTIVES

The KMP of the Group (being those whose remuneration must be disclosed in this report) include the Non-Executive Directors and those executives who have the authority and responsibility for planning, directing and controlling the activities of Mantra Group.

The Non-Executive Directors and executives that formed part of the KMP for the whole of the financial year ended 30 June 2017 were as follows:

NON-EXECUTIVE DIRECTORS	EXECUTIVE KMP
Mr Peter Bush	Mr Bob East
Mr Andrew Cummins	Mr Tomas Johnsson
Mr David Gibson	Mr Michael Moret-Lalli
Ms Melanie Willis	

Ms Liz Savage was appointed to the Board of Directors on 18 November 2016. Liz has been included in KMP from this date for the remainder of the financial year.

Mr Steven Becker resigned as Chief Financial Officer (CFO) effective 18 August 2016. Mr Kevan Funnell was appointed acting CFO from 18 August 2016 to 15 February 2017. Mr Stephen Hobson was appointed CFO on 15 February 2017 and continues in office at the date of this report. Steven Becker, Kevan Funnell and Stephen Hobson have been included as KMP for the dates they served as CFO of the Group.

Kent Davidson ceased employment as Executive Director Sales, Marketing and Distribution on 29 February 2016. Kent Davidson has been included in KMP in the comparative period up to this date.



## REMUNERATION POLICY AND LINK TO PERFORMANCE

In determining executive remuneration, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent;
- aligned to the Company's strategic and business objectives and the creation of shareholder value; and
- transparent and easily understood and acceptable to shareholders.

The table below sets out the elements of the remuneration packages:

**FIGURE 1: REMUNERATION FRAMEWORK**

ELEMENT	PURPOSE	PERFORMANCE METRICS	POTENTIAL VALUE	CHANGES FOR FY2017
Fixed remuneration (FR)	Provide competitive market salary	Nil	Refer remuneration details in the remuneration report.	Following an internal benchmarking exercise, increases of between 2% and 6% for executive KMP, with the exception of Tomas Johnsson, whose fixed remuneration was increased by 12% to reflect the duties he assumed on his appointment as Chief Operating Officer in late FY2016.
Short term incentive (STI) delivered as cash bonus	Rewarded for in-year performance against KPIs	Principally EBITDAI. Other metrics vary by employee and are listed below.	CEO and CFO: 80% of FR; Michael Moret-Lalli: 100% of FR; and other KMP: 50% of FR.	There were no changes to the percentage of FR relevant to STI. STI KPI's are amended as necessary each year to reflect business operations and projects.
Long term incentive (LTI) delivered as performance rights	Alignment to long term strategies of the business aimed at delivering shareholder value	50%: Cumulative growth in EPS: 50%: relative TSR performance: and continued employment three years from 1 July in year of grant.	CEO: 75% of FR; Other KMP, excluding acting CFO: 50% of FR; Acting CFO: 25% of FR.	Other KMP LTI (excluding CFO and acting CFO) increased from 25% to 50% for November 2016 issue of LTI.

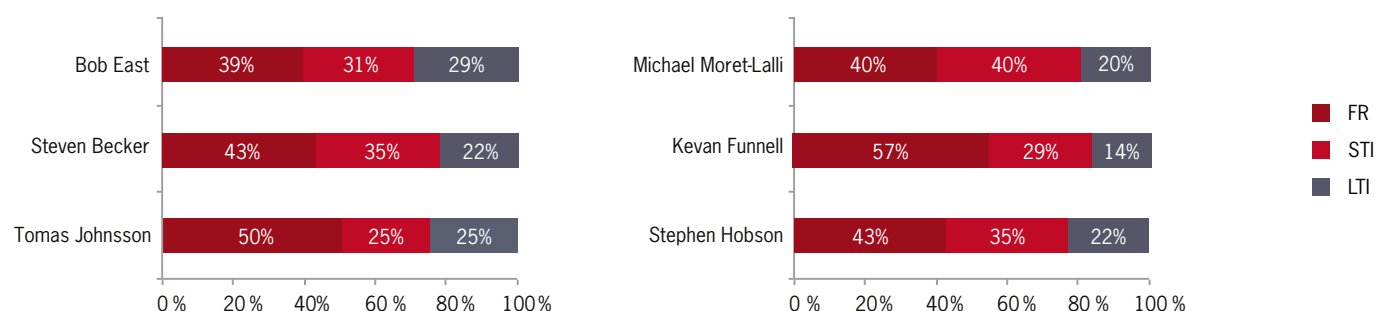
## BALANCING SHORT-TERM AND LONG-TERM PERFORMANCE

Annual incentives are set at a percentage of fixed remuneration (FR), in order to drive performance without encouraging undue risk-taking. In some circumstances, due to the use of stretch targets and other incentives, actual incentives can be higher than 100% of FR.

Long term incentives are assessed over a three year period and are designed to promote longer term growth in shareholder returns.

The target remuneration mix for FY2017 is shown below. It reflects the STI opportunity for the current year that would have been available if the performance conditions were satisfied at target, and the value of the LTI performance rights granted during the year, as determined at the grant date.

**FIGURE 2: TARGET REMUNERATION MIX FOR FY2017**



### SHORT-TERM INCENTIVE ('STI')

STI is only awarded when an agreed level of performance is achieved by individual employees against a combination of objectives set at the beginning of each financial year. The following table sets out the performance conditions for the FY2017 annual STI and the performance against these conditions as assessed by the Board. The reward targets, which are reviewed annually, are aligned with the drivers of shareholder value, the key metric being the achievement of a specified EBITDAI target.

Participation in the STI is subject to board discretion.

**FIGURE 3: FY2017 STI PERFORMANCE CONDITIONS**

NAME	WEIGHTING OF FINANCIAL MEASURES (%)			WEIGHTING OF NON FINANCIAL MEASURES (%)	
Bob East	80%	Meet EBITDAI target Grow business in line with agreed target metrics Ensure new properties achieve agreed return metrics Meet other key financial targets	Substantially not met	20%	Meet agreed refurbishment targets Meet growth targets for keys Deliver key projects surrounding revenue generation, guest and employee satisfaction and safety Continue a strong investor relations program
Kevan Funnell	80%	Meet EBITDAI target Meet other key financial targets	Substantially not met	20%	Deliver two key Group projects including system changeover on Ala Moana Hotel by Mantra
Tomas Johnsson	70%	Meet EBITDAI target	Substantially not met	30%	Deliver key projects surrounding revenue generation, guest and employee satisfaction and safety
Michael Moret-Lalli	33%	Achieve EBITDAI and return metrics for new properties	Forfeited refer below	67%	Achieve additional keys targets for new properties

Michael Moret-Lalli forfeited all of his short term incentive because he tendered his resignation prior to the bonus payment date.

The STI cash bonus amounts, including stretch target amounts, are those earned during the current financial year and provided for in the current year's financial statements. STI cash bonuses are generally payable in August following the end of the financial year, and once the results of the year have been subject to independent external audit and released to market.

## SHORT TERM PERFORMANCE BASED REMUNERATION GRANTED AND FORFEITED DURING THE YEAR

Figure 4 shows for each KMP how much of their STI cash bonus was awarded and how much was forfeited.

**FIGURE 4: SHORT TERM PERFORMANCE BASED REMUNERATION GRANTED AND FORFEITED DURING THE YEAR**

NAME	AWARDED	FORFEITED
Bob East	39%	61%
Tomas Johnsson	38%	62%
Michael Moret-Lalli	0%	100%

Stephen Hobson's short term incentive was a discretionary amount to reward him for his contribution to the Group since his appointment in February 2017. Stephen's STI KPIs are effective from 1 July 2017 in accordance with the terms of his employment contract.

Kevan Funnell's short term incentive awarded and forfeited is not provided as Kevan did not serve as KMP for the full financial year.

## LONG TERM INCENTIVE ('LTI')

Executive KMP participate, at the board's discretion, in the LTIP which was introduced in FY2015. The LTIP comprises annual grants of performance rights 50% of which are subject to a 3 year relative Total Shareholders' Return (TSR) performance condition. The remaining 50% are subject to a 3 year cumulative earnings per share ('EPS') growth condition. The performance rights are also subject to a time based vesting condition which requires the KMP to be employed on the third anniversary of the grant of performance rights. Further detail is shown in the table below:

**FIGURE 5: STRUCTURE OF THE LONG-TERM INCENTIVE PLAN**

FEATURE	DESCRIPTION		
Opportunity/ Allocation	CEO: 75% of fixed remuneration; Other KMP, other than acting CFO: 50% of fixed remuneration; acting CFO: 25% of fixed remuneration. The opportunity is divided by the volume weighted average price per share of all the company's shares traded during the 5 days prior to 1 July to determine the number of instruments awarded.		
Performance hurdle 1	Relative TSR is assessed over 3 years from the grant date compared to a peer group of ASX 200 Industrials Index excluding Resources. Vesting will occur based on the company's positioning in the peer group.		
	TSR Rank	Proportion to vest	Comparator Group
	Less than 50th percentile	0%	ASX 200 Industrials Index (excluding Resources)
	50th percentile	50%	
	At or above 75th percentile	100%	
	Pro-rata vesting occurs between the 50th and 75th percentile		
Performance hurdle 2	Growth in the company's EPS is assessed over 3 years, compounded annually (CAGR). Vesting will occur based on the cumulative annual growth over this period.		
	EPS Growth		Proportion to vest
	Below 5% CAGR		0%
	At 5% CAGR		50%
	Between 5% CAGR and 10% CAGR		Between 50% and 100% as determined on a straight line basis
	10% or above CAGR		100%
Exercise price	Nil		
Exercise conditions	Once the vesting conditions have been satisfied, performance rights can be exercised until the expiry date.		
Expiry date of performance rights	A performance right that has not been exercised will automatically expire and lapse on the 4th anniversary of its grant date, unless an earlier exercise lapsing date applies.		
Forfeiture and termination	Performance rights will lapse if performance conditions are not met. Performance rights will be forfeited on cessation of employment unless the Board determines otherwise, eg. incase of retirement due to injury, disability, death or redundancy.		

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2017 linked to the Company's TSR performance and to the growth in the Company's EPS was \$1.23 and \$3.22 per performance right respectively.

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2016 linked to the Company's TSR performance and to the growth in the Company's EPS was \$1.79 and \$4.33 per performance right respectively.



## LONG TERM PERFORMANCE BASED REMUNERATION GRANTED AND FORFEITED DURING THE YEAR

Refer page 39 for details of the performance rights granted during the year.

### LINK BETWEEN REMUNERATION AND PERFORMANCE FOR FY2017

#### STATUTORY PERFORMANCE INDICATORS

Achievement of STI for KMP is 50% weighted to the achievement of an internal Group EBITDAI benchmark. While certain other STI hurdles were met, the internal EBITDAI benchmark was not met. As a result, the Board awarded senior management between 0% and 39% of their short term incentive targets.

#### FY2017 PERFORMANCE AND IMPACT ON REMUNERATION

We aim to align our executive remuneration to our strategic and business objectives aimed at the creation of shareholder value. The table below shows the Group's financial performance over the last five years as required by Corporations Act. As these measures are not consistent with the measures used in determining the variable amount of remuneration to be awarded to KMPs, EBITDAI is also provided.

	2017	2016	2015	2014	2013
Profit for the year attributable to owners of Mantra Group Limited (\$'000)	45,597	37,149	36,158	(323)	9,176
Underlying EBITDAI (\$'000)	101,210	89,822	73,052	61,303	60,676
Basic earnings per share (cents)	15.3	13.8	14.2	-	-
Dividends payments (\$'000)	31,182	26,752	12,474**	-	-
(Decrease)/increase in share price (%)	(13.0)	2.0	90.0	-	-
Total KMP incentives as percentage of underlying EBITDAI for the year (%)*	0.3	1.4	2.4	2.6	1.9

\*KMP incentives as a percentage of underlying EBITDAI was lower in FY2017 as one KMP did not receive any STI as he tendered his resignation prior to the bonus payment date. Also the target EBITDAI was not met in FY2017. KMP incentives on a percentage of underlying EBITDAI was lower in FY2016 principally because one KMP did not receive any STI as he left Mantra Group's employment on 29 February 2016.

\*\*2017 and 2016 includes an interim and final dividend while 2015 includes an interim dividend only, the first dividend since listing in June 2014.

## REMUNERATION EXPENSES FOR EXECUTIVE KMP

The following table shows details of the remuneration expense recognised for the Group's executive KMP for the current and previous financial years measured in accordance with the requirements of the relevant accounting standards.

**FIGURE 6: EXECUTIVE KMP AND TOTAL REMUNERATION**

NAME	YEAR	FIXED REMUNERATION				VARIABLE REMUNERATION		TOTAL	PERFORMANCE RELATED
		CASH SALARY	ANNUAL AND LONG SERVICE LEAVE	POST-EMPLOYMENT BENEFITS*	TERMINATION BENEFITS**	CASH BONUS	LTI EXPENSE		
<b>EXECUTIVE DIRECTOR</b>		\$	\$	\$	\$	\$	\$	\$	%
Bob East	2017	699,231	65,513	19,616	-	218,064	92,066	1,094,490	28
	2016	612,516	63,641	19,308	-	481,984	150,970	1,328,419	48
<b>OTHER KEY MANAGEMENT PERSONNEL</b>									
Steven Becker	2017	82,692	7,775	4,904	-	-	-	95,371	-
	2016	397,112	41,180	19,308	-	334,300	-	791,900	42
Tomas Johnsson	2017	358,439	33,693	19,616	-	74,800	31,566	518,112	21
	2016	289,152	29,893	19,308	-	140,537	23,637	502,527	33
Michael Moret-Lalli	2017	319,339	29,949	19,616	-	-	28,058	396,961	7
	2016	271,445	28,340	19,308	-	300,000	22,409	641,502	50
Kevan Funnell***	2017	142,500	11,879	13,537	-	35,638	4,932	208,486	17
	2016	-	-	-	-	-	-	-	-
Stephen Hobson***	2017	131,538	12,310	9,069	-	10,000	-	162,918	8
	2016	-	-	-	-	-	-	-	-
Kent Davidson	2017	-	-	-	-	-	-	-	-
	2016	167,555	17,332	27,246	195,460	-	4,953	412,546	-
<b>TOTAL EXECUTIVE DIRECTOR AND OTHER KMP</b>	2017	1,733,739	161,119	86,357	-	338,502	156,622	2,476,339	
	2016	1,737,780	180,386	104,478	195,460	1,256,821	201,969	3,676,894	
<b>TOTAL NED REMUNERATION</b>	2017	797,721	-	69,229	-	-	-	866,950	
	2016	715,000	-	61,584	-	-	-	776,584	
<b>TOTAL KMP REMUNERATION EXPENSED</b>	2017	2,531,460	161,119	155,586	-	338,502	156,622	3,343,289	
	2016	2,452,780	180,386	166,062	195,460	1,256,821	201,969	4,453,478	

\* Post-employment benefits are superannuation only.

\*\* Kent Davidson ceased employment on 29 February 2016 and was paid a termination benefit at that time.

\*\*\* Not KMP in FY2016. FY2017 remuneration reflects remuneration paid while holding the office of CFO.

## NON-EXECUTIVE DIRECTOR ARRANGEMENTS

Non-Executive Directors receive a director's fee and fees for chairing or participating on Board Committees. See table below for details.

The fees are exclusive of superannuation.

The base fees are reviewed annually by the Nomination and Remuneration Committee, taking into account comparable roles and market data. There were no changes to any of the director's fee amounts during the year.

The maximum annual aggregate directors' fees pool limit is \$1.5 million. Any change to this aggregate annual amount is required to be approved by Shareholders.

The following fees applied for FY2017:

#### FIGURE 7: DIRECTORS' FEES

	BASE FEE PER ANNUM
<b>BASE FEES</b>	
Chair	\$250,000
Other Non-Executive Directors	\$125,000
<b>ADDITIONAL FEES</b>	
Chair of Committee	\$15,000
Member of Committee	\$10,000

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

The following table shows details of the remuneration expense recognised for the Group's non-executive directors, measured in accordance with the requirements of the accounting standards.

#### FIGURE 8: NON-EXECUTIVE DIRECTOR REMUNERATION

NAME	YEAR	BASE FEE	AUDIT COMM-ITTEE	NOMINATION AND REMUNERATION COMMITTEE	SUPER-ANNUATION	TOTAL
Peter Bush	2017	250,000	10,000	10,000	19,615	289,615
	2016	250,000	10,000	10,000	19,309	289,309
David Gibson	2017	125,000	10,000	15,000	14,250	164,250
	2016	125,000	10,000	15,000	14,250	164,250
Andrew Cummins	2017	125,000	10,000	10,000	13,775	158,775
	2016	125,000	10,000	10,000	13,775	158,775
Melanie Willis	2017	125,000	15,000	4,524	13,730	158,254
	2016	125,000	15,000	10,000	14,250	164,250
Liz Savage	2017	82,721	-	5,476	7,859	96,056
	2016	-	-	-	-	-
<b>TOTAL NON-EXECUTIVE DIRECTOR REMUNERATION</b>	2017	707,721	45,000	45,000	69,229	866,950
	2016	625,000	45,000	45,000	61,584	776,585

#### VOLUNTARY INFORMATION: REMUNERATION RECEIVED

The amounts disclosed in figure 9 below as executive KMP remuneration for FY2017 reflect the actual cash or benefits received by each KMP during the year. The remuneration values disclosed below have been determined as follows:

##### FIXED REMUNERATION

Fixed remuneration includes base salaries received and payments made to superannuation funds.

##### SHORT-TERM INCENTIVES

The cash STI benefits represent the bonuses that were awarded to each KMP in relation to FY2016 and which were paid in August 2016.

##### LONG-TERM INCENTIVES

LTI has not been included because none of the performance rights have vested at balance date. The first performance rights may vest on 30 June 2018, depending on the performance of the Group.

##### OTHER

Other includes annual leave and long service leave balances which have been paid in cash.



**FIGURE 9: REMUNERATION RECEIVED DURING THE YEAR**

2017	FIXED REMUNERATION	AWARD STI (CASH)	OTHER	TOTAL
Bob East	718,846	481,984	67,308	1,268,138
Tomas Johnsson	378,054	143,731	-	521,785
Michael Moret-Lalli	338,954	300,000	-	638,954
Kevan Funnell	156,037	-	-	156,037
Stephen Hobson	140,608	-	-	140,608
<b>TOTAL EXECUTIVE KMP</b>	<b>1,732,499</b>	<b>925,715</b>	<b>67,308</b>	<b>2,725,522</b>

The amounts disclosed above are not the same as the remuneration expensed in relation to each KMP in accordance with the accounting standards and disclosed in figure 6 of page 37. The directors believe that the remuneration received is more relevant to the users of the accounts for the following reasons:

- The statutory remuneration shows benefits before they are actually received by the KMPs
- Share based payment awards are treated differently under the accounting standards depending on whether the performance conditions are market conditions (no reversal of expense) or non-market conditions (reversal of expense when the shares fail to vest), even though the benefit received by the KMP is the same (nil where equity instruments fail to vest).

## ADDITIONAL STATUTORY INFORMATION

### EMPLOYMENT CONTRACTS

Remuneration and other terms of employment for the executives are formalised in employment contracts. The employment contracts specify the components of remuneration, benefits and notice periods.

Details of the executives' term of agreement, notice period and termination payments are as follows:

**FIGURE 10: CONTRACTED ARRANGEMENTS WITH EXECUTIVE KMPs**

NAME	PERIOD OF NOTICE MONTHS		ANNUAL BASE SALARY EXCLUDING SUPERANNUATION *	TERMINATION PAYMENTS **
	FROM COMPANY	FROM KMP		
Bob East	12	6	\$700,000	12 months
Tomas Johnsson	6	6	\$360,000	6 months
Michael Moret-Lalli	6	6	\$320,000	6 months
Stephen Hobson ***	6	6	\$380,000	6 months

\*Base salaries quoted are for the year ended 30 June 2017; they are reviewed annually by the Nomination and Remuneration Committee.

\*\*Base salary payable if the Company terminates employees with notice and without cause (e.g. for reasons other than unsatisfactory performance).

\*\*\*Until 14 February 2018, should Stephen Hobson be made redundant or have his employment terminated, except on grounds of gross misconduct, he is entitled to 12 months termination payment.

## DETAILS OF SHARE BASED COMPENSATION

### PERFORMANCE RIGHTS

The table below shows a reconciliation of performance rights held by each KMP from the beginning to the end of FY2017. None of the performance rights are capable of vesting until 30 June 2018 at the earliest.

**FIGURE 11: PERFORMANCE RIGHTS**

2017	BALANCE AT THE START OF THE YEAR  NUMBER	PERFORMANCE RIGHTS GRANTED DURING THE YEAR  NUMBER	OTHER CHANGES	BALANCE AT THE END OF THE YEAR  NUMBER	MAXIMUM VALUE YET TO VEST *
Bob East	148,131	154,585	-	302,716	374,602
Tomas Johnsson	23,191	53,000	-	76,191	100,311
Michael Moret-Lalli	21,988	47,111	-	69,099	90,564
Kevan Funnell	15,489	16,563	-	32,052	39,747
Stephen Hobson	-	20,845	-	20,845	30,156

\* The maximum value of the performance rights yet to vest has been determined as the amount of the grant date fair value of the rights

that is yet to be expensed. The minimum value of the performance rights yet to vest is nil, as performance rights will be forfeited if the vesting conditions are not met.

All FY2017 performance rights were granted on 18 November 2016 with the exception of Stephen Hobson's performance rights. Stephen's performance rights were granted following his appointment. All FY2016 performance rights were granted on 26 November 2015. All performance rights remain unvested at balance date.

## SHAREHOLDINGS

The table below shows the number of shares in the Company held by key management personnel, including their close family members and entities related to them, during the financial year.

The Mantra Group's securities trading policy applies to all Directors and Senior Management. It restricts the dealing in shares during certain periods.

**FIGURE 12: SHAREHOLDINGS**

2017	BALANCE AT THE START OF THE YEAR	CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
<b>DIRECTORS OF MANTRA GROUP</b>			
<b>ORDINARY SHARES</b>			
David Gibson	105,889	3,908	109,797
Peter Bush	30,000	-	30,000
Melanie Willis	7,103	21,615	28,718
Andrew Cummins	1,526,928	24,799	1,551,727
Liz Savage	-	10,000	10,000
Bob East	1,015,638	(250,000)	765,638
<b>OTHER KEY MANAGEMENT PERSONNEL OF THE GROUP</b>			
<b>ORDINARY SHARES</b>			
Tomas Johnsson	4,967	33,841	38,808
Michael Moret-Lalli	21,000	-	21,000
Kevan Funnell	100,000	-	100,000
Stephen Hobson	-	-	-
Steven Becker*	100,000	N/A	-
Kent Davidson*	366,465	N/A	-

\*Steven Becker and Kent Davidson left the company in FY2017 and FY2016 respectively. Their shareholdings are therefore no longer required to be disclosed.

None of the shares held by the Directors or any of the other key management personnel are held nominally.

## RELIANCE ON EXTERNAL REMUNERATION CONSULTANTS

In March 2017 the Nomination and Remuneration Committee engaged independent external remuneration consultants, Godfrey Remuneration Group (GRG), to review the company's performance and reward frameworks to ensure they are in line with latest market best practice relevant to Mantra's strategy. To 30 June 2017, GRG has been paid \$18,700 for these services. The review is substantially complete and is expected to be presented to shareholders at the Company's Annual General Meeting in November 2017.

In March 2017 the Nomination and Remuneration Committee engaged independent external remuneration consultants, 3 Degrees Consulting, to benchmark the CEO remuneration against market and to ensure it is appropriately aligned to the circumstances of the company and the responsibility of the role. The results of this engagement were taken into consideration in setting the FY2018 fixed remuneration of the CEO. 3 Degrees Consulting was paid \$6,600 for these services.

All advice from independent external remuneration consultants (ERC's) is carefully considered by the Remuneration Committee and the Board. In accordance with the Corporations Act, 2001, the ERCs have each declared that their advice has been provided free of any undue influence by any member of KMP or senior executive. The Board is therefore satisfied that all advice received from ERC's has been provided free of any undue influence by any member of the KMP or senior executive.

## VOTING AND COMMENTS MADE AT THE COMPANY'S ANNUAL GENERAL MEETING

Mantra Group Limited received more than 99% of "yes" votes on its remuneration report for the 2016 financial year. The Group did not receive any specific feedback at the AGM or throughout the year relating to its remuneration practices.

## FUTURE CHANGES TO REMUNERATION

As outlined on page 30, independent external remuneration consultants (ERC) were engaged to assist the Board in reviewing the company's performance and reward framework. At the time of writing this report, the review is in the process of being finalised. The following key changes are expected on finalisation of this engagement, following the Board's consideration of the recommendations made by the ERC. These will be presented for approval at the 2017 AGM. If approved the revised performance and reward framework will apply from 1 July 2018:

- The Board is introducing a KMP equity holding policy, requiring KMP and senior executives to hold specified numbers of equity units (vested Rights, Restricted Shares, Shares.), within a specified period of service. The precise terms of this holding policy were the subject of discussion at the time this report was being written,
- The previous short term incentive plan (STI) will be replaced with a more modern plan that better aligns with the interests of shareholders, as follows:
  - › Formal documented Plan Rules are being developed for implementation in FY2019, which will define the fundamental terms of the incentive opportunity, similar to LTI plan rules, with specific variables such as key performance indicators (KPIs) to be presented in an Invitation/Statement and calibrated each year,
  - › STI deferral is being introduced, at between 40% of STI award outcomes for the CEO, 30% for the CFO and COO, and 20% for other senior executives,
  - › Deferred STI will be granted in the form of Restricted Rights, which are vested at grant and not subject to any risk of forfeiture, but which are subject to disposal restrictions for a period of 3 years, exposing STI awards to the market consequences of decisions over the long term,
  - › 50% of the deferred incentive will be required to be held until the elapsing of the disposal restrictions even post-termination, with 50% being released from disposal restrictions upon termination to allow for settlement of tax liabilities by the executive, that arise at that time. This ensures that executive interests are aligned with shareholder interests even post termination, through shareholding, and is intended to support succession planning and incentive responsible behaviour around terminations. This is referred to as a "good behaviour bond",
  - › Senior executives will also be encouraged to voluntarily sacrifice additional STI awards into Restricted Rights (in addition to minimum deferral rates), with disposal restrictions of their choosing (a cash sacrifice arrangement),
  - › The Board will have discretion to require additional deferral of STI awards, in the circumstances that the holding policy requirements have not been met by a particular incumbent,
- The previous long-term incentive plan (LTI) will be replaced with a more modern Rights plan (subject to shareholder approval at the upcoming AGM), as follows,
  - › The plan will use Indeterminate Rights, which when exercised may be settled in the form of a share or cash to the equivalent value, which is intended to manage tax and termination problems commonly associated with older style Share Rights based plans,
  - › The Rights Plan allows for:
    - Performance Rights, subject to performance-based vesting conditions, and which will be the vehicle used for the purposes of the LTI,
    - Service Rights, subject to service-based vesting conditions which may be appropriate for STI deferral from time to time, or as an incentive to be offered to high-potential employees or those identified for succession, but which are not intended to be offered as a long term incentive for senior executives,
    - Restricted Rights, subject to disposal restrictions that extend to the Shares that result from the exercising of the Rights, suitable for STI deferral,
  - › The vesting conditions will be updated to align more strongly with long term value creation for shareholders, and the expectations and experience of shareholders, including:
    - An "external view" (40% weighting) vesting condition to directly reflect the shareholders' experience, being an indexed total shareholder return (iTSR) vesting condition. This is a form of relative TSR vesting condition that effectively subtracts positive market movements from assessment of the Company's TSR performance (as indicated by the ASX 300 Industrials Index), and which sets annualised TSR premiums to market performance as the vesting conditions. This will ensure that this component of the LTI has strong links to shareholders expectations and experience, removing the possibility of windfall gains from changes in economic sentiment, and the "lottery" effect of ranked TSR measures.
    - Two "internal view" vesting conditions, reflecting the Board's assessment of those financial/internal measures that may be assessed over the long term and which the Board believes are the drivers of sustainable wealth creation for shareholders, as follows:
      - NPAT/Shareholder Equity (30% weighting), with objectives set with reference to the rate of return required to sustain and grow the Company's value, which is expected to flow through to TSR for shareholders. This assessment is considered to be reflective of the way that shareholders are likely to analyse the Company's financial performance over the long term, and
      - Operating EBITDA/Operating Capital Employed (30% weighting), with objectives set with reference to the rate of return required to sustain and grow the Company's value, which is expected to flow through to TSR for shareholders. This assessment reflects one of the main approaches to analysing business performance used by the Board and senior executives, in an operational sense, over the long term.
    - The Board is currently engaged in developing a clawback policy which will apply to incentives.
- The Board will be implementing a non-executive director (NED) fee sacrifice equity plan (NFSEP) to facilitate the holding of equity by NEDs, subject to shareholder approval at the upcoming AGM:
  - The plan will be separate from the executive Rights plan described above, to ensure compliance with good-governance principles,



- The plan will allow for Board Fees to be sacrificed into Restricted Rights, which convert into Restricted Shares, and which will be subject to agreed disposal restrictions. The sacrificing of Board Fees into Restricted Rights will be a requirement when a NED does not hold sufficient equity to comply with the holding policy.
- The holding policy will require NEDs to hold a certain percentage of Board Fees within a specified period, which is intended to be achieved via sacrifice of Board Fees into the NFSEP,
- Grants will be subject to shareholder approval. It is trusted that shareholders will share the Board's view that it is in the interests of all stakeholders for NEDs to have "skin in the game" as shareholders, and that equity remuneration funded by cash sacrifice is an appropriate method to facilitate this outcome. Such remuneration is not additional and is included in calculations related to complying with the aggregate fee limit/fee pool, as equivalent to cash.

## DIVIDENDS - MANTRA GROUP LIMITED

Dividends paid to members during the financial year were as follows:

	2017 \$'000
Final dividend for the year ended 30 June 2016 of 5.5 cents per share paid on 4 October 2016 (2015: 5 cents per share paid on 6 October 2015)	16,321
Interim dividend for the year ended 30 June 2017 of 5.0 cents per share paid on 22 March 2017 (2016: 5 cents per share paid on 24 March 2016)	14,860
<b>TOTAL</b>	<b>31,181</b>

## SHARES SUBJECT TO PERFORMANCE RIGHTS

Unissued ordinary shares of Mantra Group Limited subject to performance rights at the date of this report are as follows:

DATE PERFORMANCE RIGHTS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
26 November 2015	25 November 2019	Nil	301,328
18 November 2016	17 November 2020	Nil	371,630

No performance rights were granted to the directors or any of the five highest remunerated officers of the Group since the end of the financial year.

## SHARES ISSUED ON THE EXERCISE OF PERFORMANCE RIGHTS

No shares were issued on the exercise of performance rights (2016: nil).

Unissued ordinary shares of the Company subject to performance rights at the date of this report are nil.

## INSURANCE OF OFFICERS

### INSURANCE OF OFFICERS

During the financial year, Mantra Group paid a premium of \$214,998 (2016: \$207,264) to insure the Directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## INDEMNITY OF AUDITORS

Mantra Group Limited agrees to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from the Group's breach of their agreement. The indemnity stipulates that Mantra Group Limited will meet the full amount of any such liabilities including a reasonable amount of legal costs.

## PROCEEDINGS AGAINST THE COMPANY

The Directors are not aware of any current or threatened civil litigation proceedings, arbitration proceedings, administrative appeals or criminal or governmental prosecution of a material nature in which the Company is directly or indirectly concerned, which are likely to have a material adverse effect on the business or financial position of the Company.

## NON-AUDIT SERVICES

During the year the Company's auditor, PricewaterhouseCoopers (PwC), performed other services in addition to its audit responsibilities.

The directors are satisfied that the provision of non-audit services by PwC during the reporting period did not compromise the auditor independence requirements set out in the *Corporations Act 2001*.

All non-audit services were subject to the Company's non-audit services policy and do not undermine the general principles relating to auditor independence set out in APES110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, or jointly sharing risks and rewards.

No officer of the Company was a former partner or director of PwC, and a copy of the Auditor's Independence Declaration as required under the *Corporations Act 2001* is set out in, and forms part of, the directors' report.

Details of the amounts paid to the auditor of the Company and its related practices for non-audit services provided throughout the year are as set out below.

	2017 \$	2016 \$
<b>OTHER ASSURANCE SERVICES</b>		
PwC Australian firm:		
Audit of regulatory returns and other statutory accounts	43,870	43,990
Other assurance services	-	4,100
<b>TOTAL REMUNERATION FOR OTHER ASSURANCE SERVICES</b>	43,870	48,090
<b>TAXATION SERVICES</b>		
PwC Australian firm:		
Tax consulting	67,700	53,005
<b>TOTAL REMUNERATION FOR TAXATION SERVICES</b>	67,700	53,005
<b>OTHER SERVICES</b>		
PwC Australian firm:		
Accounting advice	15,000	9,180
Consulting services	8,619	35,995
Network firms of PwC Australia	64,426	41,272
<b>TOTAL REMUNERATION FOR OTHER SERVICES</b>	88,045	86,447
<b>TOTAL REMUNERATION FOR NON-AUDIT SERVICES</b>	199,615	187,542

## ROUNDING OF AMOUNTS

The Group is within the class specified in ASIC Corporations (rounding in Financial/Directors' Reports) Instruments 2015/191 relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars, in accordance with ASIC Corporations (rounding in Financial/Directors' Reports) Instruments 2015/191, except where stated otherwise.

This report is made in accordance with a resolution of Directors.



Peter Bush  
Chair of the Board



Kerry Robert East  
Chief Executive Officer

Gold Coast  
28 August 2017

## Auditor's Independence Declaration

As lead auditor for the audit of Mantra Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mantra Group Limited and the entities it controlled during the period.

*K. Stubbins*

Kristin Stubbins  
Partner  
PricewaterhouseCoopers

Sydney  
28 August 2017

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## Financial report - 30 June 2017

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## About this report

Mantra Group Limited is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purposes of preparing financial statements. The financial statements are for the consolidated entity consisting of Mantra Group Limited (the Company) and its subsidiaries, together referred to as the Group or Mantra Group.

The financial statements were approved for issue by the directors on 28 August 2017. The directors have the power to amend and reissue the financial statements.

The financial statements, presented in Australian dollars, are general purpose financial statements which:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss; and
- have been prepared using consistent policies to the prior year. Standards and interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016 have been adopted but this did not affect the Group's accounting policies.

### SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial statements include:

- Assessment of accounting treatment of property acquisitions (Note A4)
- Assessment of the useful economic life of an asset or that an asset has indefinite life (Note C3)
- Carrying value assessment of property, plant and equipment and intangible assets (Note C4)

### KEEPING IT SIMPLE

The 'keeping it simple' explanations provide a high level overview of the accounting treatment of the more complex sections of the financial statements. The notes provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements and include information required by accounting standards or ASX Listing Rules.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017**

	NOTES	2017 \$'000	2016 \$'000
<b>REVENUE FROM CONTINUING OPERATIONS</b>	A2	688,973	606,076
Other income		-	60
Employee benefits expense		(233,364)	(196,568)
Operating expenses		(216,775)	(192,803)
Occupancy and utilities expenses		(121,840)	(113,932)
Depreciation and amortisation expense	C2, C3	(27,666)	(23,299)
Transaction costs associated with business combinations	A4	(1,749)	(7,258)
Administration expenses		(15,784)	(13,011)
Net impairment reversal	C4	1,445	2,129
Finance costs (net)	B2	(4,658)	(5,176)
<b>PROFIT BEFORE INCOME TAX</b>		68,582	56,218
Income tax expense	G2	(22,985)	(19,069)
<b>PROFIT FOR THE YEAR</b>		45,597	37,149
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	B3	(1,890)	803
<b>OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR, NET OF TAX</b>		(1,890)	803
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		43,707	37,952
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF MANTRA GROUP LIMITED</b>		43,707	37,952

	NOTES	CENTS	CENTS
<b>EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:</b>			
Earnings per share	G1	15.3	13.8
Diluted earnings per share	G1	15.3	13.7

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

	NOTES	2017 \$'000	2016 \$'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	B2	62,923	117,091
Trade and other receivables	C1	54,125	45,678
Inventories	A3	3,099	2,826
Current tax asset		1,686	-
Other current assets		8,321	11,503
<b>TOTAL CURRENT ASSETS</b>		130,154	177,098
<b>NON-CURRENT ASSETS</b>			
Receivables		639	660
Other non-current assets	A4	4,100	-
Property, plant and equipment	C2	157,658	121,869
Intangible assets	C3	513,352	469,397
Deferred tax assets	G2	356	-
<b>TOTAL NON-CURRENT ASSETS</b>		676,105	591,926
<b>TOTAL ASSETS</b>		806,259	769,024
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	B2	52,595	44,785
Current tax liabilities		2,348	2,260
Employee benefit obligations	C5	16,554	16,968
Derivative financial instruments		13	-
Advanced deposits	A2	26,103	25,329
<b>TOTAL CURRENT LIABILITIES</b>		97,613	89,342
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	B2	135,252	125,097
Deferred tax liabilities	G2	91,930	87,844
Provisions	C5	3,516	3,674
<b>TOTAL NON-CURRENT LIABILITIES</b>		230,698	216,615
<b>TOTAL LIABILITIES</b>		328,311	305,957
<b>NET ASSETS</b>		477,948	463,067
<b>EQUITY</b>			
Share capital	B3	414,252	412,321
Other reserves	B3	228,620	230,085
Accumulated losses	B3	(164,924)	(179,339)
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF MANTRA GROUP LIMITED</b>		477,948	463,067
<b>TOTAL EQUITY</b>		477,948	463,067

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



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017**

	ATTRIBUTABLE TO OWNERS OF MANTRA GROUP LIMITED				
	NOTES	SHARE CAPITAL \$'000	OTHER RESERVES \$'000	ACCUMULATED LOSSES \$'000	TOTAL EQUITY \$'000
BALANCE AT 1 JULY 2015		298,230	228,894	(189,736)	337,388
Profit for the year		-	-	37,149	37,149
Other comprehensive income		-	803	-	803
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	803	37,149	37,952
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:					
Issue of shares on share placement		106,757	-	-	106,757
Issue of shares on Dividend Reinvestment Plan		2,083	-	-	2,083
Issue of shares on share purchase plan		6,975	-	-	6,975
Dividends paid	B4	-	-	(26,752)	(26,752)
Employee share schemes – value of employee services	B3	-	388	-	388
Transaction costs arising on issue of shares (net of tax)		(1,724)	-	-	(1,724)
		114,091	388	(26,752)	87,727
BALANCE AT 30 JUNE 2016		412,321	230,085	(179,339)	463,067
BALANCE AT 1 JULY 2016		412,321	230,085	(179,339)	463,067
Profit for the year		-	-	45,597	45,597
Other comprehensive loss		-	(1,890)	-	(1,890)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		-	(1,890)	45,597	43,707
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:					
Issue of shares on Dividend Reinvestment Plan		1,741	-	-	1,741
Issue of shares on share purchase plan		254	-	-	254
Dividends paid	B4	-	-	(31,182)	(31,182)
Employee share schemes - value of employee services	B3	-	425	-	425
Transaction costs arising on issue of shares (net of tax)		(64)	-	-	(64)
		1,931	425	(31,182)	(28,826)
BALANCE AT 30 JUNE 2017		414,252	228,620	(164,924)	477,948

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017**

	NOTES	2017 \$'000	2016 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of goods and services tax)		738,797	655,629
Payments to suppliers and employees (inclusive of goods and services tax)		(646,386)	(568,655)
		92,411	86,974
Payments for business combinations transaction costs	A4	(922)	(5,313)
Interest paid		(5,062)	(5,457)
Income taxes paid		(23,885)	(22,521)
Interest received		779	731
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	G5	63,321	54,414
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment		(14,117)	(15,576)
Payments for intangible assets		(8,134)	(5,690)
Proceeds from sale of property, plant and equipment		359	214
Payments of deposits for post year end business combinations	A4	-	(8,342)
Payments for business combinations net of cash acquired	A4	(67,582)	(98,406)
Payments of deposits for other acquisitions		(8,010)	-
Proceeds from sale of intangible assets		297	1,538
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		(97,187)	(126,262)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of shares and other equity securities		191	113,731
Proceeds from borrowings		15,000	55,000
Payment of share transaction costs		-	(2,463)
Repayment of borrowings		(5,000)	(35,000)
Borrowing costs		(153)	(773)
Dividends paid to Company's shareholders	B4	(29,441)	(24,669)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>		(19,403)	105,826
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		(53,269)	33,978
Cash and cash equivalents at the beginning of the financial year		117,091	85,059
Effects of exchange rate changes on cash and cash equivalents		(899)	(1,946)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	B2	62,923	117,091

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









# Notes to the consolidated financial statement

## A: Understanding the business

This section provides additional information about individual line items in the financial statements that the directors consider most relevant in the context of the operations.

A1	Segment information	Page 54
A2	Revenue	Page 57
A3	Expenses	Page 58
A4	Business combinations	Page 58

## A1 SEGMENT INFORMATION

### KEEPING IT SIMPLE

Segment reporting requires presentation of financial information based on the information that is internally provided to the Chief Executive Officer (CEO). The chief measure used by the CEO to monitor performance is EBITDAI.

The four reportable segments of the business are as follows:

- Resorts - operate retreats and resorts in key leisure destinations, principally under Management Letting Right (MLR) agreements;
- CBD - operates properties in major cities throughout Australia, principally under Lease Right (LR) agreements;
- Central Revenue and Distribution - contains the Group's in-house customer management and booking services, through which it earns fees from bookings made through its central reservation system. Other revenue streams included in this segment are revenue received under Management Agreements and revenue and costs associated with the renovation and design department; and
- Corporate - Revenue includes revenue received under Marketing Services Agreements. Costs include sales and marketing and head office expenses.

None of the segments included are aggregated segments.

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Chief Executive Officer, Mantra Group's chief operating decision maker. The Chief Executive Officer assesses the performance of the operating segments using Earnings Before Interest, Taxation, Depreciation, Amortisation and Impairment (EBITDAI).

EBITDAI is not defined under IFRS and is therefore termed a 'non-IFRS' measure. Such non-IFRS measures are commonly used by management, investors and financial analysts to evaluate companies' performance. A reconciliation of this non-IFRS measure to the nearest measure prepared in accordance with IFRS is included in a table below.

The reports provided to the Chief Executive Officer with respect to total assets are presented in the same way as the financial report. These reports do not allocate assets based on the operations of each segment or by geographical location.

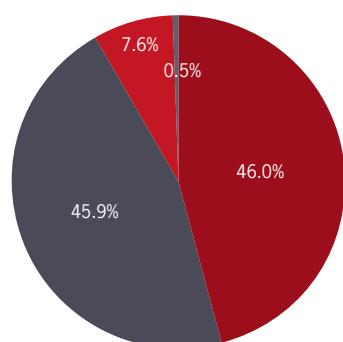
The segment information provided to the Chief Executive Officer for the reportable segments is as follows:

	CBD \$'000	RESORTS \$'000	CENTRAL REVENUE AND DISTRIBUTION \$'000	CORPORATE \$'000	TOTAL \$'000
<b>2017</b>					
Total segment revenue	316,616	316,290	52,272	22,274	707,452
Inter-segment revenue	(24)	(80)	-	(18,375)	(18,479)
<b>REVENUE FROM EXTERNAL CUSTOMERS</b>	316,592	316,210	52,272	3,899	688,973
<b>UNDERLYING EBITDAI*</b>	46,716	45,621	35,280	(26,407)	101,210
Transaction costs	-	-	-	(1,749)	(1,749)
<b>EBITDAI</b>	46,716	45,621	35,280	(28,158)	99,459
<b>2016</b>					
Total segment revenue	311,481	244,109	47,403	21,746	624,739
Inter-segment revenue	(24)	(38)	-	(18,601)	(18,663)
<b>REVENUE FROM EXTERNAL CUSTOMERS</b>	311,457	244,071	47,403	3,145	606,076
<b>UNDERLYING EBITDAI*</b>	45,963	34,766	33,513	(24,420)	89,822
Transaction costs	-	-	-	(7,258)	(7,258)
<b>EBITDAI</b>	45,963	34,766	33,513	(31,678)	82,564

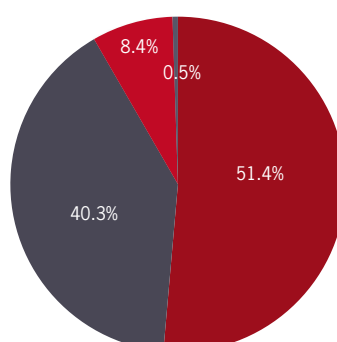
\*Underlying EBITDAI is EBITDAI excluding transaction costs of \$1,748,718 (2016: \$7,258,242) incurred on business combinations (refer note A4). The transaction costs have been included in the corporate segment.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the consolidated statement of comprehensive income.

## REVENUE FROM EXTERNAL CUSTOMERS

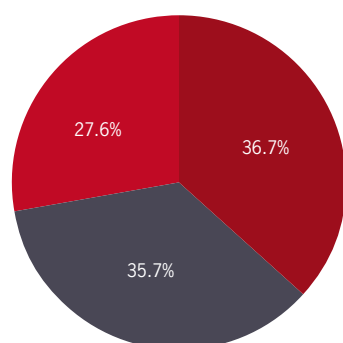


2017

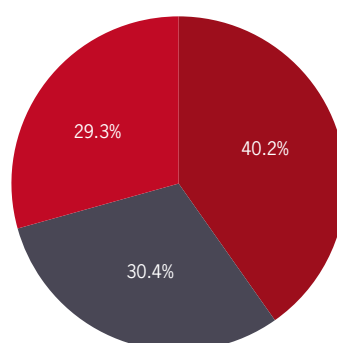


2016

## UNDERLYING EBITDAI EXCLUDING CORPORATE SEGMENT



2017



2016

Reconciliation of underlying EBITDAI to statutory operating profit before income tax is provided as follows:

	2017 \$'000	2016 \$'000
<b>UNDERLYING EBITDAI</b>	101,210	89,822
Transaction costs	(1,749)	(7,258)
Finance costs (net)	(4,658)	(5,176)
Depreciation amortisation	(27,666)	(23,299)
Net reversal of impairment	1,445	2,129
<b>PROFIT BEFORE INCOME TAX</b>	68,582	56,218

## OTHER SEGMENT INFORMATION

The following impairment and reversals of impairment were recognised in each segment during the year (refer to note C4 for further information):

<b>(IMPAIRMENT)/REVERSAL OF IMPAIRMENT</b>	2017 \$'000	2016 \$'000
CBD impairment	(13,545)	(4,291)
CR&D impairment	-	(3,650)
Resorts impairment	-	(392)
Resorts reversal of impairment	14,990	10,462
<b>NET REVERSAL OF IMPAIRMENT</b>	1,445	2,129

## GEOGRAPHIC SEGMENTS

In presenting information on the basis of geographical segments, segment revenue and segment non-current assets are based on the location of Mantra Group properties:

	REVENUE \$'000	NON-CURRENT ASSETS* \$'000
<b>2017</b>		
Australia	615,780	595,791
Rest of world	73,193	75,578
<b>TOTAL</b>	688,973	671,369
<b>2016</b>		
Australia	589,802	582,833
Rest of world	16,274	8,433
<b>TOTAL</b>	606,076	591,266

\*Non-current assets exclude retirement benefit assets, deferred tax assets and non-current financial assets.

The rest of world segment includes the aggregation of a number of geographic businesses, where the revenues and non-current assets are individually less than 10% of combined group balances.



## A2 REVENUE

### KEEPING IT SIMPLE

Revenue is earned from the provision of hotel accommodation and related services, including Renovation and Design, from hotel management services and from commissions on bookings made.

The Group derives the following types of revenue:

	2017 \$'000	2016 \$'000
Room revenue	432,072	382,117
Food and beverage revenue	99,708	84,658
Commission revenue	32,083	31,807
Provision of services	125,110	107,494
<b>TOTAL</b>	<b>688,973</b>	<b>606,076</b>

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) levied.

### ROOM REVENUE

The Group has five operating structures from which accommodation revenue is earned. The agreement types and the revenue recognition policy for each of these agreements are as follows:

- Management Letting Rights (MLRs) are in respect of properties where the Group purchases the right to operate the letting business of the property under which the Group lets the individual room/apartments to its guests under its own brands. Revenue relating to MLRs is recognised on a net basis reflecting only revenue under the Group's control. Revenue is recognised over the period of guest stay.
- Lease Rights (LRs) are in respect of properties where the Group leases the property on a long term basis and operates the business independently. Revenue relating to LRs is recognised on a gross basis, with fixed rental costs being paid to each owner. This is because the Group is exposed to all of the risks and rewards of managing the property. Revenue is recognised over the period of guest stay.
- Hotel Management Rights (HMRs) - the Group purchases the right to manage a property which operates under a hybrid operating agreement such as a long term lease with a caretaking agreement or a letting and management agreement with an operating license. The Group derives revenue based on the agreement in place. In some cases it will be derived through a management fee and in other cases it is derived in a similar way to a Lease Right. The revenue is recognised when earned on an accruals basis under the terms of the agreement.
- Management Agreements (MAs) provide the Group with revenue from managing properties on behalf of the owner or for a third party management rights owner (for the benefit of the multiple owners in an MLR business) in exchange for management fees. Management fees include a base fee, which is a percentage of hotel revenue, and/or an incentive fee, which is based on the hotel's profitability which is recognised when earned on an accrual basis under the terms of the contract.
- Marketing Services Agreements (MSAs) are where the property owner operates their property directly under one of Mantra Group's brands. The Group charges royalty fees as a percentage of room revenue. The revenue is recognised when earned on an accrual basis under the terms of the agreement.

### ADVANCED DEPOSITS

Payments received prior to the commencement of a guest's stay are recognised as advanced deposit liabilities.

### OTHER REVENUE

Revenue from the sale of goods, such as food and beverages, and the provision of services, such as tours and car parking, is recognised when all significant risks and rewards of ownership have been transferred to the buyer. In most cases this coincides with the transfer of legal title or the passing of possession to the buyer.

Non-refundable commission revenue is recognised at the point of a booking being non-cancellable. Any balance of commission is recognised at the point of guest check in.

## A3 EXPENSES

### OPERATING EXPENSES

Operating expenses include the costs of providing services and are recognised net of the amount of goods and services tax (GST) levied. The main items of expenditure include rental expense relating to operating leases, guaranteed rental income payments, contract cleaning and laundry, sales and marketing costs, travel agents commission and restaurant expenses. Operating expenses include inventories recognised as expenses during the year of \$36,999,616 (2016: \$32,642,907).

### RENTAL EXPENSE RELATING TO OPERATING LEASES

The main item of expenditure included in occupancy and utilities expenses is the rental expense relating to operating leases. The leases underpinning Lease Rights and certain Hotel Management Rights agreements properties are operating leases as a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee. The leases have varying terms, escalation clauses and renewal rights. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight line basis over the period of the lease. Rental expenses relating to operating leases amounted to \$102,358,474 (2016: \$97,454,168).

### EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses in the year include:

	2017 \$'000	2016 \$'000
Share based payments	221	372
Employee benefits expenses - Defined contribution superannuation expense	17,541	14,711

## A4 BUSINESS COMBINATIONS

### KEEPING IT SIMPLE

Mantra purchased the rights to manage certain properties during the year which were accounted for as business combinations. These properties contributed \$9,066,877 to EBITDAI during the year.

### SIGNIFICANT JUDGEMENTS AND ESTIMATES

Assessment of the acquisition of properties as asset acquisitions or business combinations requires management judgement regarding the terms of the individual contract. The main impacts of the different accounting treatments are that if the transaction is accounted for as a business combination, the assets and liabilities acquired, as well as the consideration paid, have to be measured at fair value. Also the transaction costs incurred in respect of the business combination are expensed to the statement of comprehensive income. In FY2017, three out of six property acquisitions were accounted for as business combinations.

Business combinations are accounted for using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date.

The fair value of the consideration transferred comprises the cash paid to the sellers.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is goodwill.

Acquisition related costs are expensed as incurred.

### ACQUISITIONS SUMMARY

During the year the Group completed three acquisitions which have been accounted for as business combinations. Details of these acquisitions are included below.

#### ALA MOANA

On 26 July 2016 Mantra Group acquired ALM Management Services LLC ("ALMMS"), a limited liability company in Hawaii, which operates the Ala Moana Hotel, Honolulu ("Ala Moana") and associated manager's lot real estate at Ala Moana which was held by ALM LLC, a related company of ALMMS.

Details of the purchase consideration and the net assets acquired are as follows:

	\$'000
<b>PURCHASE CONSIDERATION</b>	
Cash paid (refer below)	63,180

The contracted purchase consideration was US\$52.5m, adjusted for any customary completion adjustments. The consideration paid was reduced as a result of liabilities of US\$5.5m (A\$7.4m) assumed by Mantra Group.

The assets and liabilities recognised as a result of the acquisition are as follows:

	FAIR VALUE \$'000
<b>ASSETS AND LIABILITIES</b>	
Inventories	265
Property, plant and equipment	37,020
Intangible assets	33,270
Trade payables	(3,974)
Provision for employee benefits	(3,401)
<b>NET IDENTIFIABLE ASSETS ACQUIRED</b>	63,180

During the year, the fair value of the assets and liabilities acquired were finalised and the purchase price allocation exercise was completed.

Acquisition related costs of \$1,197,610 in respect of this business combination are included in the consolidated statement of comprehensive income. These acquisition related costs include a realised foreign exchange loss of \$826,544 arising on the translation of monies held to settle the Ala Moana acquisition in July 2016.

## REVENUE AND PROFIT CONTRIBUTION

The acquired business contributed revenue of \$56,439,303, EBITDAI of \$7,931,386 and net profit after tax of \$3,288,206 to the Group for the period from the date of acquisition to 30 June 2017.

## OTHER ACQUISITIONS

During the year the following other business combinations were completed.

- On 31 August 2016 Mantra Group acquired the Management Letting Rights of Southport Central, a large-scale permanent rental business on Queensland's Gold Coast. The property has been rebranded Mantra Residences @ Southport Central.
- On 20 December 2016 the Group acquired the Management Letting Rights business of The Observatory Hotel, Port Macquarie. The property has been rebranded Mantra The Observatory, Port Macquarie.

Details of the aggregated purchase consideration, the net assets acquired and goodwill are as follows:

	FAIR VALUE \$'000
<b>PURCHASE CONSIDERATION</b>	
Cash paid (refer below)	12,744
<b>ASSETS AND LIABILITIES</b>	
Inventories	12
Intangible assets	10,888
Property, plant and equipment	150
Provision for employee benefits	(70)
Net deferred tax liabilities	(3,299)
<b>NET IDENTIFIABLE ASSETS ACQUIRED</b>	7,681
Add: goodwill	5,064
<b>NET ASSETS ACQUIRED</b>	12,744



The goodwill has principally resulted from the recognition of a deferred tax liability arising from the acquisition of intangible and tangible assets. The balance of goodwill is in respect of the potential for increasing keys under management and synergies expected to arise by bringing these properties into Mantra Group's operating model. None of the goodwill is expected to be deductible for tax purposes.

During the year, the fair value of assets and liabilities acquired were finalised and the purchase price allocation exercise was completed.

Acquisition related costs of \$551,108 in respect of these transactions are included in the consolidated statement of comprehensive income.

## REVENUE AND PROFIT CONTRIBUTION

The acquired businesses contributed revenues of \$2,716,910, EBITDAI of \$1,135,491 and net profit of \$376,388 to the Group for the period from the date of acquisition to 30 June 2017.

If all of the acquisitions had occurred on 1 July 2016, consolidated revenue and consolidated net profit after tax for the year ended 30 June 2017 would have been \$695,382,830 and \$46,041,361 respectively. These amounts have been calculated using the Group accounting policies and by adjusting the results of the operations to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to land and buildings and intangible assets had applied from 1 July 2016, together with the consequential tax effects.

## PRIOR PERIOD

During the prior year, the Group acquired 11 properties. Eight of these acquisitions were accounted for as business combinations. Details of these business combinations were disclosed in note A4 of the Group's annual financial statements for the year ended 30 June 2016.

## PURCHASE CONSIDERATION - CASH OUTFLOW

	2017 \$'000	2016 \$'000
<b>OUTFLOW OF CASH TO ACQUIRE BUSINESSES, NET OF CASH ACQUIRED</b>		
Cash consideration paid in the year	67,582	98,700
Pre-acquisition deposits paid the prior year	8,342	5,717
	75,924	104,417
Less: balances acquired		
Cash	-	294
<b>NET OUTFLOW OF CASH - INVESTING ACTIVITIES</b>	75,924	104,123

## PRE-ACQUISITION DEPOSITS

During the year, Mantra Group signed three agreements to acquire management letting rights and management agreements, all subject to customary conditions, which required deposits to be paid. Deposits of \$8.0m (2016: \$8.3m) were paid during the year in respect of these acquisitions.

	2017 \$'000	2016 \$'000
<b>OTHER CURRENT ASSETS</b>		
Pre-acquisitions deposits	3,910	8,342
<b>OTHER NON-CURRENT ASSETS</b>		
Pre-acquisition deposits	4,100	-
<b>TOTAL</b>	8,010	8,342









# Notes to the consolidated financial statements

## B: Funding the business

Mantra Group has a focus on maintaining a strong balance sheet through increasing cash and keeping debt at a manageable level. The funding strategy also considers the Group's expenditure, growth and acquisition requirements, and the desire to return dividends to shareholders.

This section provides more information on how the business is funded.

B1	Capital management	Page 62
B2	Net debt	Page 63
B3	Equity	Page 67
B4	Dividends	Page 69

## B1 CAPITAL MANAGEMENT

### KEEPING IT SIMPLE

The Group's objective is to maintain its ability to continue as a going concern and maintain an appropriate level of cash and debt to fund operations and growth.

### RISK MANAGEMENT

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the net leverage ratio. This ratio is calculated as net debt divided by underlying EBITDAI for the last 12 months. Net debt is calculated as total borrowings as shown in the consolidated statement of financial position less cash and cash equivalents. Underlying EBITDAI is EBITDAI before transaction costs associated with business combinations. The net leverage ratio was as follows:

#### CAPITAL RISK MANAGEMENT

	2017 \$'000	2016 \$'000
Net debt	72,329	8,006
Underlying EBITDAI for the last 12 months	101,210	89,822
Net debt to underlying EBITDAI ratio	0.7 times	0.1 times

The FY2016 ratio was impacted by the cash held to complete the acquisition of Ala Moana in July 2016.



## LOAN COVENANTS

Under the terms of the Syndicated Debt Facility, the Group is required to comply with the following financial covenants:

- Net Leverage Ratio not greater than 3.0 times;
- Interest Cover Ratio of at least 3.0 times; and
- Fixed Charge Cover Ratio of at least 1.3 times.

The covenants are tested semi-annually. All covenants were complied with during the 2017 and 2016 reporting periods.

## B2 NET DEBT

The Group borrows money from financial institutions in the form of bank loans. The loans are at a floating interest rate plus a margin and the Group uses interest rate swaps to provide flexibility in managing the interest cost of borrowings.

Interest-bearing liabilities are initially recorded at their fair value, net of transaction costs incurred. Subsequent to initial recognition, the interest bearing liabilities are measured at amortised cost with any difference between the net proceeds received and the maturity amount to be paid recognised in the income statement over the period of the borrowing using the effective interest rate method.

Interest bearing liabilities are derecognised when the obligation specific in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognised in the consolidated statement of comprehensive income as other income or finance costs.

Interest bearing liabilities are classified as current liabilities, except for those where the Group has an unconditional right to defer settlement for at least 12 months after the year end which are classified as non-current liabilities.

## NET DEBT

	2017 \$'000	2016 \$'000
Cash and cash equivalents	62,923	117,091
Secured non-current borrowings	(135,252)	(125,097)
<b>NET DEBT</b>	<b>(72,329)</b>	<b>(8,006)</b>

Cash and cash equivalents as at 30 June 2016 were inflated in anticipation of the settlement of the Ala Moana acquisition on 26 July 2016. Refer note A4 for details.

The Group earned interest of between 1.4% and 1.7% (2016: 1.7% and 1.9%) on cash and cash equivalents.

The Group has off balance sheet cash balances relating to the property trust accounts of \$3,432,165 (2016: \$4,234,099) and property furniture, fittings and equipment funds of \$1,461,972 (2016: \$1,451,637). These bank accounts are held off balance sheet as the risks and rewards do not lie with the Group.

## RISKS ASSOCIATED WITH NET DEBT

### LIQUIDITY RISK

#### NATURE OF LIQUIDITY RISK

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

#### LIQUIDITY RISK MANAGEMENT

Prudent liquidity risk management requires maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the Group held cash and cash equivalents of \$62,923,301 (2016: \$117,091,176 ) which are available for managing liquidity risk. Due to the dynamic nature of the underlying business, the Group maintains flexibility in funding by maintaining committed credit lines available and ensuring compliance with borrowing facility covenants and undertakings. At 30 June 2017 the Group had undrawn available facilities of \$58,369,410 (2016: \$68,338,913).

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents on the basis of expected cash flows. In addition, the Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

## FINANCING ARRANGEMENTS

Details of the Group's borrowing facilities, including undrawn borrowing facilities at the end of the reporting period, are analysed in the following table.

FACILITY DETAILS	FACILITY LIMIT (\$'000)	MATURITY	FACILITY USAGE 2017 (\$'000)	FACILITY USAGE 2016 (\$'000)	AVAILABLE FUNDS 2017 (\$'000)	AVAILABLE FUNDS 2016 (\$'000)
Syndicated Facility Agreement - Tranche A	160,000	5 July 2019	121,631	91,661	38,369	68,339
Syndicated Facility Agreement - Tranche B	40,000	18 September 2018	20,000	40,000	20,000	-

In September 2015, the Group extended the Syndicated Facility Agreement (SFA) with the addition of a second tranche of debt of \$40m (SFA - Tranche B).

On 21 June 2016, the Group extended its Syndicated Facility Agreement - Tranche A - with Commonwealth Bank of Australia, Westpac Banking Corporation and National Australia Bank Limited. The SFA facility limit was increased from \$150m to \$160m and continues to be available for drawing in Australian dollars, New Zealand dollars and US dollars.

## MATURITIES OF FINANCIAL LIABILITIES

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting date to the contracted maturity date.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES	LESS THAN 6 MONTHS \$'000	6-12 MONTHS \$'000	BETWEEN 1 AND 2 YEARS \$'000	BETWEEN 2 AND 5 YEARS \$'000	OVER 5 YEARS \$'000	TOTAL CONTR-ACTUAL CASH FLOWS \$'000	CARRYING AMOUNT LIABILITIES \$'000
At 30 June 2017 Non-derivatives							
Trade payables	15,742	-	-	-	-	15,742	15,742
Secured borrowings	2,376	2,376	24,141	121,684	-	150,577	135,252
GST payable	2,315	-	-	-	-	2,315	2,315
Other payables and accruals	29,509	-	-	4,170	2,449	36,127	34,538
<b>TOTAL NON-DERIVATIVES</b>	<b>49,942</b>	<b>2,376</b>	<b>24,141</b>	<b>125,854</b>	<b>2,449</b>	<b>204,761</b>	<b>187,847</b>
At 30 June 2016 Non-derivatives							
Trade payables	14,623	-	-	-	-	14,623	14,623
Secured borrowings	2,100	2,100	4,200	135,861	-	144,261	125,097
GST payable	1,559	-	-	-	-	1,559	1,559
Other payables and accruals	23,744	-	-	2,403	3,756	29,903	28,603
<b>TOTAL NON-DERIVATIVES</b>	<b>42,026</b>	<b>2,100</b>	<b>4,200</b>	<b>138,264</b>	<b>3,756</b>	<b>190,346</b>	<b>169,882</b>

The carrying value of trade payables is considered to approximate fair value, are unsecured and non-interest bearing. The amounts disclosed are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

## INTEREST RATE RISK

### NATURE OF INTEREST RATE RISK

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Borrowings at floating rates expose the Group to interest rate risk.

### INTEREST RATE RISK MANAGEMENT

During 2017 and 2016, the Group's borrowings at variable rates were all denominated in Australian Dollars. The Group generally manages its cash flow interest rate risk on borrowings by using a floating-to-fixed interest rate swap, fixing the floating interest rate portion of the interest rate cost. Under a swap, which is a derivative financial instrument, the Group agrees with another party to exchange, monthly, the difference between the fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

On 14 October 2016, the group entered into a new Interest Rate Swap with National Australia Bank for \$70m at a Fixed Rate of 1.82%.

At the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contract outstanding:

	WEIGHTED AVERAGE INTEREST RATE	BALANCE \$'000	% OF TOTAL LOANS
<b>30 JUNE 2017</b>			
Borrowings	3.37%	136,000	100%
Interest rate swap (notional principal amount)*	1.82%	(70,000)	-
<b>NET EXPOSURE CASH FLOW INTEREST RATE RISK</b>		66,000	48.5%
<b>30 JUNE 2016</b>			
Borrowings	3.53%	126,000	100%
Interest rate swap (notional principal amount)	n/a	-	-
<b>NET EXPOSURE CASH FLOW INTEREST RATE RISK</b>		126,000	100%

\* Derivative financial liability on balance sheet as at 30 June 2017.

### FINANCE COSTS

Finance costs incurred during the year in relation to the Group's borrowings were as follows:

	2017 \$'000	2016 \$'000
Interest and finance charges paid/payable	5,138	5,389
Interest income	(779)	(635)
Amortisation of capitalised borrowing costs	307	451
Interest rate swap income including break fees	(8)	(29)
<b>FINANCE COSTS-NET</b>	4,658	5,176

### INTEREST RATE SENSITIVITY

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents and higher/lower interest expenses on borrowings as a result of changes in interest rates. The following table shows the impact of a movement in interest rates on cash and cash equivalents and borrowings outstanding balances.

IMPACT ON POST-TAX PROFIT	2017 \$'000	2016 \$'000
Interest rates - increase by 50 basis points (2016: 25)	(27)	(22)
Interest rates - decrease by 25 basis points (2016: 50)	14	45

## CREDIT RISK

### NATURE OF CREDIT RISK

Credit risk is the risk of loss if a counterparty fails to fulfil their obligations made under a financial instrument contract. The Group is exposed to credit risk arising from financial activities including deposits with banks and financial institutions and other financial instruments.



## CREDIT RISK MANAGEMENT

Credit risk from balances with financial institutions is managed by Mantra's Group finance team. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

## FAIR VALUE AND MATURITY ANALYSIS DISCLOSURE

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. The fair value measurement approach for valuing financial assets and liabilities is as follows:

FINANCIAL ASSET AND LIABILITY	FAIR VALUE APPROACH
Cash and cash equivalents (B2) Short term monetary financial assets and liabilities (B2) Trade and other receivables (C1) Trade payables (B2) Borrowings (B2)	Carrying value approximates fair value due to either short term nature of the assets and liabilities or interest rates recoverable/payable are close to market rates.
Derivative financial instruments (B2)	The fair value of financial instruments that are not traded in an active market (the derivative financial instrument) is determined using valuation techniques, both at initial recognition and at each reporting date. The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows based on observable yield curves.

For financial assets and liabilities carried at fair value, the Group uses the following to categorise the method used:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as over the counter prices) or indirectly (i.e. derived from over the counter prices).

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For derivative financial instruments, as all significant inputs are observable, the instrument is included in level 2.

## RECOGNISED FAIR VALUE MEASUREMENTS

The only asset or liability measured and recognised at fair value as at 30 June 2017 was the interest rate swap which was a liability of \$12,811. There were no assets and liabilities measured and recognised at fair value as at 30 June 2016.

## DISCLOSED FAIR VALUE

The Group also has a number of assets and liabilities which are not measured at fair value in the balance sheet. For these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short term in nature.

## SET OFF OF ASSETS AND LIABILITIES

There are currently no contractual arrangements establishing a legal right to set off assets and liabilities with any financial institutions.

## ASSETS PLEDGED AS SECURITY

As at 30 June 2017, assets with a carrying value of \$707.8m (2016: \$773.1m), including \$49.6m (2016: \$117m) of cash and cash equivalents, were provided in security for certain interest-bearing borrowings.

## B3 EQUITY

### KEEPING IT SIMPLE

Issued capital represents the amount of consideration received for securities issued by Mantra Group.

When the Company issues its shares, the consideration for these shares, including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

Ordinary shares are classified as equity and are fully paid, have no par value and carry one vote per share and the right to dividends.

	2017 SHARES	2016 SHARES	2017 \$'000	2016 \$'000
Ordinary shares - fully paid	297,428,917	296,751,356	414,252	412,321

### MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	NUMBER OF SHARES '000	\$'000
Opening balance 1 July 2015	267,364	298,231
Issue of shares on Dividend Reinvestment Plan	538	2,083
Issue of shares on share placement	27,027	106,757
Issue of shares on Share Purchase Plan	1,823	6,974
Transaction costs arising on issue of shares (net of tax)	-	(1,724)
Balance 30 June 2016	296,752	412,321
Issue of shares on Dividend Reinvestment Plan	599	1,741
Issue of shares on Share Purchase Plan	78	254
Transaction costs arising on issue of shares (net of tax)	-	(64)
Balance 30 June 2017	297,429	414,252

## OTHER RESERVES

	2017 \$'000	2016 \$'000
Predecessor accounting reserve	227,919	227,919
Foreign currency reserve	(112)	1,778
Share based payments reserve	813	388
	228,620	230,085

## MOVEMENTS IN OTHER RESERVES

PREDECESSOR ACCOUNTING RESERVE	2017 \$'000	2016 \$'000
Opening balance	227,919	227,919
Balance 30 June	227,919	227,919

## PREDECESSOR ACCOUNTING RESERVE

The predecessor accounting reserve was created as a result of a restructuring that was undertaken in 2009. As this was a common control transaction, no fair value adjustments were recorded on the acquisition and the difference between the net assets acquired and the consideration paid was recognised in the predecessor accounting reserve. This reserve is expected to remain in place for the foreseeable future.

## MOVEMENTS IN OTHER RESERVES

FOREIGN CURRENCY TRANSLATION RESERVE	2017 \$'000	2016 \$'000
Opening balance	1,778	975
Currency translation differences arising during the year	(1,890)	803
Balance 30 June	(112)	1,778

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

## MOVEMENTS IN OTHER RESERVES

SHARE BASED PAYMENTS	2017 \$'000	2016 \$'000
Opening balance	388	-
Share-based payment expenses	425	388
Balance 30 June	813	388

## SHARE BASED PAYMENTS RESERVE

The share based payment reserve is used to recognise the grant date fair value of performance rights issued to employees but not exercised.

## ACCUMULATED LOSSES

	NOTES	2017 \$'000	2016 \$'000
Balance 1 July		(179,339)	(189,736)
Net profit for the period		45,597	37,149
Dividends	B4	(31,182)	(26,752)
Balance 30 June		(164,924)	(179,339)



## B4 DIVIDENDS

When determining dividend returns to shareholders, Mantra Group's board considers a number of factors, including the company's anticipated cash requirements to fund its growth and operational plans and current and future economic conditions. While payments may vary from time to time, according to these anticipated needs, Mantra Group aims to return to shareholders approximately 60% - 80% of net profit after tax per annum. The proposed final dividend has been declared taking into account traditional seasonal cash flows and anticipated cash outflows.

### ORDINARY DIVIDENDS

	2017 \$'000	2016 \$'000
Final dividend for the year ended 30 June 2016 of 5.5 cents per share paid on 4 October 2016 (2015: 5 cents per share paid on 6 October 2015)	16,322	13,368
Interim dividend for the year ended 30 June 2017 of 5.0 cents per share paid on 22 March 2017 (2016: 5 cents per share paid on 24 March 2016)	14,860	13,384
<b>Total</b>	<b>31,182</b>	<b>26,752</b>

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2017 and 2016 were as follows:

	2017 \$'000	2016 \$'000
Paid in cash	29,441	24,669
Satisfied by issue of shares	1,741	2,083
	<b>31,182</b>	<b>26,752</b>

### DIVIDENDS NOT RECOGNISED AT THE END OF THE REPORTING PERIOD

	2017 \$'000	2016 \$'000
Since year end the Directors have recommended the payment of a final dividend of 6 cents per fully paid ordinary share (2016: 5.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 6 October 2017 out of retained earnings at 30 June 2017, but not recognised as a liability at year end, is	17,846	16,321

### FRANKED DIVIDENDS

	2017 \$'000	2016 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2016 - 30.0%)	18,021	10,499

The above amounts are based on the franking accounts of Mantra Group Limited as at 30 June 2017, adjusted for franking credits that will arise from the payment of income tax payable on profits for the year and franking debits that will arise from the payment of dividends proposed.



# Notes to the consolidated financial statements

## C: Operating assets and liabilities

This section highlights the primary operating assets used and liabilities incurred to support the Group's operating activities.

Liabilities relating to the Group's financing activities are covered in section B: Funding the business. Deferred tax assets and liabilities are shown in note G2: Income Tax.

C1	Trade and other receivables	Page 70
C2	Property, plant and equipment	Page 71
C3	Intangible assets	Page 72
C4	Carrying value assessment of property, plant and equipment and intangible assets	Page 74
C5	Provisions	Page 77

### C1 TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised as the value of the invoice issued to the customer (fair value). Where the impact is material, receivables are subsequently measured at amortised cost using the effective interest rate method.

	2017 \$'000	2016 \$'000
Trade receivables	46,671	40,791
Provision for impairment of receivables	(250)	(376)
	46,421	40,415
Other receivables	445	522
Prepayments	7,259	4,741
	54,125	45,678

### FINANCIAL RISK MANAGEMENT

#### CREDIT RISK

##### NATURE OF CREDIT RISK

The risk of financial loss to Mantra Group if a customer does not pay in full the amounts owing to Mantra Group.

##### CREDIT RISK MANAGEMENT

In order to assess the credit rating of wholesale customers, the sales team takes into account external credit rating reports and other references. Using this information, credit limits are set. The compliance with credit limits by wholesale customers is monitored by the sales team. Sales to the public are settled in cash or using major credit cards, mitigating some credit risk. There is no significant concentration of credit risk through exposure to individual customers.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Financial assets that are neither past due nor impaired are principally due from either Trust accounts or large corporations with limited history of default.

Financial difficulty of a customer, default in payments and the probability that a customer will enter bankruptcy are considered indicators that outstanding customer invoices that Mantra Group is awaiting payment may be impaired. Where it is considered unlikely that the full amount of a customer invoice will be paid, a provision is raised for the amount that is doubtful. The provision is recognised when there is objective evidence that the Group will be unable to collect amounts due and is recognised in the consolidated statement of comprehensive income within administration expenses. Individual customer debts which are known to be uncollectible are written off when identified.

## TRADE RECEIVABLES

### PROVISION FOR DOUBTFUL DEBTS

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	2017 \$'000	2016 \$'000
At 1 July	376	402
Receivables written off during the year as impaired trade receivables	(126)	(26)
At 30 June	250	376

### PAST DUE BUT NOT IMPAIRED

The trade receivables past due but not impaired ageing analysis is as follows:

	2017 \$'000	2016 \$'000
Greater than 30 days	3,052	3,033
Greater than 60 days	453	641
Greater than 90 days	1,931	949
<b>TOTAL</b>	<b>5,436</b>	<b>4,623</b>

Of the amount included in the 2017 greater than 90 days category, \$743,890 had been received as at the date of this report. The remaining balance is expected to be received in full.

### ASSETS PLEDGED AS SECURITY

As at 30 June 2017, assets with a carrying value of \$707.8m (2016: \$773.1m), including \$49.6m (2016: \$44.2m) of trade and other receivables, were provided in security for certain interest-bearing borrowings.

### OTHER RECEIVABLES

Other receivables represent third party loans in respect of two properties. Other receivables do not contain impaired assets and are not past due. Based on the credit history of these customers, it is expected that these amounts will be received when due.

### FAIR VALUE-TRADE AND OTHER RECEIVABLES

Due to the short term nature of trade and other receivables, their carrying amount is assumed to approximate their fair value.

## C2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure that is directly attributable to the acquisition of the item and subsequent costs incurred to replace parts that are eligible for capitalisation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset or, in the case of leased assets, over the period of the lease or the useful life of the asset, whatever is shorter as follows:

- Buildings 40 years
- Leasehold improvements 10 years or term of lease
- Plant and equipment 3 - 15 years

Depreciation methods, residual values and useful lives are reassessed at each reporting date and adjusted prospectively if appropriate.

Refer to note F2 for disclosure of contractual obligations to purchase property, plant and equipment.



	LAND AND BUILDINGS \$'000	PLANT AND EQUIPMENT \$'000	LEASEHOLD IMPROVEMENTS \$'000	TOTAL \$'000
<b>AT 1 JULY 2015</b>				
Cost	102,529	64,393	12,099	179,021
Accumulated depreciation	(35,671)	(39,498)	(3,567)	(78,736)
Net book amount	66,858	24,895	8,532	100,285
<b>YEAR ENDED 30 JUNE 2016</b>				
Opening net book amount	66,858	24,895	8,532	100,285
Exchange differences	58	24	10	92
Additions	137	14,928	511	15,576
Disposals	-	(223)	-	(223)
Depreciation charge	(2,367)	(7,712)	(1,211)	(11,290)
Acquisition of businesses	15,315	2,114	-	17,429
Closing net book amount	80,001	34,026	7,842	121,869
<b>AT 30 JUNE 2016</b>				
Cost	118,101	81,900	12,621	212,622
Accumulated depreciation	(38,100)	(47,874)	(4,779)	(90,753)
Net book amount	80,001	34,026	7,842	121,869
<b>YEAR ENDED 30 JUNE 2017</b>				
Opening net book amount	80,001	34,026	7,842	121,869
Exchange differences	(639)	(27)	(2)	(668)
Additions	178	12,218	1,722	14,118
Disposals	-	(278)	-	(278)
Depreciation charge	(2,942)	(10,164)	(1,335)	(14,441)
Acquisition of businesses	34,697	2,361	-	37,058
Closing net book amount	111,295	38,136	8,227	157,658
<b>AT 30 JUNE 2017</b>				
Cost	152,327	94,470	14,343	261,140
Accumulated depreciation	(41,032)	(56,334)	(6,116)	(103,482)
Net book amount	111,295	38,136	8,227	157,658

#### NON-CURRENT ASSETS PLEDGED AS SECURITY

As at 30 June 2017, assets with a carrying value of \$707.8m (2016: \$773.1m), including \$111.0m (2016: \$121.7m) of property, plant and equipment, were provided as security for certain interest-bearing borrowings.

## C3 INTANGIBLE ASSETS

### SIGNIFICANT JUDGEMENTS AND ESTIMATES

Assessment of the useful economic life of an asset or that an asset has an indefinite life requires management judgement and is reassessed at each reporting date. If an asset's useful life was assessed to be shorter or longer than that disclosed, the amortisation expense for the period would be higher or lower, respectively.

The Group's intangible assets comprise goodwill and other intangible assets.

Goodwill arising from business combinations is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

Other intangible assets which are separately identifiable and can be sold separately comprise acquired and internally developed assets. A summary of the major classes of other intangible assets is as follows:

- Brand names and trade marks which is primarily the Peppers brand name, are carried at cost less any accumulated impairment losses and are considered as having an indefinite useful economic life. An indefinite useful life is considered to be appropriate as there are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of these brands. Brand names and trade marks are reviewed for impairment at least annually or when there is an indication of impairment.

- Management Letting Rights, Lease Rights and Hotel Management Rights are recorded at cost less any accumulated amortisation and any accumulated impairment losses. The cost of the intangible asset is amortised on a straight line basis over the intangible asset's useful life which is either 40 years (the life of the building to which the agreement relates) or the life of the agreement, depending on the agreement in place. The amortisation expense is taken to the consolidated statement of comprehensive income.
- Intellectual property and other intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated useful life of the asset which is between three and five years.

	GOOD- WILL \$'000	INTELLECT- UAL PROPERTY AND OTHER INTANGIBLES \$'000	BRAND NAMES AND TRADE- MARKS \$'000	MANAGE- MENT LETTING RIGHTS \$'000	LEASE RIGHTS \$'000	HOTEL MANAGE- MENT RIGHTS \$'000	TOTAL \$'000
<b>AT 1 JULY 2015</b>							
Cost	203,625	18,374	11,435	240,499	156,592	19,095	649,620
Accumulated amortisation and impairment	(119,670)	(15,838)	(1,000)	(112,038)	(36,571)	(308)	(285,425)
Net book amount	83,955	2,536	10,435	128,461	120,021	18,787	364,195
<b>YEAR ENDED 30 JUNE 2016</b>							
Opening net book amount	83,955	2,536	10,435	128,461	120,021	18,787	364,195
Additions	-	1,767	24	31	-	3,868	5,690
Exchange differences	-	-	-	121	-	516	637
Amortisation charge	-	(1,709)	(1)	(5,836)	(3,752)	(711)	(12,009)
Impairment (charge)/ reversal	-	-	-	6,487	(707)	(3,651)	2,129
Acquisition of businesses	33,623	-	-	73,156	-	1,976	108,755
Closing net book amount	117,578	2,594	10,458	202,420	115,562	20,785	469,397
<b>AT 30 JUNE 2016</b>							
Cost	237,248	20,140	11,459	313,995	156,592	25,466	764,900
Accumulated amortisation and impairment	(119,670)	(17,546)	(1,001)	(111,575)	(41,030)	(4,681)	(295,503)
Net book amount	117,578	2,594	10,458	202,420	115,562	20,785	469,397
<b>YEAR ENDED 30 JUNE 2017</b>							
Opening net book amount	117,578	2,594	10,458	202,420	115,562	20,785	469,397
Additions	-	2,765	-	81	-	5,288	8,134
Disposals	-	(296)	-	-	-	-	(296)
Exchange differences	-	-	-	(902)	-	(113)	(1,014)
Amortisation charge	-	(1,855)	(2)	(6,887)	(3,733)	(748)	(13,225)
Impairment (charge)/ reversal	-	-	-	9,110	(7,666)	-	1,444
Acquisition of businesses	5,064	-	-	43,849	-	-	48,913
Closing net book amount	122,642	3,208	10,456	247,671	104,163	25,212	513,352
<b>AT 30 JUNE 2017</b>							
Cost	242,312	22,609	11,460	357,004	153,102	26,605	813,092
Accumulated amortisation and impairment	(119,670)	(19,401)	(1,004)	(109,333)	(48,939)	(1,393)	(299,740)
Net book amount	122,642	3,208	10,456	247,671	104,163	25,212	513,352

#### NON-CURRENT ASSETS PLEDGED AS SECURITY

As at 30 June 2017, assets with a carrying value of \$707.8m (2016: \$773.1m), including \$473.9m (2016: \$466.8m) of intangible assets, were provided as security for certain interest-bearing borrowings.

## C4 CARRYING VALUE ASSESSMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

### KEEPING IT SIMPLE

The Group tests property, plant and equipment and intangible assets for impairment to ensure they are not carried at above either the amount for which they could be sold (fair value less costs of disposal), or the amount they would generate by being used in the business (value in use). These tests are carried out:

- At least annually for goodwill and brand names; and
- Where there is an indication that the assets may be impaired (which is assessed at least each reporting date).

### SIGNIFICANT JUDGEMENTS AND ESTIMATES

These calculations require the use of estimates and judgements regarding a number of items including forecast results, growth rates, discount rates and multiples applicable to each Cash Generating Unit (CGU). Such estimates are subject to change as a result of changing economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes in the recognition of impairment charges in future periods.

### IMPAIRMENT TESTS

Impairment tests are performed by assessing the recoverable amount of each individual asset or, if this is not possible, then the recoverable amount of the cash generating unit (CGU) to which the asset belongs. CGUs are the lowest levels at which assets are grouped and generate separately identifiable cash flows. The recoverable amount is the higher of an asset or a CGUs fair value less costs of disposal (FVLCD) and value in use (VIU). The VIU calculations are based on the discounted cash flows expected to arise from the asset.

### REVERSAL OF IMPAIRMENT

Impairment losses recognised for goodwill are not reversed. Impairment losses recognised in prior periods for other assets are assessed at each reporting date for indications that the impairment loss has decreased or may no longer exist. The impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset and is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had impairment losses not been recognised.

### IMPAIRMENT TESTS FOR GOODWILL

Goodwill is monitored by management at the level of the three operating segments (see note A1 for detail) which represents the aggregation of the cash-generating units (CGUs) to which it relates.

A segment-level summary of the goodwill allocation is presented below:

	2017 \$'000	2016 \$'000
Resorts	32,815	27,751
CBD	65,827	65,827
Central Revenue and Distribution (CR&D)	24,000	24,000
	122,642	117,578

For the year ended 30 June 2017 the VIU basis was used to assess the recoverable amount of goodwill (2016: VIU). The following key assumptions were used for the VIU calculations:

(i) Cash flow forecasts

Cash flow forecasts are based on the 2018 financial year budget approved by the Board and are extrapolated using a forecast growth rate until 2022 (2016: until 2021). In the case of the Resorts and CR&D segments, a growth rate of 5% is used over this period (2016: 5%). In the case of CBD, an average growth rate of 2.4% is used for the period 2019 to 2022 (2016: 2.7%). The forecast growth rates are based on past experience and forward looking data obtained from various sources, including external industry data.

(ii) Terminal value

Terminal value is calculated using a perpetuity growth rate based on the cash flow forecast for 2022 (2016: 2021). The forecast growth rate used is 3% (2016: 3%) which is the average long term industry growth rate.

(iii) Discount rates

Discount rates used are pre-tax rates which reflect the specific risks relating to the CGUs. The pre-tax discount rate used was 11.9% (2016: 11.9%).

## **IMPAIRMENT CHARGE**

Based on the assumptions described above, no goodwill impairment is required (2016: nil).

## **IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS**

Management does not consider that a reasonably possible change in any of the key assumptions (growth rates and discount rates), after allowing for any consequential impacts on other key assumptions of any such change, would cause the carrying value of any of the segments to exceed their recoverable amounts.

## **IMPAIRMENT TEST FOR BRAND NAMES**

The carrying value of the Peppers brand as at 30 June 2017 and 2016 was \$9,100,000. The impairment testing is completed using the Relief from Royalty method with the following assumptions:

- Royalty charge of 2% of total Peppers properties' revenue
- Marketing charge of 0.5% of total Peppers properties' revenue

Other assumptions are consistent with those used for goodwill and described above.

## **IMPAIRMENT CHARGE**

Based on the assumptions described above, the carrying value of the brand is supported.

## **IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS**

Management does not consider that a reasonably possible change in any of the key assumptions, after allowing for any consequential impacts or other key assumptions of any such change, would cause the carrying value of the brand to exceed its recoverable amount.

## **IMPAIRMENT TEST FOR MANAGEMENT LETTING RIGHTS, LEASE RIGHTS AND HOTEL MANAGEMENT RIGHTS**

Management Letting Rights, Lease Rights and Hotel Management Rights are tested for impairment at the individual property level which is the smallest identifiable group of assets which generates cash flows which are largely independent of each other.

Where the recoverable amount is determined based on the FVLCD, the following key assumptions are used:

- Cash flow forecasts are based on the 2018 financial year budget approved by the Board.
- Cash flow forecasts are adjusted for an industry standard adjustment and multiplied by a multiple based on recent market transactions and industry views. This industry standard adjustment adjusts the forecast EBITDAI to reflect the property EBITDAI on a standalone basis.
- A multiple of between 3 and 6 was used (2016: 3-6).

Where the recoverable amount is determined based on the VIU, the following key assumptions are used:

- Cash flow forecasts are based on the 2018 financial year budget approved by the Board and extrapolated using an average forecast growth rate of 2.4% for CBD properties (2016: 2.7%) and 5% for Resorts properties (2016: 5%) until 2022.
- The growth rate from 2022 until the end of the relevant contract term is 3% (2016: 3% from 2021). This rate is based on the average long term industry growth rate.
- Discount rates used are pre-tax rates which reflect the specific risks relating to the CGUs. The pre-tax discount rate was 11.9% (2016: 11.9%).

During the year, impairment of \$13,545,545 (2016: \$8,333,510) and reversals of impairment of \$14,989,970 (2016: \$10,462,486) were recognised in relation to Management Letting Rights, Lease Rights and Hotel Management Rights, resulting in a net reversal of impairment of \$1,444,425 (2016: net reversal of impairment of \$2,128,976).

The impairment arose in respect of 5 properties in 2017 (2016: 8) as a result of one of the following:

- a sustained decline in EBITDAI used to determine the recoverable amount; or
- a specific change to the economic factors of the area surrounding the property.



The impairment charge, basis of measurement of recoverable amount and recoverable amount of relevant CGUs were as follows:

2017	SEGMENT	IMPAIRMENT CHARGE FOR THE YEAR \$'000	BASIS OF MEASUREMENT OF RECOVERABLE AMOUNT	RECOVERABLE AMOUNT \$'000
MLR 236	CBD	2,571	VIU	8,750
LR 313	CBD	4,227	VIU	6,606
LR 327	CBD	3,438	VIU	6,408
MLR 314	CBD	1,751	FVLCD	4,512
MLR 436	CBD	1,558	FVLCD	953
<b>TOTAL</b>		13,545		27,229

2016	SEGMENT	IMPAIRMENT CHARGE FOR THE YEAR \$'000	BASIS OF MEASUREMENT OF RECOVERABLE AMOUNT	RECOVERABLE AMOUNT \$'000
MLR 436	CBD	1,461	FVLCD	2,116
HMR 141	CR&D	3,650	FVLCD	-
MLR 314	CBD	2,123	FVLCD	5,451
LR 312	CBD	708	FVLCD	856
OTHER (4 CGUS)	Resorts	392	FVLCD	5,015
<b>TOTAL</b>		8,334		13,438

The reversal of impairment arose in respect of 12 properties in 2017 (2016: 7) following a sustained increase in the EBITDAI used to determine the recoverable amount. The impairment reversal, basis of measurement of recoverable amount and recoverable amount of relevant CGUs were as follows:

2017	SEGMENT	IMPAIRMENT REVERSAL FOR THE YEAR \$'000	BASIS OF MEASUREMENT OF RECOVERABLE AMOUNT	RECOVERABLE AMOUNT \$'000
MLR 223	Resorts	2,783	FVLCD	6,445
MLR 221	Resorts	642	FVLCD	2,629
MLR 118	Resorts	2,157	FVLCD	3,446
MLR 216	Resorts	1,762	FVLCD	7,040
MLR 341	Resorts	4,639	FVLCD	20,661
MLR 208	Resorts	1,675	FVLCD	4,702
Other (6 CGUs)	Resorts	1,332	FVLCD	32,902
<b>TOTAL</b>		14,990		77,825

2016	SEGMENT	IMPAIRMENT REVERSAL FOR THE YEAR \$'000	BASIS OF MEASUREMENT OF RECOVERABLE AMOUNT	RECOVERABLE AMOUNT \$'000
MLR 201	Resorts	1,318	FVLCD	4,006
MLR 216	Resorts	3,814	FVLCD	5,542
MLR 413	Resorts	1,897	FVLCD	2,015
MLR 421	Resorts	149	FVLCD	5,159
MLR 101	Resorts	1,126	FVLCD	6,394
MLR 102	Resorts	1,018	FVLCD	4,562
MLR 205	Resorts	1,140	FVLCD	3,185
<b>TOTAL</b>		10,462		30,863

For those CGUs where the basis of measuring the recoverable amount was FVLCD, the method of valuation would be categorised as a level 3 valuation in accordance with AASB 13 *Fair Value Measurement*.

## C5 PROVISIONS

Provisions are:

- recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that cash will be required to settle the obligation and the amount can be reliably measured.
- measured at the present value of management's best estimate of the cash outflow required to settle the obligation at the reporting date. Any reasonable change in the assumptions is not expected to have a significant impact on the provisions.

The present value of a provision is determined by discounting the expected future cash flow at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the consolidated statement of comprehensive income.

### EMPLOYEE BENEFITS

Liabilities for wages and salaries, including non-monetary benefits, and annual leave which are expected to be settled within 12 months of the reporting date in which the related service was rendered are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave are measured at the present value of estimated future payments for the services provided by employees up to the reporting date. Other employee liabilities which are not expected to be settled within 12 months are discounted at the reporting date using market yields of high quality corporate bonds or government bonds for countries where there is no deep market for corporate bonds. The rates used reflect the terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

	CURRENT \$'000	2017 NON- CURRENT \$'000	TOTAL \$'000	CURRENT \$'000	2016 NON- CURRENT \$'000	TOTAL \$'000
Employee benefits	16,554	1,642	18,196	16,968	1,722	18,690
Other provisions	-	1,874	1,874	-	1,952	1,952
	16,554	3,516	20,070	16,968	3,674	20,642

### AMOUNTS NOT EXPECTED TO BE SETTLED WITHIN NEXT 12 MONTHS

The current provision for employee benefits includes accrued annual leave, long service leave and the estimated bonus payable. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the current provision of \$16.6 million (2016 : \$17 million) is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2017 \$'000	2016 \$'000
Current leave obligations expected to be settled after 12 months	4,877	4,904

# Notes to the consolidated financial statements

## D: Reward and recognition

This section provides financial insight into employee reward and recognition for creating a high performance culture. Mantra Group's remuneration is competitive in the relevant employment markets to support the attraction and retention of talent.

This section should be read in conjunction with the Remuneration Report as set out in the Directors' report, which contains detailed information regarding the setting of remuneration for Key Management Personnel. Certain employee expenses and employee provisions are shown in note A3 and C5 respectively.

D1 Key Management Personnel disclosures

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D2 Share-based payments

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## D1 KEY MANAGEMENT PERSONNEL DISCLOSURES

### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key Management Personnel (KMP) compensation is set out below. Detailed remuneration disclosures are provided in the audited remuneration report section in the Directors' report.

	2017 \$'000	2016 \$'000
Short-term employee benefits	2,869,962	3,709,601
Post-employment benefits	155,586	166,062
Long-term benefits	161,119	180,386
Termination benefits	-	195,460
Share-based payments	156,622	201,969
	3,343,289	4,453,478

### EQUITY INSTRUMENT DISCLOSURES RELATING TO KMP

Details of performance rights provided as remuneration to KMP, together with terms and conditions, can be found on page 35 of the remuneration report.

## D2 SHARE-BASED PAYMENTS

### KEEPING IT SIMPLE

The share-based payments scheme described in this section was established by the Board to provide long-term incentives to the Group's senior executives to attract, motivate and retain key executives and align the interests of the key executives with the interests of shareholders. Eligible executives may be granted performance rights on terms and conditions determined by the Board from time to time. The fair value of performance rights granted under the plan is recognised as an employee benefit expense with a corresponding increase in equity.

The Company provides benefits to employees under a Long Term Incentive Plan (LTIP) which are accounted for as share-based payments, whereby employees render services in exchange for rights over shares. The expense arising from these transactions is shown in note A3.

The LTIP was implemented in November 2015 and a further issue of performance rights was granted in November 2016. A description of the LTIP is included below. The fair value of the rights granted under the Plan is measured at grant date and spread over the vesting period via a charge to employee benefit expense in the income statement and a corresponding increase in the share-based payments reserves in equity. The fair value of performance rights takes into account the market performance conditions, but excludes the impact of any non-market vesting conditions (e.g. profitability and growth targets). Non-market vesting conditions are included in the assumptions about the number of performance rights that are expected to be vested.

Upon exercise of the performance rights, the relevant amount in the share-based payments reserve is transferred to contributed equity.

## DESCRIPTION OF THE PLAN

The establishment of the Mantra Group Limited Long Term Incentive Plan (LTIP) was approved by shareholders at the 2014 Annual General Meeting. The LTIP is designed to assist with attraction, motivation and retention of key employees and to align the interests of those employees with the interests of shareholders by matching rewards with the long term performance of the Company. Under the plan, participants are granted performance rights which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of performance rights that will vest depends on three factors as detailed below:

- 50% of the Performance Rights are subject to a vesting condition relating to the Company's Total Shareholders' Return (TSR) performance over a 3 year performance period from 1 July in the year of grant (Performance Period), when ranked against the TSR of the ASX 200 Industrials Index (excluding Resources) (collectively, the Comparator Group);
- The remaining 50% of the Performance Rights are subject to a vesting condition relating to the growth in the Company's earnings per share (EPS) over the Performance Period, compounded annually; and
- The Performance Rights are also subject to the participant continuing to be employed by a member of the Group up to and including the end of the Performance Period, and not have given or received notice of termination of his employment, on or prior to that date.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

When exercisable, each performance right is convertible into one ordinary share prior to the expiry date. There is no exercise price payable upon exercise of performance rights.

Details of the performance rights granted during the current and prior years are as follows:

	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	OTHER CHANGES DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER
Long Term Incentive Plan (2016)	26/11/15	25/11/19	-	387,456	-	-	(15,826)	371,630
Long Term Incentive Plan (2017)	18/11/16	17/11/20	-	-	379,781	-	(78,453)	301,328

The fair value of the performance rights is independently determined using a Binomial Call Option Pricing Model which takes into account the exercise price, the term of the performance right, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the performance right and the correlations and volatilities of the peer group companies.

The model inputs for performance rights granted during the year ended 30 June 2017 and 30 June 2016 included the following:

- performance rights are granted for no consideration and vest based on Mantra Group Limited's TSR ranking with a peer group of the initial members of the S&P/ASX 200 Industrials Index (excluding Resources) as at the TSR Start Date, Mantra Group Limited's EPS performance over three years and the continued employment of participants at specific dates:

	FY2017 GRANT	FY2016 GRANT
Exercise price:	Nil	Nil
Grant date:	18 November 2016	26 November 2015
Expiry date:	17 November 2020	25 November 2019
Share price at grant date:	\$3.22	\$4.33
Expected price volatility of the company's shares:	35%	35%
Expected dividend yield:	3.6%	2.7%
Risk-free rate:	1.99%	2.45%

The weighted average remaining contractual life of performance rights is 1.5 years.

The expected price volatility is based on an analysis of the historical volatility of comparable companies and industry constituents adjusted for any expected changes to future volatility due to publicly available information.





# Notes to the consolidated financial statements

## E: Group structure

This section explains significant aspects of Mantra Group's structure.

E1	Material subsidiaries	Page 80
E2	Deed of cross guarantee	Page 81
E3	Parent entity financial information	Page 84

### **E1 MATERIAL SUBSIDIARIES**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the day that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

The Group's principal subsidiaries are set out below. They have share capital consisting solely of ordinary shares, which are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation is also their principal place of business.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2017 %	2016 %
Mantra Group Holdings II Pty Ltd	Australia	Ordinary	100	100
Mantra MLR Group Pty Ltd	Australia	Ordinary	100	100
Mantra Leisure Resorts Pty Ltd	Australia	Ordinary	100	100
BRK (NSW) Pty Ltd	Australia	Ordinary	100	100
Sunleisure Operations Pty Ltd	Australia	Ordinary	100	100
Mantra Hospitality Admin Pty Ltd	Australia	Ordinary	100	100
Mantra Group Operations Pty Ltd	Australia	Ordinary	100	100
Peppers Leisure Pty Limited	Australia	Ordinary	100	100
SAMARAD Pty Ltd	Australia	Ordinary	100	100
Saville Hotel Group Pty Ltd	Australia	Ordinary	100	100
Mantra Resorts Australia Pty Ltd	Australia	Ordinary	100	100
BRK Resorts Pty Ltd	Australia	Ordinary	100	100
Mantra Australia (NSW) Pty Ltd	Australia	Ordinary	100	100
Mantra Hotels & Resorts Australia Pty Ltd	Australia	Ordinary	100	100
MG Hotels North Pacific LLC	United States	Ordinary	100	-

## E2 DEED OF CROSS GUARANTEE

The parent entity, Mantra Group Limited, and subsidiaries listed below are parties to a Deed of Cross Guarantee (Deed) under which each company guarantees the debts of others, subject to certain conditions:

- Mantra Group Holdings II Pty Ltd
- Mantra Group Operations Pty Ltd
- SAMARAD Pty Ltd
- Saville Hotel Group Pty Ltd
- BRK Resorts Pty Ltd
- BRK Asset Holdings Pty Ltd
- Mantra Hospitality Admin Pty Ltd
- Mantra MLR Group Pty Ltd
- Mantra Resorts Australia Pty Ltd
- Mantra Hotels and Resorts Australia Pty Ltd
- BRK (NSW) Pty Ltd
- Sunleisure Operations Pty Ltd
- Mantra Leisure Resorts Pty Ltd

By entering into the deed, these wholly-owned entities of Mantra Group Limited have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

## FINANCIAL STATEMENTS FOR THE MANTRA GROUP LIMITED DEED OF CROSS GUARANTEE

Set out below is a consolidated statement of profit or loss, a consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings, and a consolidated statement of financial position of the Company and subsidiaries listed above.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2017 \$'000	2016 \$'000
Revenue from continuing operations	446,415	423,201
Other income	47	59
Employee benefits expense	(160,870)	(151,895)
Operating expenses	(138,858)	(132,241)
Occupancy and utilities expense	(76,200)	(69,229)
Depreciation and amortisation expense	(20,090)	(17,924)
Transaction costs associated with business combinations	(1,749)	(7,258)
Administration expenses	(10,179)	(10,782)
Net impairment reversal	3,268	2,721
Finance costs (net)	(4,737)	(5,235)
<b>PROFIT BEFORE INCOME TAX</b>	<b>37,047</b>	<b>31,417</b>
Income tax expense	(20,864)	(19,069)
<b>PROFIT FOR THE YEAR</b>	<b>16,183</b>	<b>12,348</b>

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME	2017 \$'000	2016 \$'000
<b>PROFIT FOR THE YEAR</b>	<b>16,183</b>	<b>12,348</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>16,183</b>	<b>12,348</b>

### SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS

	2017 \$'000	2016 \$'000
<b>RETAINED EARNINGS AT THE BEGINNING OF THE FINANCIAL YEAR</b>	<b>215,607</b>	<b>230,011</b>
Profit for the year	16,183	12,348
Dividends paid	(31,182)	(26,752)
<b>RETAINED EARNINGS AT THE END OF THE FINANCIAL YEAR</b>	<b>200,608</b>	<b>215,607</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2017 \$'000	2016 \$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	40,113	107,532
Trade and other receivables	33,546	29,853
Inventories	2,147	2,008
Current tax asset	1,208	-
Other current assets	6,397	11,158
<b>TOTAL CURRENT ASSETS</b>	<b>83,411</b>	<b>150,551</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	95,010	94,892
Investment in subsidiaries	482,443	482,443
Intangible assets	312,326	301,667
Receivables	639	660
Related party receivables	31,071	31,071
<b>TOTAL NON-CURRENT ASSETS</b>	<b>921,489</b>	<b>910,733</b>
<b>TOTAL ASSETS</b>	<b>1,004,900</b>	<b>1,061,284</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	38,264	36,727
Current tax liabilities	-	2,260
Employee benefit obligations	13,765	16,059
Advanced deposits	25,991	25,227
Related party payables	23,671	76,578
<b>TOTAL CURRENT LIABILITIES</b>	<b>101,691</b>	<b>156,851</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	135,252	125,097
Deferred tax liabilities	91,823	87,844
Provisions	3,475	3,632
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>230,550</b>	<b>216,573</b>
<b>TOTAL LIABILITIES</b>	<b>332,241</b>	<b>373,424</b>
<b>NET ASSETS</b>	<b>672,659</b>	<b>687,860</b>
<b>EQUITY</b>		
Contributed equity	414,194	412,262
Other reserves	57,857	59,991
Retained earnings	200,608	215,607
<b>TOTAL EQUITY</b>	<b>672,659</b>	<b>687,860</b>



## E3 PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Mantra Group Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below:

### INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are carried at cost less, where applicable, accumulated impairment losses.

### TAX CONSOLIDATION LEGISLATION

Mantra Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

In addition to its own current and deferred tax amounts, Mantra Group Limited also recognises the current tax liabilities (or assets) from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Mantra Group Limited for any current tax payable assumed and are compensated by Mantra Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Mantra Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial report.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

### FINANCIAL GUARANTEES

Financial guarantees in relation to loans and payables of subsidiaries are provided for no compensation. The fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

### SUMMARY FINANCIAL INFORMATION

	2017 \$'000	2016 \$'000
<b>BALANCE SHEET</b>		
Current assets	415,053	444,640
Non-current assets	100,423	100,423
<b>TOTAL ASSETS</b>	515,476	545,063
Current liabilities	74,039	93,792
Non-current liabilities	66,919	66,793
<b>TOTAL LIABILITIES</b>	140,958	160,585
<b>NET ASSETS</b>	374,518	384,478
<b>SHAREHOLDERS' EQUITY</b>		
Issued capital	414,252	412,321
Other reserves	(100,584)	(98,287)
Retained earnings	60,850	70,444
<b>TOTAL EQUITY</b>	374,518	384,478
<b>PROFIT FOR THE YEAR</b>	21,588	19,071
<b>TOTAL COMPREHENSIVE INCOME</b>	21,588	19,071


### GUARANTEES ENTERED INTO BY PARENT ENTITY

Mantra Group Limited is a party to the deed of cross guarantee as described in note E2.

No liability was recognised by the parent entity of the Group in relation to this guarantee, as the fair value of the guarantees is immaterial.







# Notes to the consolidated financial statements

## F: Unrecognised items

This section provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance.

F1	Contingencies	Page 86
F2	Commitments	Page 86
F3	Events occurring after the reporting period	Page 87

### F1 CONTINGENCIES

#### KEEPING IT SIMPLE

Contingencies relate to the uncertain outcome of future events and may result in an asset or liability, however due to current uncertainty, do not qualify for recognition.

#### CONTINGENT LIABILITIES

##### GUARANTEES

The Group is, in the normal course of business, required to provide guarantees and letters of credit on behalf of controlled entities in respect of their contractual performance related obligations. These guarantees and indemnities only give rise to a liability where the entity concerned fails to perform its contractual obligations.

Bank guarantees outstanding at balance date in respect of commitments for lease rental expenditure amount to \$5,636,658 (2016: \$5,661,087).

### F2 COMMITMENTS

#### KEEPING IT SIMPLE

Commitments refer to amounts the Group is required to pay at a future date under existing agreements in exchange for the use or purchase of an asset.

Mantra Group has commitments in relation to operating leases and purchases of intangible and tangible assets in respect of future property acquisitions and property refurbishments.

##### LEASE COMMITMENTS

The following table sets out Mantra Group's commitment for operating leases in respect of properties under Lease Rights and certain Hotel Management Rights properties and other operating leases. These are not required to be recognised in the current year's results and do not form part of lease expenses included in Note A3.

Lease expenditure contracted but not provided for as payable:

	2017 \$'000	2016 \$'000
Within one year	117,296	110,982
Later than one year but not later than five years	239,471	200,750
Later than five years	124,376	135,899
<b>TOTAL</b>	<b>481,143</b>	<b>447,631</b>

## CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2017 \$'000	2016 \$'000
Property, plant and equipment	360	2,080
<b>TOTAL</b>	<b>360</b>	<b>2,080</b>

The Group enters into new agreements in the ordinary course of business, some of which result in capital commitments. There were no known capital commitments at balance date other than those disclosed above.

## F3 EVENTS OCCURRING AFTER THE REPORTING DATE

### ACQUISITION OF THE ART SERIES HOTEL GROUP

On 7 August 2017, Mantra Group entered into an agreement, subject to customary completion conditions, to acquire The Art Series Hotel Group comprising a portfolio of seven luxury hotels. The transaction is expected to complete in late 2017.


### DIVIDENDS

On 28 August 2017, Mantra Group's directors declared a dividend for the year ended 30 June 2017. Refer to note B4 for details.

### OTHER MATTERS

No other matters have arisen since 30 June 2017.





# Notes to the consolidated financial statements

## G: Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements.

G1	Earnings per share	Page 88
G2	Income tax	Page 90
G3	Remuneration of auditors	Page 93
G4	Related party transactions	Page 93
G5	Cash flow information	Page 94
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G8	New and amended standards and interpretations issued but not yet effective	Page 96

## G1 EARNINGS PER SHARE

### KEEPING IT SIMPLE

Earnings per Share (EPS) is the amount of post-tax profit attributable to each share.

### BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year.

### BASIC EARNINGS PER SHARE

	2017 CENTS	2016 CENTS
Total basic earnings per share attributable to the ordinary equity holders of the Group	15.3	13.8

### DILUTED EARNINGS PER SHARE

	2017 CENTS	2016 CENTS
Total diluted earnings per share attributable to the ordinary equity holders of the Group	15.3	13.7

## UNDERLYING EARNINGS PER SHARE

	2017 CENTS	2016 CENTS
Total underlying earnings per share attributable to the ordinary equity holders of the Group	15.9	15.3

## RECONCILIATION OF EARNINGS USED IN CALCULATING UNDERLYING EARNINGS PER SHARE

	2017 \$'000	2016 \$'000
Profit from continuing operations attributable to the ordinary equity holders of the Group used in calculating basic earnings per share	45,597	37,149
Adjustments as detailed in reconciliation below	1,559	4,152
Profit from continuing operations attributable to the ordinary equity holders of the Group used in calculating underlying earnings per share	47,156	41,301

## RECONCILIATION OF UNDERLYING NET PROFIT AFTER TAX TO STATUTORY NET PROFIT AFTER TAX IS PROVIDED AS FOLLOWS:

	2017 \$'000	2016 \$'000
Underlying net profit after tax	47,156	41,301
Transaction costs associated with business combinations	(1,749)	(7,258)
Net impairment reversal	1,445	2,129
Tax impact of transaction costs, reversal of impairment and an impairment related deferred tax adjustment	(1,255)	977
Net profit after tax	45,597	37,149

## WEIGHTED AVERAGE NUMBER OF SHARES USED AS DENOMINATOR

	2017 NUMBER	2016 NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	297,148,279	270,086,328
Adjustments for calculation of diluted earnings per share:		
Performance rights	672,958	301,328
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	297,821,237	270,387,656

## INFORMATION ON THE CLASSIFICATION OF SECURITIES

### PERFORMANCE RIGHTS

Performance rights granted to employees under the Long Term Incentive Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share assuming all outstanding rights will rest. The performance rights have not been included in the determination of basic EPS. Details relating to the performance rights are included in note D2.

## G2 INCOME TAX

### KEEPING IT SIMPLE

This note provides an analysis of the Group's income tax expense and deferred tax balances, including a reconciliation of income tax expense to accounting profit.

The Group is subject to income tax in Australia and jurisdictions where it has foreign operations. The Group estimates its tax liabilities based on the Group's understanding of the tax law in each jurisdiction.

Differences between tax law and accounting standards result in non-temporary (permanent) and temporary differences between tax and accounting income. Income tax expense is equal to net profit before tax multiplied by the applicable tax rate, adjusted for non-temporary differences. Temporary differences do not affect income tax expense as they reverse over time. Until they reverse, a deferred tax asset or liability must be recognised on the balance sheet.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to the items recognised directly in other comprehensive income or equity. In these cases the income tax expense is recognised directly in other comprehensive income or equity.

### CURRENT TAX

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associates operate and generate taxable income and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset where the Group has a legally enforceable right to offset and intends to either settle on a net basis, or realise the asset and settle the liability simultaneously.

### DEFERRED TAX

Deferred tax is recognised for all taxable temporary differences and is calculated based on the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences relating to:

- initial recognition of goodwill
- initial recognition of asset or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- investments in subsidiaries, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied when the asset is realised or the liability is settled, based on the laws that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax balances relate to taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### TAX CONSOLIDATION GROUP

Mantra Group Limited and its wholly owned Australian subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity. As a consequence, the tax assets and liabilities of these entities are offset in the consolidated financial report.

## INCOME TAX EXPENSE

	2017 \$'000	2016 \$'000
Current tax	22,355	19,996
Deferred tax	(461)	(927)
Adjustments for current tax of prior periods	1,091	-
	22,985	19,069
Deferred income tax included in income tax expense comprises:		
Increase in deferred tax assets	1,140	431
Decrease in deferred tax liabilities	(510)	(1,358)
	630	(927)

## RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

	2017 \$'000	2016 \$'000
Profit from continuing operations before income tax expense	68,582	56,218
Tax at the tax rate of 30% (2016: 30%)	20,575	16,865
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible entertainment	108	112
Accounting depreciation on assets with initial recognition exemption	420	389
Non-deductible business combination acquisition expense	262	1,594
	21,365	18,960
Adjustment to MLR tax base	-	109
Prior year temporary difference previously recognised	1,091	-
Differences in overseas tax rates	529	-
<b>INCOME TAX EXPENSE</b>	<b>22,985</b>	<b>19,069</b>

The effective tax rate for FY2017 is 33.5% (2016: 33.9%).

The effective tax rate is higher than 30% primarily as a result of the higher effective tax rate in respect of the US jurisdiction (38%) and an impairment related deferred tax adjustment.

## AMOUNTS RECOGNISED DIRECTLY IN EQUITY

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

	2017 \$'000	2016 \$'000
Deferred tax asset recognised in relation to share based payments plan	(204)	(16)
Deferred tax asset recognised in relation to equity raising	-	(739)
	(204)	(755)



<b>DEFERRED TAX ASSETS</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
The balance comprises temporary differences attributable to:		
Employee benefits	5,979	5,963
Restructuring and transaction costs	248	654
Share issue costs	1,421	2,388
Doubtful debts	113	113
LTIP	275	128
Straight line lease	1,573	1,338
Other	164	154
Amount recognised through business combinations	497	-
Unrealised foreign exchange gain/losses	14	-
	4,305	4,775
	10,284	10,738
Set-off of deferred tax balances pursuant to set-off provisions		
Australia	(9,479)	(10,738)
United States	(449)	-
<b>NET DEFERRED TAX ASSETS</b>	<b>356</b>	<b>-</b>

<b>MOVEMENTS</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Opening balance 1 July	10,738	10,112
Charged/(credited):		
• Credited to consolidated statement of comprehensive income	(1,155)	(431)
• Charged to other comprehensive income	204	755
Business combinations related	497	302
Closing balance 30 June	10,284	10,738
Deferred tax assets expected to be recovered within 12 months	6,792	6,421
Deferred tax assets expected to be recovered after more than 12 months	3,492	4,317
	10,284	10,728

<b>DEFERRED TAX LIABILITIES</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
The balance comprises temporary differences attributable to:		
Property, plant and equipment	9,733	9,694
Intangible assets	92,126	88,888
	101,859	98,582
Set-off of deferred tax balances pursuant to set-off provisions		
Australia	(9,479)	(10,738)
United States	(449)	-
<b>NET DEFERRED TAX LIABILITIES</b>	<b>91,930</b>	<b>87,844</b>

<b>MOVEMENTS</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Opening balance 1 July	98,582	76,583
(Charged)/credited:		
• Charged to consolidated statement of comprehensive income	(519)	(1,358)
• Acquired through business combinations	3,796	23,357
Closing balance 30 June	101,859	98,582
Deferred tax liabilities expected to be recovered within 12 months	-	-
Deferred tax liabilities expected to be recovered after more than 12 months	101,859	98,582

## G3 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

### PRICEWATERHOUSECOOPERS AUSTRALIA

	2017 \$	2016 \$
<b>AUDIT AND OTHER ASSURANCE SERVICES</b>		
Audit and review of financial statements	574,170	565,304
Audit of regulatory returns and other statutory accounts	43,870	43,990
Other assurance services	-	4,100
<b>TOTAL REMUNERATION FOR AUDIT AND OTHER ASSURANCE SERVICES</b>	<b>618,040</b>	<b>613,394</b>
<b>TAXATION SERVICES</b>		
Tax consulting	67,700	53,005
<b>TOTAL REMUNERATION FOR TAXATION SERVICES</b>	<b>67,700</b>	<b>53,005</b>
<b>OTHER SERVICES</b>		
Accounting advice	15,000	9,180
Consulting services	8,619	35,995
<b>TOTAL REMUNERATION FOR OTHER SERVICES</b>	<b>23,619</b>	<b>45,175</b>
<b>TOTAL REMUNERATION OF PRICEWATERHOUSECOOPERS AUSTRALIA</b>	<b>709,359</b>	<b>711,574</b>

### NETWORK FIRMS OF PRICEWATERHOUSECOOPERS AUSTRALIA

	2017 \$	2016 \$
<b>AUDIT AND OTHER ASSURANCE SERVICES</b>		
Audit of financial statements	30,336	25,000
<b>TAXATION SERVICES</b>		
Tax compliance	13,830	10,867
Tax consulting	19,156	12,741
Consulting services	31,440	17,664
<b>TOTAL REMUNERATION FOR OTHER SERVICES</b>	<b>64,426</b>	<b>41,272</b>
<b>TOTAL REMUNERATION OF NETWORK FIRMS OF PRICEWATERHOUSECOOPERS AUSTRALIA</b>	<b>94,762</b>	<b>66,272</b>

### NON-RELATED AUDIT FIRMS

	2017 \$	2016 \$
<b>AUDIT AND OTHER ASSURANCE SERVICES</b>		
Audit of trust accounts	164,557	139,474

## G4 RELATED PARTY TRANSACTIONS

### PARENT ENTITY

The ultimate parent entity of the Group is Mantra Group Limited.

### SUBSIDIARIES

Interests in material subsidiaries are set out in note E1.

### KEY MANAGEMENT PERSONNEL COMPENSATION

KMP disclosures are set out in note D1.

### TRANSACTIONS WITH RELATED PARTIES

In 2017 and 2016, David Gibson was a Non-Executive Trustee Director of Host-PLUS Pty Limited (ACN 08 634 704) (trading as Host-PLUS Superannuation) as a nominee of the Australian Hotels Association. Whilst Host-PLUS Superannuation is not a related party to the Company, it is the Company's default superannuation fund and receives contributions from the Company on behalf of the Company's employees. All transactions are completed on an arms-length basis.

## G5 CASH FLOW INFORMATION

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and at bank and short term money market investments.

### RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2017 \$'000	2016 \$'000
Profit for the year	45,597	37,149
Depreciation and amortisation	27,666	23,299
Net (loss)/gain on sale of non-current assets	(81)	7
Net impairment reversal	(1,445)	(2,129)
Non-operating finance costs	308	451
Other	32	(70)
Non-operating LTIP costs	221	372
Unrealised foreign exchange loss	899	1,946
Net exchange differences	219	73
<b>CHANGE IN OPERATING ASSETS AND LIABILITIES:</b>		
Increase in trade debtors and other receivables	(5,863)	(2,577)
Increase in inventories	(3)	(525)
Decrease in deferred tax assets	1,140	431
Increase in other operating assets	(3,770)	(1,484)
Increase/(decrease) in trade creditors and other payables	437	(1,653)
Increase in other operating liabilities	131	3,006
Decrease in provision for income taxes payable	(1,599)	(2,524)
Decrease in deferred tax liabilities	(510)	(1,358)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>63,321</b>	<b>54,414</b>

## G6 FOREIGN EXCHANGE RISK MANAGEMENT

### FOREIGN EXCHANGE RISK MANAGEMENT

The Group is exposed to currency risk as a result of its overseas operations in the United States of America (Hawaii), New Zealand and Indonesia.

The Group's exposure to New Zealand dollar and Indonesian rupiah is not material given the size of overseas operations compared to the Group's overall operations.

The Group's exposure to US dollar foreign exchange risk is limited because the assets and liabilities and purchases and sales are denominated in the functional currency of the US operations, US dollars.

The carrying amount of the Group's financial assets and liabilities that are denominated in Australia dollars and US dollars are set below.

<b>AUSTRALIAN DOLLARS</b>	<b>2017 \$'000</b>
Cash and cash equivalents	45,542
Trade and other receivables	46,432
Borrowings	135,252
Trade and other payables	40,340
	267,566
<b>UNITED STATES DOLLARS</b>	<b>2017 \$'000</b>
Cash and cash equivalents	12,219
Trade and other receivables	4,016
Trade and other payables	9,242
	25,477

The majority of the carrying amounts of the Group's financial assets and liabilities are denominated in the functional currency of the relevant subsidiary and thus there is no foreign exchange exposure. The majority of foreign exchange exposure as at 30 June 2017 relates to intra-group monetary assets and liabilities, and whilst these are eliminated on group consolidation, there is an exposure at balance date, which is recognised in the consolidated statement of comprehensive income as unrealised foreign exchange gains or losses. This is because the monetary item represents a commitment to convert one currency into another currency and exposes the Group to a gain or loss through currency transactions. The foreign exchange movement in relation to intra-group monetary assets and liabilities was not material (2016: not material).

## **G7 ACCOUNTING POLICIES**

This section details Mantra Group's accounting policies which have not been included elsewhere in the financial statements.

### **INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### **TRADE AND OTHER PAYABLES**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **LOANS AND RECEIVABLES**

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note C1) in the Statement of Financial Position. At initial recognition the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit and loss are expensed in the profit and loss.

Loans and receivables and held to maturity investments are subsequently carried at amortised cost using the effective interest method.



## G8 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

TITLE OF STANDARD	NATURE OF CHANGE	IMPACT	MANDATORY APPLICATION DATE / DATE OF ADOPTION BY THE GROUP
AASB 16 Leases	AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinctions between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The accounting for lessors will not significantly change.	The standard will affect primarily the accounting for the Group's Lease Rights which are currently accounted for as operating leases. As at the reporting date the Group has operating lease commitments of \$481,143,485. The Group is currently assessing the full impact of the standard, but expects that the impact on its assets, liabilities and equity will be material. The impact on the net profit after tax will depend on a number of factors still under consideration.	Must be applied for financial years commencing on or after 1 January 2019. At this stage the Group does not intend to adopt the standard before its operative date.
AASB 9 Financial Instruments	AASB 9 addresses the classification, measurement, and derecognition of financial assets and liabilities and introduces new rules for hedging.	While the Group continues to assess the full impact of this new standard, initial views are that there is expected to be no material impact on the financial statements.	Must be applied for financial years commencing on or after 1 January 2018. At this stage the Group does not intend to adopt the standard before its operative date.
AASB 15 Revenue from Contracts with Customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risk and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2018), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	The Group has completed an initial assessment of the different types of agreements in place and the expected impact of the new standard on the revenue recognition practices in respect of these agreements. The Group does not expect the application of the new standard to have a material impact on the revenue recognition practices currently undertaken.	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the Group: 1 July 2018.



## Directors' declaration

In the Directors' opinion:

- (a) the financial report and notes set out on pages 46 to 96 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note E2 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note E2.

Note the 'About this report' section on page 48 confirms that the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.

Peter Bush  
Chair of the Board

Kerry Robert East  
Chief Executive Officer

Gold Coast  
28 August 2017

## *Independent auditor's report*

To the shareholders of Mantra Group Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Mantra Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

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

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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## Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Mantra Group operates across Australia, New Zealand, Indonesia and, most recently, the United States. Its business segments are Resorts, CBD, Central Revenue and Distribution, and a Corporate function that operates out of the Group's corporate office on the Gold Coast, Australia.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$3.5 million, which represents approximately 5% of the Group's profit before tax (PBT).</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose PBT because, in our</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>Our audit procedures were mostly performed at the Group's corporate office on the Gold Coast. Additionally, the engagement team visited the new Ala Moana property located in Hawaii, United States as this property now represents a significant proportion of the Group's</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Management Committee: <ul style="list-style-type: none"> <li>Recoverability of goodwill</li> <li>Recoverability of property related intangible assets and fixed assets</li> <li>Acquisition of Ala Moana</li> <li>Revenue recognition</li> </ul> </li> <li>These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<p>view, it is the metric against which the performance of the Group is most commonly measured.</p> <ul style="list-style-type: none"> <li>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li> </ul>	<p>results.</p> <ul style="list-style-type: none"> <li>Due to the nature of the Group's business, PwCIT systems specialists assisted with developing our understanding of the Group's IT systems and complex revenue generation processes.</li> <li>As part of our audit, we also utilised the expertise of PwC Valuations specialists to assist with our audit procedures on the Group's impairment models.</li> </ul>	

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Recoverability of goodwill</i></b> (Refer to note C3 and note C4)</p> <p>The Group recorded goodwill of \$122.6 million as at 30 June 2017, allocated between the Resorts, CBD and Central Revenue and Distribution operating segments.</p> <p>As required by Australian Accounting Standards, at 30 June 2017 the Group performed an assessment of whether there was any impairment of the goodwill balance by calculating the 'value in use' (VIU), for each operating segment's goodwill, using a discounted cash flow model (model). Refer to page 77, note C4, for details of the impairment assessment and assumptions.</p>	<p>We performed a number of audit procedures in relation to goodwill, including the following:</p> <ul style="list-style-type: none"> <li>Evaluating the Group's cash flow forecasts used in the model and the process by which they were developed, including performing tests of the mathematical accuracy of the underlying calculations.</li> <li>Comparing the cash flow forecasts for FY2018 in the model to the Board approved budget for FY2018.</li> <li>Comparing the FY2017 actual results with prior year forecasts to assess the historical accuracy of the Group's forecasting processes.</li> </ul> <p>With assistance from PwC Valuations experts, we also assessed:</p> <ul style="list-style-type: none"> <li>key assumptions for long-term growth rates used in the model by comparing them to historical results and available economic and industry forecasts; and</li> </ul>

### Key audit matter

This was a key audit matter due to the size of the goodwill balance and because the Group's assessment of the model involved significant judgements and estimates about the future results of the Group, and the discount rate and long-term growth rates applied to future cash flows.

We note that no impairment has been recognised in the current year, and the Group have concluded that a reasonably possible change in any of the key assumptions would not give rise to an impairment.

### How our audit addressed the key audit matter

- the discount rate used in the model by assessing the cost of capital for the Group by comparing it to market data and industry research.

We found that both the long-term growth rate and the discount rate used were consistent with our internally developed benchmarks, which were based on market data and industry research.

We then performed a sensitivity analysis on the model by adopting other assumptions which we viewed as reasonably possible for the FY2018 cash flow forecasts, the long term growth rate and the discount rate.

We also compared the Group's net assets as at 30 June 2017 of \$477.9 million to its market capitalisation of \$907.2 million as at 30 June 2017.

### Recoverability of property related intangible assets and fixed assets (Refer to note C3, note C4 and note C2)

The Group recorded property related intangible assets of \$377.0 million at 30 June 2017, comprising mainly management letting rights of \$247.7 million, lease rights of \$104.2 million and hotel management rights of \$25.2 million. These intangible assets are all amortised over their expected useful lives.

In addition, the Group recorded fixed assets of \$157.7 million, of which the majority relates to the managed properties.

The Group performs a formal assessment at both the half year and year end for indicators of impairment or the reversal of previous impairments for the Group's property related intangibles and fixed assets. This assessment is performed for individual properties.

If indicators of impairment or the reversal of previous impairments are identified, then detailed impairment calculations are performed by the Group on both a VIU and a 'fair value less costs of disposal' basis to determine the recoverable amount of the individual property's assets, using discounted cash flow models (the

We considered the Group's impairment indicators assessment. This has involved consideration of the individual operating results for each property, focusing on the recent trend in results as well as forward projections. We have also considered other market factors, such as competitor activity, location specific events and information on recent transactions for similar properties.

Where detailed impairment calculations were performed using the models, we performed a number of procedures, including the following:

- Evaluating the Group's cash flow forecasts in the models for each individual property and the process by which they were developed, including performing tests of the mathematical accuracy of the underlying calculations.
- Comparing the cash flow forecasts for FY2018 in the models to the management approved property budgets, which form the basis of the Board approved budgets for FY2018.
- Comparing the FY2017 actual results with prior year forecasts for each individual property to assess the historical accuracy of the Group's forecasting.

We note that shared service costs have been allocated to each individual property using an EBITDA % contribution as the basis of allocation. This methodology is consistent with the prior year and we have assessed the allocation calculations and

Key audit matter	How our audit addressed the key audit matter
<p>models).</p> <p>As a result of the Group's impairment assessment, an impairment charge of \$13.5 million offset by a reversal of impairment of \$14.9 million was recorded in the 30 June 2017 financial statements.</p> <p>This was a key audit matter due to the size of the property related intangibles and fixed assets balances and because the Group's assessment of impairment involved significant judgements and estimates about the future results of the Group, and the discount rate and long-term growth rates applied to future cash flows.</p>	<p>appropriateness under Australian Accounting Standards.</p> <p>With assistance from PwC Valuations specialists, we also assessed:</p> <ul style="list-style-type: none"> <li>• key assumptions for long-term growth rates used in the models by comparing them to historical results and available economic and industry forecasts; and</li> <li>• the discount rate used in the models by assessing the cost of capital for the Group by comparing it to market data and industry research.</li> </ul> <p>We found that both the long-term growth rate and the discount rate used were consistent with our internally developed benchmarks, which were based on market data and industry research.</p> <p>For models prepared on a fair value less cost to sell basis, we have also given consideration to the EBITDA multiples used with reference to similar transactions.</p> <p>We then performed a sensitivity analysis on the models by adopting other assumptions which we viewed as reasonably possible for the FY2018 cash flow forecasts, the long term growth rate and the discount rate.</p> <p>We checked the calculations within the model and the resultant impairment and reversals of impairment for each hotel.</p>
<p><b>Acquisition of Ala Moana</b> (Refer to note A4)</p> <p>During the year, the Group completed the acquisition accounting in respect of the acquisition of the ALM Management Services LLC ("ALMMS"), a limited liability company which operated the Ala Moana Hotel in Honolulu. The Group acquired the management letting rights and all associated real estate of the Ala Moana Hotel on 25 July 2016 for a purchase consideration of A\$63.2 million.</p> <p>As part of this acquisition, fixed assets of A\$37.0 million and management letting rights of A\$33.3 million have been recognised in the financial report.</p>	<p>To evaluate the accounting for the Ala Moana Hotel we performed a number of procedures, including the following:</p> <ul style="list-style-type: none"> <li>• Visiting the Ala Moana Hotel to develop our understanding of the operations with the local management team.</li> <li>• Testing of the consideration paid for the Ala Moana Hotel by comparison to supporting documentation, including transaction costs and the recalculation of the foreign currency translation.</li> <li>• Assessing the fair value assigned by the Group to the assets and liabilities acquired. This included an assessment of the Group's purchase price allocation process and specifically consideration of the separately identifiable intangible assets acquired, and the related deferred tax treatment.</li> <li>• Assessing the appropriateness of the amortisation period applied to the management letting rights recognised.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p>The accounting for the acquisition of ALMMS was a key audit matter because it is a financially significant transaction for the Group in a new overseas market.</p>	<ul style="list-style-type: none"> <li>Considering the related business combination disclosures in the financial statements to assess if they were compliant with the requirements as set out in the Australian Accounting Standards.</li> </ul>
<p><b>Revenue recognition</b> (Refer to note A2)</p> <p>The Group's revenue is based on a very high volume of transactions across several major streams, including revenue from accommodation, food and beverage, and the provision of services. We also note that the Group operates hotels under several different models (as outlined in note A2), and the revenue recognition process differs depending on the nature of operations for each hotel. Each of these revenue streams is underpinned by different IT systems and detailed processes and controls.</p> <p>Whilst there is little estimation or judgement involved in the recognition of the Group's revenue, due to the opportunity for manual intervention and the high volume of transactions, including advance bookings, several reservations systems and the interfaces of these with the accounting records, there is potential for these transactions to be recorded incorrectly.</p> <p>Due to the quantum of the Group's revenue, and the number of different revenue streams and associated systems and processes, the recognition of revenue was deemed a key audit matter.</p>	<p>Utilising expertise from PwC IT systems specialists, we assessed the design and performed tests of the operating effectiveness of the key controls over the continued integrity of the relevant IT systems. This involved performing a number of procedures including the following:</p> <ul style="list-style-type: none"> <li>assessing the technology control environment: i.e. the governance processes and controls used to monitor and enforce controls throughout the Group's technology teams and third party suppliers;</li> <li>assessing change management: i.e. the process and controls used to make, test and authorise changes to the functionality within systems;</li> <li>assessing security: i.e. the access controls designed to enforce a segregation of duties or check that data is only changed through authorised means;</li> <li>assessing system development: i.e. the project disciplines implemented so that new systems developed meet their defined business need, are appropriately tested before implementation, and that data is converted and transferred correctly; and</li> <li>assessing IT operations: i.e. the controls that cause key operations to occur when they should and that any issues that arise are managed to a successful conclusion.</li> </ul> <p>We also gained an understanding of the key controls in place for each revenue stream, including both automated and manual controls. Upon evaluating the relevant IT systems applicable to each revenue stream, we performed tests of the operating effectiveness of a number of the key manual and automated controls within the revenue process.</p> <p>Our procedures over the IT systems and manual and automated controls enabled us to place reliance on a number of system generated reports, which were deemed as being key reports for our audit.</p> <p>Our substantive audit procedures included the use of Computer Assisted Audit Techniques to perform tests of the accuracy of a sample of recorded revenue transactions, and to</p>



#### *Key audit matter*

#### *How our audit addressed the key audit matter*

test a sample of journal entries posted to revenue and other general ledger accounts.

For all major revenue streams, we agreed samples of transactions from the general ledger listings to supporting documentation, including bank statements. This included substantive testing of advanced deposits to check that revenue transactions were being recorded in the correct financial period.

#### *Other information*

The directors are responsible for the other information. The other information comprises the Directors' Report, Chair and CEO's Overview, Shareholder Information and the Corporate Directory included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly, we do not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 32 to 42 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Mantra Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

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#### *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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*K. Stubbins*

Kristin Stubbins  
Partner

Sydney  
28 August 2017



## Shareholder information

The shareholder information set out below was applicable as at 21 August 2017.

### A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

	ORDINARY SHARES
<b>HOLDING</b>	
1 to 1,000	2,100,511
1,001 to 5,000	19,312,416
5,001 to 10,000	20,753,535
10,001 to 50,000	33,056,410
50,001 to 100,000	6,011,268
100,001 and over	216,194,777
<b>TOTAL</b>	297,428,917

The number of investors holding less than a marketable parcel (\$500) of 168 securities (based on a market price of \$2.96 on 21 August 2017) is 360 and they hold 25,867 securities.

## B. EQUITY SECURITY HOLDERS

### TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

NAME	ORDINARY SHARES	
	NUMBER HELD	PERCENTAGE OF ISSUED SHARES
HSBC Custody Nominees (Australia) Limited	86,386,509	29.04
J P Morgan Nominees Australia Limited	59,002,584	19.84
Citicorp Nominees Pty Limited	16,059,117	5.40
National Nominees Limited	8,372,069	2.81
BNP Paribas Noms Pty Ltd	8,243,819	2.77
BNP Paribas Nominees Pty Ltd	8,109,603	2.73
AMP Life Limited	4,730,521	1.59
RBC Investor Services Australian Nominees Pty Limited	3,012,302	1.01
Citicorp Nominees Pty Limited	1,480,467	0.50
BAINPRO Nominees Pty Limited	1,433,000	0.48
Bond Street Custodians Ltd	1,276,353	0.43
Mutual Trust Pty Ltd	1,144,294	0.38
HSBC Custody Nominees (Australia) Limited-GSCO ECA	1,114,001	0.37
DR Peter Malcolm Heyworth	1,066,517	0.36
HSBC Custody Nominees (Australia) Limited - A/C 2	1,062,042	0.36
Sandhurst Trustees Ltd	927,943	0.31
Kerry Robert East	765,638	0.26
AUST Executor Trustee Ltd	731,533	0.25
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP	725,023	0.24
BNP Paribas Noms (NZ) Ltd	700,000	0.24
<b>TOTAL</b>	<b>206,343,605</b>	<b>69.38</b>

## C. SUBSTANTIAL HOLDERS

As at 21 August 2017 the names of substantial holders in the Company who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are set out below:

NAME	NUMBER HELD	PERCENTAGE
HSBC Custody Nominees (Australia) Limited	86,386,509	29.04
J P Morgan Nominees Australia Limited	59,002,584	19.84
Citicorp Nominees Pty Limited	16,059,117	5.40

## D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

### ORDINARY SHARES

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.





# Corporate directory

## **DIRECTORS**

Peter Bush (Chair)  
Andrew Cummins  
Kerry Robert (Bob) East  
David Gibson  
Melanie Willis  
Elizabeth (Liz) Savage

## **COMPANY SECRETARY**

Fiona van Wyk

## **NOTICE OF ANNUAL GENERAL MEETING**

The annual general meeting of Mantra Group Limited will be held at:

Mantra on Queen  
570 Queen Street  
Brisbane QLD 4000

Date: Wednesday 22 November 2017  
Time: 11.30 am (QLD)

## **REGISTERED OFFICE**

Level 15, 50 Cavill Avenue  
Surfers Paradise, QLD 4217

Telephone + 61 7 5631 2500  
Facsimile +61 7 5631 2999  
Email: [investorrelations@mantragroup.com.au](mailto:investorrelations@mantragroup.com.au)

## **SHARE REGISTRY**

Link Market Services Limited  
Level 15  
324 Queen Street  
Brisbane QLD 4000  
  
1300 554 474 (within Australia)  
+61 1300 544 474 (outside Australia)

## **AUDITOR**

PricewaterhouseCoopers Australia  
One International Towers Sydney  
Watermans Quay  
Bangaroo, NSW 2000

## **STOCK EXCHANGE LISTING**

Mantra Group Limited shares are listed on the Australian Securities Exchange (ASX code: MTR).

## **WEBSITE**

[www.mantragroup.com.au](http://www.mantragroup.com.au)



MANTRA GROUP

PEPPERS

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