

YHA AUSTRALIA YEAR IN REVIEW

2016



quality, so
modation
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COVER: THE FAÇADE AT MELBOURNE
CENTRAL YHA HAD A FACELIFT

DISCOVERY SEEKERS AT
MISSION BEACH, QUEENSLAND

BACKGROUND TO YHA AUSTRALIA

MISSION

To provide opportunity for all, but especially young people, for education by personal development, fostering friendship and bringing about a better understanding of others and the world around them.



THE HOUSE AND TREE SYMBOL

The house and tree originates from the first Hostelling International signs in Europe in 1934. The three messages used in the green Australian logo are the tree representing the environment, the house representing shelter and the open door representing just that, a welcoming open door.

YHA IN AUSTRALIA

The first youth hostel was established in Germany in 1909. In 1932 Hostelling International (HI) was formed and now has member associations in 90 countries that are operating more than 4,000 hostels. There are 77 YHA hostels in Australia, including 57 in the ACT, NT, NSW, Queensland, South Australia and Victoria. The first YHA hostel in Australia was opened in 1939 in Warrandyte in Victoria. YHA hostels provide low cost short term accommodation for travellers. YHA hostels can be used by people, regardless of age, who are members of any of the Youth Hostels Associations throughout the world.

CORPORATE OBJECTIVES

A culture of sustainability

Improve environmental sustainability of YHA's buildings

Socially responsible

Open to, and accepting of other cultures

Financial sustainability to support growth

Product and service excellence

Consistently high quality and standards of YHA accommodation

Everything we do is customer-focused

A motivated workforce that is innovative, friendly and welcoming

Efficient and consistent network

Industry leadership

Promoting a high quality and safe accommodation sector

Advocacy on behalf of the backpacker sector

Alliances and strategic partnerships growing the backpacker industry

Governance

Effective, responsive and efficient structure

A culture that balances risks and opportunities

Transparency and accountability in everything we do

CORE VALUES

Environmentally friendly

Safe and reliable

Honest and trustworthy

Loyalty

Value for money

Experience

YHA LTD

- Is a company limited by guarantee under the Corporations Act (2001).
- Is a not-for-profit organisation.
- Retains and reinvests all surpluses.
- Trades as YHA Australia.
- Provides low cost accommodation for individual and group YHA members from the ACT, NSW, NT, Queensland, South Australia and Victoria, other Australian states and overseas.
- Has 35,262 individual and group members in the ACT, NSW, the NT, Queensland, South Australia and Victoria.
- Operates YHA Travel & Tours.
- Acts as co-ordinator for other providers of hostel accommodation operating as YHA associate hostels.
- Has no age limits, either minimum or maximum, on membership or hostel usage.
- Has affiliated regional activity groups which organise social and outdoor activity programs.
- Is the Australian member organisation of Hostelling International.

INTRODUCTION



L TO R: ROB MCGUIRK (CHAIR) AND JULIAN LEDGER (CEO)

Dear Members & Friends,

For YHA, 2016 was a year of integration, strategic planning and acquisition. We integrated the former national body, Hostelling International Australia (HI-A) into YHA Ltd, and members of YHA Tasmania voted to merge into YHA Ltd with effect from 1 January 2017. Negotiations continue with YHA WA, with a Memorandum of Understanding entered into with the aim of merging into YHA Ltd in the second half of 2017 subject to voting on by WA members. At the 2016 AGM we made modifications to the Constitution to assist with modernising the organisation and providing good governance.

A National Strategic Planning conference was held in July 2016 in the Barossa Valley in South Australia, resulting in new Strategic Plan to guide the organisation to 2020. YHA Australia was also well represented at a Hostelling International conference held in the UK, providing input into the global organisation.

We continued to provide a high quality network of hostels in NSW, Victoria, Queensland, South Australia, NT and the ACT. Our network of 57 hostels generated 1,431,942 overnight stays, with our guests coming from over 180 countries.

We currently have 35,262 individual and group members, and a further 19,909 international visitors who joined while travelling in Australia. During the year we undertook a creative refresh to revitalise YHA's brand and appeal to more, young 'Discovery Seekers'.

FINANCE

There was a stronger financial result in 2016 than in 2015. This was primarily due to increased occupancy in the hostel network, particularly in Sydney. Overall, on an operating turnover of \$45.3 million we generated a surplus of \$2 million, and accumulated significant funds to be used for hostel acquisition and development.

HOSTEL DEVELOPMENT

During the year, we commenced construction on an extension at Byron Bay YHA in NSW that is due to open in late 2017. We also purchased Newcastle Beach YHA in NSW (a former Associate hostel) and undertook a refurbishment of this property. In Surfers Paradise in Queensland, we purchased a well-located block of land for a future hostel development.

YHA's Sustainable Hostels Fund contributed to the installation of solar power at Sydney Harbour YHA, the sinking fund for this hostel's onsite Big Dig Archaeology Education Centre reached \$0.5M for interpretation projects, and celebrations marked the 50,000th student participating in a program at the centre.

FUTURE FOCUS

In 2017 we will begin to implement the new Strategic Plan; modernise our membership pricing and systems; plan for future network development; improve the quality and atmosphere of our hostels; further develop our IT infrastructure; and nurture partnerships with like-minded organisations.

Throughout all this, YHA remains proudly a not-for-profit organisation. Our mission of providing the opportunity to young people for education through travel, to bring about friendships and an understanding of the world has been solid for over 75 years now. We would like to thank all our members, guests, staff, volunteers and industry partners for supporting us and our mission over the past year.

Julian Ledger
CEO

Rob McGuirk
Chair

2016 IN SUMMARY

HIGHLIGHTS

Successful integration of the former national body, Hostelling International Australia (HI-A) into YHA Ltd, which trades as YHA Australia and is now the Australian member of the International Youth Hostel Federation (trading as Hostelling International)

National Strategic Planning conference held in the Barossa Valley – resulting in a new Strategic Plan to 2020

Hostel Managers' Conference held in Cairns – with Backpacker & Adventure Tourism Industry Forum, open to wider industry, also hosted by YHA

Acquisition and refurbishment of Newcastle Beach YHA (NSW) – formerly a YHA Associate hostel

Purchase of well-located land in Surfers Paradise (QLD) for a future hostel

Construction commenced for expansion of Byron Bay YHA (NSW) on adjacent land

Representations to State and Federal governments on issues of concern to travellers, including short-term letting of residential accommodation, and 'backpacker tax'

YHA ACCOMMODATION

An average of 3,918 people accommodated each night

Increase in total number of guests to 1,434,136 overnight stays

Partnership with a Working Holiday agency to have a presence in key hostels (Sydney Central, Melbourne Metro, Brisbane City and Cairns Central YHAs) to provide onsite services, such as job-seeking assistance, to working holiday makers

Small Hostels Development Fund was fully expended in the year with various projects including \$172K spent on renovations at Port Elliot YHA (SA)

MARKETING AND DIGITAL

Creative refresh undertaken to revitalise YHA's brand and appeal to young 'Discovery Seekers'

Development of sales of Australian travel experiences to hostel guests through YHA Travel & Tours web-based system

Investment in yha.com.au and digital technology to enable stronger communication with members

Fully responsive website and two travel apps launched

Positive media coverage in print, broadcast and online



RAMBUTAN TOWNSVILLE YHA JOINED THE NETWORK

FINANCE

Total operating turnover of \$45.3M (\$42.9M in 2015)

Earnings before interest, taxation, depreciation and amortisation (EBITDA) of \$9.8M (\$9.9M in 2015) after adjusting for HI-A contribution.

Operating surplus of \$2M (\$0.98M in 2015)



GOVERNANCE AND ADMINISTRATION

The Board operated with nine volunteer Directors and three sub committees, with meetings taking place in the Barossa Valley, Canberra, Melbourne, and Sydney

Changes to the Constitution enacted following approval by members at the 2016 AGM, including a new By-law on Director nomination and election

Members in YHA Tasmania voted to merge with YHA Ltd, effective 1 January 2017

A Memorandum of Understanding to merge YHA WA into YHA Ltd was entered into, subject to voting on by WA members (scheduled for June 2017, with potential merger in September 2017)

YHA Australia representation and presentations at Hostelling International global conference, with CEO invited to participate in Governance Review Committee

Adoption of a Workforce Development Plan for YHA's employees



THE MANAGEMENT TEAM (L to R): Julian Ledger (CEO); Stephen Lynch (CFO); Robert Henke (Operations/Eastern Region Manager); Marie Sahagun (Administration Manager); Rolf Duelks (Strategy & Digital Leader); Janet McGarry (Head of Marketing); Jonathan Kane (Northern Region Manager); Mark Hussien (Southern Region Manager).

FIVE YEAR COMPARISON

	2016	2015	%	2014	2013	2012
	\$	\$	Change	\$	\$	\$
Before disposal / impairment of fixed assets						
Total revenue	44,685,152	42,943,067	4.1	41,757,479	41,961,333	41,586,971
Total expenses	43,219,190	41,903,197	(3.1)	41,036,435	42,363,934	43,348,631
Surplus / (Deficit) before disposal of assets	1,465,962	1,039,870	41.0	721,044	(402,601)	(1,761,660)
Earnings before interest tax depreciation & amortisation	9,777,599	9,920,677	(1.4)	9,999,865	10,009,945	10,259,602
One off gains – integration or disposal of fixed assets (NOTE H)						
(Loss) on disposal / (Impairment) of assets	(72,762)	(56,897)		(113,936)	(1,016,431)	(211,043)
Income tax expense	(4,138)	–		38,934	(235,640)	–
Surplus / (deficit) after tax	2,008,645	982,973	104.3	867,254	1,872,619	(1,213,973)
Capital expenditure	14,060,227	2,837,441	400.8	4,328,495	1,246,305	2,048,567
Total assets	131,584,921	123,971,750	6.1	122,614,001	124,365,811	127,087,755
Total borrowing	80,000,000	75,000,000	6.7	75,000,000	77,248,543	83,067,293
Total equity	41,879,436	39,870,791	5.0	38,887,818	39,065,706	35,951,873
Gearing						
Gearing (NOTE A)	0.66	0.65	0.5	0.66	0.66	0.70
Interest cover (NOTE B)	3.12	2.84	9.5	2.23	2.47	1.88
Loan to value ratio (NOTE C)	41.6%	40.6%	(1.0)	40.9%	44.8%	51.1%
Number of members (NOTE D)	35,262	36,664	(3.8)	36,092	36,173	37,856
Number of hostels (NOTE E)	57	59	(3.4)	62	65	70
Number of employees (NOTE F)	225	234	–	229	248	258
Turnover per employee (NOTE G)	198,601	183,517	4.1	182,347	169,199	161,190

NOTE A: Based on current and non-current borrowings as a percentage of total borrowings and total accumulated funds

NOTE B: Based on operating surplus before interest charges and depreciation

NOTE C: Includes HI Australia HBAF loans for 2011–2012

NOTE D: Includes adult, under 18, group and life Australian members

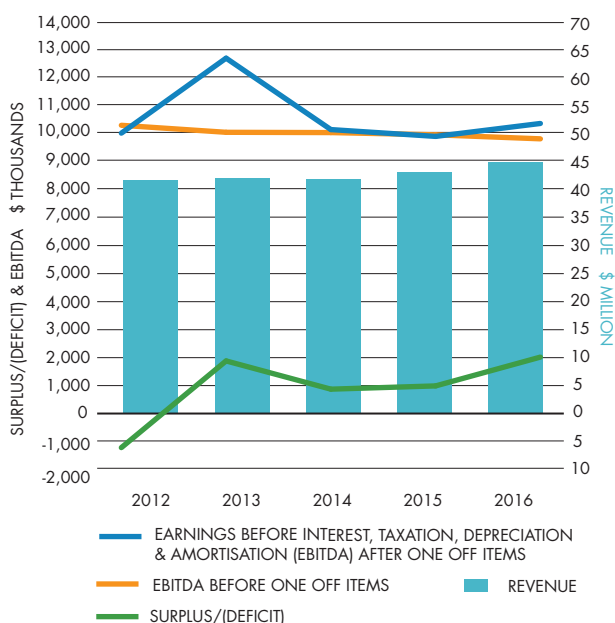
NOTE E: Includes staff operated, leased and associate hostels

NOTE F: Full time and part time equivalent to full time employees employed by YHA – YHA SA employees included for 2013 and 2012.

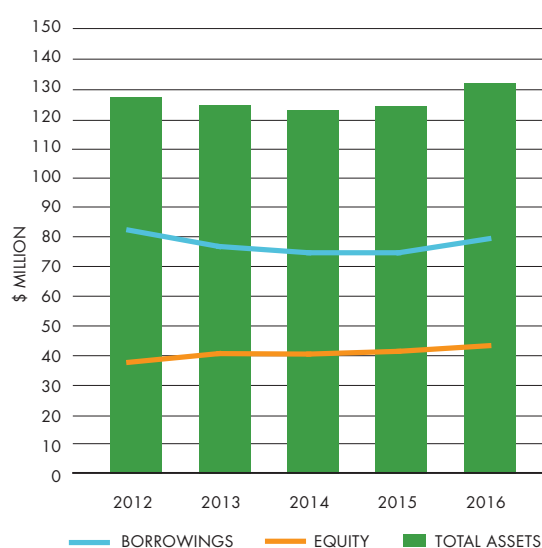
Note G: Total revenue divided by the number of employees

Note H: 2016 HI Australia integration, 2014 & 2012 gain on disposal of assets, 2013 return of mutual funds.

REVENUE, OPERATING SURPLUS/(DEFICIT), EBITDA



TOTAL ASSETS, EQUITY AND BORROWINGS



ACCOMMODATION

SOURCES OF GUESTS

In 2016 international visitors made up 70% of hostel guests including those on tourist visas and working holiday makers from more than 30 countries. The number of guests from the UK, Germany, China, Japan, the Netherlands and the USA grew, however there was a decline in those from countries including Ireland, Brazil and Taiwan. Domestic travellers make up the remaining third of guests.

RESULTS

In 2015, a total of 1,431,942 overnight stays were recorded at hostels in the ACT, NSW, NT, QLD, SA and VIC (compared to 1,348,835 overnight stays in 2015). An increasing proportion of these were booked online with most growth coming from bookings via mobile devices. Overall, 23% of overnight stays were booked on yha.com.au and bookings through online travel agents also increased.

HOSTEL NETWORK

In addition to a network of hostels in gateway cities, YHA has regional hostels that play an important role in dispersing both Australian and international travellers throughout the country. In 2016, YHA welcomed three new Associate partners to the YHA network – in Townsville, the town of 1770, and Mission Beach

(replacing a previous, smaller property). Associate hostels in Lennox Head, Cronulla and Narooma (in NSW) and Kangaroo Island (in South Australia) left the network as the owners either changed their business model or sold the land for re-development. In NSW, contracts were exchanged for the Bundanoon YHA to be sold and re-developed by another tourism operator in the region.

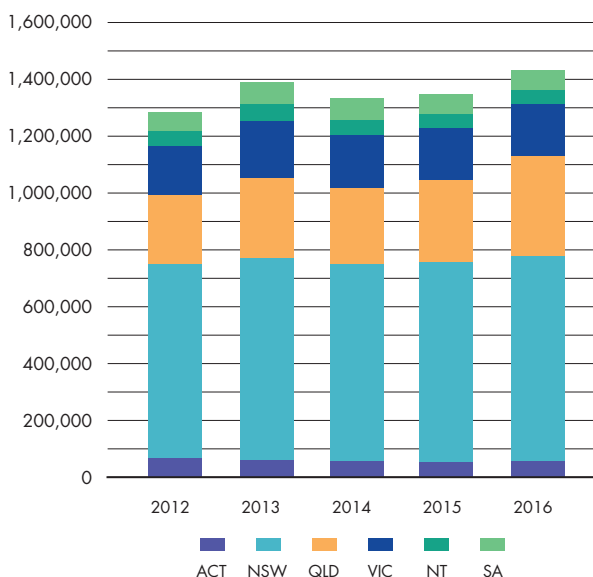
GROUPS

Attracting groups to stay at hostels has been a major focus of our marketing in recent years, as well as building alliances with companies organising group itineraries. Group business is 11% of total usage, made up mainly of Australian educational, cultural and sporting groups on excursions but also increasingly international student groups. Smaller regional hostels are also promoted through the Rent-a-YHA scheme offering exclusive usage.

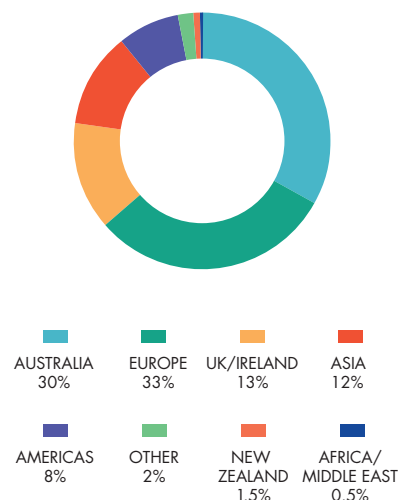
HOSTEL MANAGERS' CONFERENCE

A successful Hostel Managers' Conference was held in Cairns in May 2016 with 105 delegates from 48 hostels and regional offices. The conference was for the first time preceded by the Backpacker and Adventure Tourism Industry Forum hosted by YHA, and attended by 60 delegates from the broader tourism industry. The event was well received and the local industry was a generous provider of familiarisation trips.

TOTAL OVERNIGHTS BY STATE/TERRITORY



2016 OVERNIGHTS BY COUNTRY OF ORIGIN



REGIONAL MEETINGS

Regional meetings took place to strengthen relations between hostel managers in various parts of the network. Meetings were held in Port Stephens (Sydney Surrounds); Newcastle (NSW mid-north coast); Brisbane (northern NSW & southern Queensland); Phillip Island (Victoria and South Australia) and Port Douglas (northern Queensland). A 'gateway' hostel managers' meeting was also held in Sydney. These meetings covered topics such as marketing, business efficiency and YHA Travel & Tours.

PARTNERSHIPS

During the year, YHA entered into agreements with a major Working Holiday agency – 'Work n Holiday' – to have a presence in key hostels (Sydney Central, Melbourne Metro, Brisbane City and Cairns Central YHAs). They provide services from these hostels such as job-seeking assistance to working holiday makers. Greyhound also have a tenancy at Sydney Central YHA, providing services to travellers.

KEY STATISTICS	2014	2015	2016
Number of hostels on 31 December			
Operated and/or owned	26	26	27
Associates	36	33	30
Total	62	59	57
Number of beds on 31 December			
Operated and/or owned	4,029	4,041	4,140
Associates	2,353	2,169	2,104
Total	6,382	6,210	6,244
Number of overnights on 31 December			
Operated and/or owned	946,762	953,397	1,002,600
Associates	385,105	395,438	431,536
Total	1,331,867	1,348,835	1,434,136
Overnights			
By Australians	458,093	450,354	432,640
By non-Australians From HI countries	854,041	878,211	977,318
From non HI countries	19,733	20,270	24,178
Total Overnights	1,331,867	1,348,835	1,434,136
Ratios – permanent only			
Beds per hostel	103	105	110
Overnights per hostel	21,482	22,862	25,160
Overnights per bed	209	217	230



GUESTS JOINED IN WITH A CAMPFIRE-THEMED EVENT AT ADELAIDE CENTRAL YHA, ON THE UN'S INTERNATIONAL DAY OF PEACE

ENVIRONMENTALLY FRIENDLY

YHA is committed to reducing its environmental impact and promoting the benefits of travelling lightly on the planet. During the year, solar photovoltaic installations went into commission at Sydney Harbour YHA (29.9Kwp) and Coffs Harbour YHA (10Kwp). LED lighting upgrades were also carried out at a number of properties to increase energy efficiency. Further projects are in the pipeline.

SOCIALLY RESPONSIBLE

YHA places emphasis on being socially, as well as environmentally, responsible. During the year YHA was involved in several projects to give back to the community. These included staff collecting rubbish for 'Clean Up Australia Day' and sponsoring grass roots events. Earth Hour was observed in March at hostels by turning the lights out and organising candlelit activities for guests. Several hostels participated in the Hostelling International initiative 'Sleep for Peace' to mark International Peace Day in September 2016. Following renegotiation of the staff Enterprise Agreement, for the first time staff were paid for participating in hostel-run community or environmental activities.

PRODUCT AND SERVICE EXCELLENCE

During the year initiatives took place to improve the facilities for guests. Renovations were undertaken at several hostels, including bathroom upgrades at Airlie Beach YHA, Brisbane City YHA, Glebe Point YHA, Cairns Central YHA and Melbourne Metro YHA. Following the purchase of Newcastle Beach YHA (a former Associate hostel), a major upgrade was undertaken including painting and plaster repairs, and provision of new beds, mattresses, linen and carpet. Improvements to the façade and air-conditioning upgrades took place at Melbourne Central YHA. At Sydney Central YHA, the door locking system was upgraded to enhance usability and security.

ARTWORKS AND ATMOSPHERE

Murals were painted at Adelaide Central YHA, Bondi Beachouse YHA, Canberra City YHA and Newcastle Beach YHA, revitalising otherwise blank spaces in or outside of the buildings. At Sydney Harbour YHA due to the decline of TV watching, the room on the rooftop terrace was converted to a games room, with an artwork painted by guests. At Alice Springs YHA, a makeover of the reception and lounge/dining area created a more welcoming space for guests.

QUALITY

YHA has rigorous systems in place to assure quality, ranging from customer ratings on yha.com.au to internal and external assessments. The minimum standards for YHA hostels in Australia provide ongoing quality assurance for guests. YHA also runs a mystery shopper program, generating valuable feedback from visits throughout the network.

Hostelling International (HI), which is based in the UK coordinates a program known as HI Quality (HI-Q) and all major hostels in Australia are certified under this scheme. In 2016, 16 YHA operated hostels were audited by HI and successfully recertified as HI-Quality Hostels in 2016. A quote from the HI-Q Project Manager about this process is below.

“ Making and keeping our guests ambassadors for the HI network is a never-ending journey of customer focus in everything we do... We discovered exactly how well this has been understood on our most recent HI-Q audit. YHA Australia has very nicely turned the HI-Q frame into their own systematic way of delivering what all our network need: to face competition and stand out from the masses, to have a clear mission, a strong, reliable brand, a strategy that assures business targets meet sustainable objectives, and an organisational culture that encourages flexibility and progress. All of this is not a lucky shot, but a long journey of competent people facing the challenges of a rapidly-changing market. ”

JURGEN GROSS,
HI-Q PROJECT MANAGER



A MURAL WAS PAINTED AT ADELAIDE CENTRAL YHA DEPICTING LOCAL ATTRACTIONS



THE NEW NEWCASTLE BEACH YHA MURAL



TWO GUESTS VOLUNTEERED TO PAINT A MURAL AT SYDNEY HARBOUR YHA



DEVELOPMENT

DEVELOPMENT PLAN

The YHA Hostel Development Plan provides strategic direction for future hostel development up to 2020 and is reviewed annually. During the year a number of priority projects were progressed, primarily on the eastern seaboard of Australia.

BYRON BAY

Construction commenced at Byron Bay YHA, on land adjacent to the existing hostel. The new extension will enable nearly twice the number of guests to be accommodated, by increasing the capacity to 199 beds in this popular tourism destination. The hostel reception and communal areas are also being renovated to provide a more welcoming first impression for guests. The extension is due to open in late 2017 and will provide more private rooms and dormitory style accommodation. All rooms will have ensuite bathrooms.

NEWCASTLE BEACH

In January, we completed the purchase of Newcastle Beach YHA. The property had been operating as an Associate YHA hostel since it was opened in 1998 and is in a very well located heritage building originally constructed in 1911 as the city's "gentlemen's club." During the year, renovations took place to further improve its guest facilities and ambience, including painting and re-carpeting (with the colour scheme taking its inspiration from the nearby Art Deco era Newcastle Ocean Baths.)

SURFERS PARADISE

During the year, a very well-located block of land was purchased in Surfers Paradise, for a future hostel development. Surfers Paradise is a popular destination with young travellers, and particularly appeals to Asian visitors.

SUSTAINABLE HOSTELS

YHA operates a Sustainable Hostels Fund, to which guests can voluntarily donate \$1 per booking as part of the yha.com.au booking process. Funds raised are used for environmental initiatives at hostels. More than 40 percent of guests booking on YHA's website contributed to the fund, raising \$43,671 in 2016. During the year, funds were used to reduce carbon emissions, and other sustainability projects, including the installation of photovoltaic cells at Sydney Harbour YHA.

SMALL HOSTELS DEVELOPMENT FUND

YHA has a Small Hostels Development Fund to contribute to the development of smaller, regional hostels. During the year \$172,000 was expended from the fund on renovations at Port Elliot YHA in South Australia – an attractive 100-year-old building that was formerly a guest house. This included the provision of more ensuite rooms for guests.



DIGITAL

IT SYSTEMS

YHA has a strategic imperative to constantly improve information and communication technology to achieve short and long term growth and efficiencies. In recent years, YHA has invested steadily in IT projects and in 2016, the foundations were laid for a major project to be rolled out in 2017 focusing on data collection, data integrity and customer engagement.

YHA ONLINE

The YHA website, yha.com.au, is an important promotional and customer service tool. It generates a significant portion of our bookings and often provides a guest's first point of contact with the organisation. Investing in ongoing developments that improve user experience and accessibility to yha.com.au is a key strategic focus.

In 2016, YHA developed a fully responsive website, ensuring an ideal browsing experience regardless of the screen size or device being used. The three foreign language sites – Mandarin Chinese, Korean and Japanese – were also relaunched with new translations, functionality and design. YHA launched two travel applications (apps) during the year aimed at providing users with detailed hostel and destination information and helping to connect guests with each other.

A 'Book Direct & Save' campaign was also launched, to inform guests of the benefits of booking directly via yha.com.au. Online bookings for New Year's Eve at Sydney Harbour YHA were successfully managed in 2016 by implementing a new tool that helps efficiently manage the increase in traffic when bookings for this peak period go live.

In addition, YHA is active in social media, particularly YouTube and Facebook, with more than 200,000 followers. During the year, more than 20 new videos were produced, highlighting individual hostels and what there is to see and do in their destinations.



CONNECTIVITY

Internet access is offered to guests via 'YHA Connect' at hostels across Australia, including free WiFi available at 'hot spots' in communal areas. A paid option for premium services is also available.

COMMUNICATIONS

YHA's e-magazine, Backpacker Essentials, was sent to members every two months in a digital flip version and as an iPad and iPhone app, supplemented by regular electronic newsletters. December 2016 was the last edition of the e-magazine in that format. In the future more frequent, targeted information will be sent to members. A major advantage of digital technology is that information and special offers can be accessed by members wherever they are travelling.

MARKETING

YHA provides a range of services to complement guests' experiences at hostels, and to build a community of connected travellers who can share their travel experiences.

MARKETING PLAN

YHA has a national Marketing Plan and during the year a range of strategic and tactical marketing activities were carried out. The focus is on online marketing and cooperative marketing with partner organisations in the tourism, youth, cultural and educational fields. During the year, YHA participated in a range of marketing initiatives with national and state tourism bodies to promote Australia as a desirable destination for backpackers, particularly Working Holiday Makers. Marketing was also undertaken on a shared service basis for YHA WA, including launching the Fremantle Colonial Cottages that form part of the Fremantle Prison YHA complex.

BRAND

During the year, YHA undertook a wide-ranging creative refresh to revitalise the brand and increase its appeal among young 'discovery seekers'. This followed on from an external research-based brand audit conducted the previous year. An external agency was engaged to review YHA's brand, marketing collateral and online presence, and a Brand Development Plan was devised

and implemented. The new look-and-feel was rolled out across Australia throughout 2016 and was well-received by guests.

MEDIA COVERAGE

Media liaison took place throughout the year and there was coverage of YHA in a range of Australian and international print and broadcast media, ranging from Channel 9 to The Sunday Times (UK). YHA also hosted bloggers from around the world various urban and regional hostels throughout Australia.

EVENTS

YHA was promoted during the year at more than 20 O-week (orientation) events on university campuses and at other events to welcome the increasing numbers of international students to Australia. Several events also took place at hostels during the year, including a function at Sydney Harbour YHA for industry representatives from Australia and overseas attending the WYSE Exchange Australia Youth Tourism Conference. Sydney Harbour YHA also celebrated the milestone of the 50,000th school student participating in an educational program at the on-site Big Dig Archaeology Education Centre since it opened in 2009.



YHA PARTICIPATED IN MORE THAN 20 ORIENTATION WEEK EVENTS FOR STUDENTS ACROSS AUSTRALIA



MEMBERSHIP

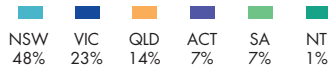
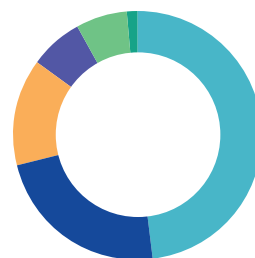
MEMBERSHIP STATISTICS AS AT 31 DECEMBER

ACT, NSW, NT, QLD, SA & VIC	2014	2015	2016	%
Youth	2,615	2,294	2,323	1%
Adult	22,207	23,236	21,832	(6%)
Life	10,201	10,106	10,101	(0%)
Group	1,069	1,028	1,006	(2%)
Individual & group membership	36,092	36,664	35,262	(4%)
Internationals	18,768	21,035	19,909	(5%)
Total Membership	54,860	57,699	55,171	(4%)

MEMBERSHIP

There are 35,262 YHA members in the ACT, NSW, NT, Queensland, South Australia and Victoria, and a further 19,909 international members who joined while in Australia. Many Australians travelling overseas take out YHA membership to use the Hostelling International global network of over 4,000 hostels. Group membership is also taken out by educational, cultural and sporting organisations. Members can join online or at hostels across Australia. A major project is underway, for implementation in 2017, to modernise membership, simplify the offering and substantially increase the number of members.

2016 INDIVIDUAL MEMBERS BY STATE/TERRITORY



50,000 STUDENTS HAVE PARTICIPATED IN PROGRAMS AT THE BIG DIG ARCHAEOLOGY EDUCATION CENTRE AT SYDNEY HARBOUR YHA

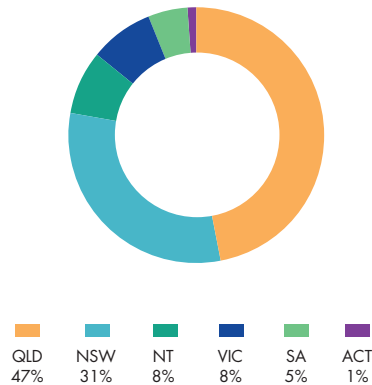
TRAVEL & TOURS

YHA Travel & Tours provides a trusted booking service to members and guests, enabling them to experience Australia with quality, safe, and affordable tour and travel operators. These tours are sold through a web based tour desk management system supplied by Website Travel and branded as YHA Travel and Tours (YTT). This system provides staff with immediate and comprehensive information on tours that YHA has strategically chosen to sell and thus enables an efficient booking process and streamlined back office processes.

In 2016 a National Travel & Tours Manager was appointed to drive this area of the business, focussing on strategic sales growth and industry relationships. Since the commencement of this role, YHA Travel & Tours has increased its presence across the network, welcoming Hobart Central YHA, Rambutan Townsville YHA and 1770 YHA onto the YTT System. YHA has continued to build on existing operator relationships and commenced selling agreements with 23 new operators across Australia.

In 2016, we connected almost
20,000
 guests with travel experiences around Australia

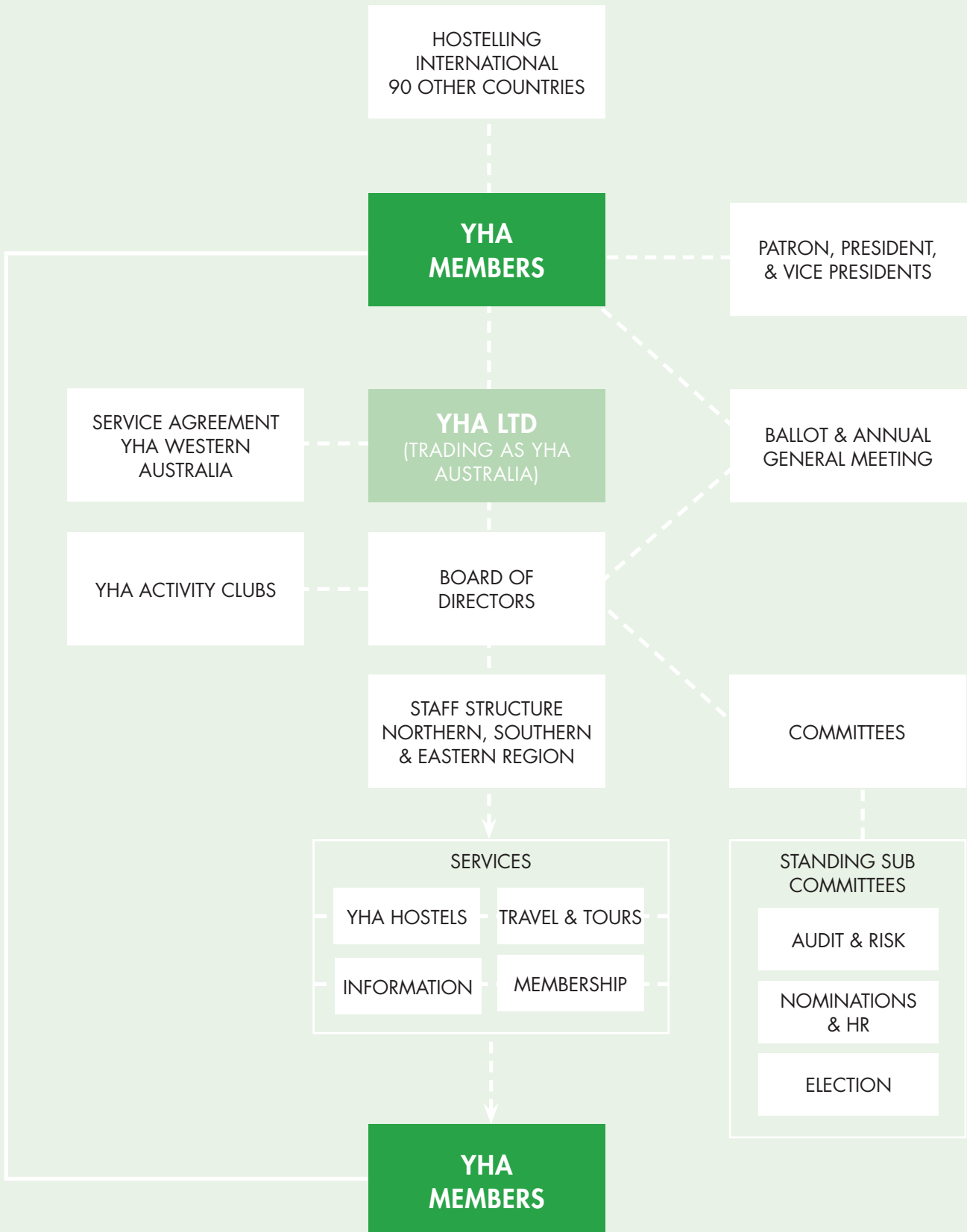
2016 NUMBER OF ORDERS BY STATE/TERRITORY



YOU CAN EXPERIENCE KOALAS UP CLOSE AT MAGNETIC ISLAND YHA

STRUCTURE

AT 31 DECEMBER 2016



CORPORATE AFFAIRS

MERGER WITH HOSTELLING INTERNATIONAL AUSTRALIA

Effective 1 January 2016, Hostelling International Australia (HI-A) was integrated into YHA Ltd. HI-A was originally founded in 1947 as the umbrella organisation to represent YHA State Associations as the member of the International Youth Hostel Federation (IYHF) – now trading as Hostelling International. Over the years, HI-A provided a wide range of services to YHA State Associations, including the Hostel Building Assistance Fund that provided seed funding for many new hostel developments, and later funding for the highly successful booking engine and website, yha.com.au.

Following the integration, a series of steps were undertaken towards deregistering the organisation. Assets, including registered trademarks and the website, were transferred to YHA Ltd, and the 51st IYHF Conference authorised the transfer of the IYHF Australian membership from HI-A to YHA Ltd. At a Special General Meeting held on 2 December 2016 the Board of HI-A unanimously passed a motion to apply for cancellation of HI-A's incorporation. The application for cancellation was lodged on 12 December 2016 with the ACT Registrar General, ending close to 70 years of services to Australian State Youth Hostel Associations. Thanks were extended to the outgoing Directors of HI-A, outlined as follows:

DIRECTOR	ENTITY REPRESENTED
Rob McGuirk	YHA Victoria
Tracey Powell	YHA Ltd
Euan Prentice	YHA Queensland
Andrew West	YHA Tasmania
Gordon Trench	YHA WA

Thanks were also extended to the outgoing CEO, Rolf Duelks, who had held the position for 10 years, had very effectively led HI-A, and who had been a determined advocate of the national merger. Rolf Duelks transitioned to become Strategy & Digital Leader with YHA Ltd.

FUTURE MERGERS

In 2016, YHA took another step towards becoming a single national organisation, with members in Tasmania voting overwhelmingly (97% in favour) to merge with YHA Ltd, with effect from 1 January 2017. YHA Ltd already provided a Hostel Manager and shared services on contract to YHA Tasmania, therefore the integration was anticipated to be smooth. During the year, a Memorandum of Understanding was also entered into by the Boards of YHA WA and YHA Ltd to work towards a merger. Subject to due diligence it is expected that the YHA WA Board will propose to WA members in 2017 that a merger between the two organisations take place, and so achieve one national organisation.

CONSTITUTIONAL CHANGES

At the 2016 Annual General Meeting (AGM), members approved modifications to the YHA Ltd Constitution falling into three categories; organisational, governance and membership matters. The modifications essentially reflected the integration of HI-A, proposed a reduction of the size of the Board to a maximum of nine Directors (with a focus on recruiting Directors based on their skills), and closed off the category of Life Membership (although the rights of current Life Members remain unchanged). As a result of the changes, a new By-law was adopted, covering the Directors' nomination and election process, with the formation each year of an Election Committee to assess candidates, and to enable the Board to approve nominees for the members to vote upon annually.

HOSTELLING INTERNATIONAL PARTNERS

YHA is proud to be a leader in the Hostelling International (HI) network, particularly in terms of the development of quality new hostels and its online initiatives. During the year, YHA in Australia provided feedback to HI regarding the development of hihostels.com, and was represented on a Task Group convened by the Digital & Strategy Leader to steer the future direction of the global website, hihostels.com. YHA also works closely with YHA NZ, including having a reciprocal arrangement where each organisation sends a representative to the other's significant meetings. YHA uses the same property management system (GuestCentrix) in both Australia and New Zealand, and is guided by a joint steering committee for closer collaboration, with the aim of sharing costs of future development. During the year, HI-USA implemented the same property management system as YHA Australia and NZ, which is also used by YHA Hong Kong. The

Strategy & Digital Leader is a member of a group of HI and YHA organisations from the Asia-Pacific rim (Australia, NZ, Canada and USA) working to collaborate further on joint projects and shared technology.

At the 51st IYHF Conference held in the UK in September 2016, YHA was represented by YHA Ltd Directors Rob McGuirk (who delivered a presentation on governance); Tracey Powell (who acted as a teller for voting); and CEO Julian Ledger (who delivered a presentation on working holiday makers). The Strategy & Digital Leader also participated in the Conference. Following the Conference, the CEO was invited to be on a Governance Review Committee for Hostelling International, to further improve the internal workings of the global organisation.

YHA was also represented at various conferences throughout the year including the Chair, Rob McGuirk, participating in a panel on good governance at an Associations Forum Conference held in Melbourne; the Strategy & Digital Leader attending the YHA NZ AGM, and the CEO participating in panels at a Tourism and Transport Outlook Conference and at the "No Vacancy" Conference for the tourism accommodation industry held in Sydney.

IN MEMORIAM

YHA representatives attended the funeral of the former CEO of YHA Victoria, John Mitchell who passed away suddenly in December 2016. John had served YHA for more than a decade, from the mid-1980s to 1995, and had also provided significant input to other State-based organisations during that time. He left a significant legacy to the organisation, particularly the development of the Melbourne Metro YHA.

YHA also regrets to advise that one of its Directors, David Neish, passed away in February 2017. David joined the YHA Ltd Board in April 2011 and served two terms over six years, having previously also served on the YHA Queensland Board. David was a passionate hosteller and a lifelong traveller and active user of YHAs. He provided a great deal of knowledge about architecture and youth hostel design to the Board.



A NATIONAL STRATEGIC PLANNING CONFERENCE WAS HELD IN THE BAROSSA VALLEY, TO SET THE VISION TO 2020

GOVERNANCE

DIRECTORY OF THE ORGANISATION

at 31 December 2016

PATRON

Vacant

PRESIDENT

Mr James Tomkins, OAM

VICE PRESIDENTS

Mr Greg Mortimer OAM

Mr Hugh Andrew

Mr David Wardle

Ms Edna Lyle OAM

Mr Ray Temperley

Mr Jim Whitehead

Mr Bruce Hart

Ms Toinette Vincent

Ms Helen Harms

HONORARY LIFE MEMBERS

Ms E Lyle OAM

Mrs B Grant OAM

Mr W King

Mr T W Blunden

Mr J M Cras

Mr B Hansford

Mr D Wardle

Mr H Andrew

Mr J Bowles

Mr J Whitehead

Mr K Grey

Mrs G Grey

Mr I Newson

Mr A Schmidt

Ms W Bell

THE BOARD OF DIRECTORS

The Board of Directors is the governing body of the organisation, and is made up of ordinary Adult or Life Members who act in a voluntary capacity. The primary focus of the Board is the long-term health and prosperity of YHA, accomplished by:

- setting strategic direction;
- overseeing development of the network;
- ensuring that appropriate risk management and people management systems are in place; and
- enshrining YHA's mission and core values in all aspects of the organisation's activities.

The Board is committed to achieving the highest standards of corporate governance and has adopted a corporate governance framework comprising principles and policies that are designed to promote responsible management and assist the Board to discharge its corporate governance responsibilities on behalf of YHA members. Directors are required to declare pecuniary interests or potential conflicts of interest and a register is kept of these. This is updated annually or as matters arise.

The Board delegates the implementation of strategic objectives, plans and budgets approved by the Board to the CEO and management. Management is accountable to the Board, and is required to provide the Board with information in a form, timeframe and quality that enables the Board to discharge its duties effectively. Directors are entitled to request additional information at any time that they consider appropriate. The Board recognises that regular reviews of its effectiveness and performance are critical to improvement of the governance of the organisation. Accordingly, the Board undertakes an annual review and evaluation of the Board and its committees.

The CEO is responsible for day-to-day management of the business, subject to policies and procedures determined by the Board. The CEO is supported by an experienced and stable management team – an organisational structure is included in this report. The CEO reports to each meeting of the Board.

BOARD COMMITTEES

The Board has established three Committees to assist in the execution of its duties and responsibilities, and to allow detailed consideration of complex issues. The Board Committees are the Audit & Risk Committee, the Nominations & HR Committee, and the Election Committee.

Each Committee has a document that outlines its role and responsibilities, composition, membership requirements, and the manner in which the Committee is to operate. Each Committee Chair provides reports to the full Board, and minutes of committee meetings are presented at subsequent Board meetings. All Directors are permitted, within the Board meeting, to request information from the Chair or members of the Committees.

AUDIT AND RISK COMMITTEE

The purpose of the Audit & Risk Committee is to assist the Board in fulfilling its responsibilities regarding financial reporting, risk management, compliance with laws and regulations and ensuring the independence of the external auditor. The Board recognises that risk management is an integral component of good corporate governance and is fundamental in achieving its strategic and operational objectives. The Board is ultimately responsible for identifying and assessing internal and external risks that may impact YHA, determining risk likelihood, overseeing the development and implementation of a risk management framework, and maintaining adequate monitoring and reporting.

NOMINATIONS AND HR COMMITTEE

The objectives of the Nominations and HR Committee include ensuring that the YHA Board is skills based, shows diversity and is made up of Directors with a range of expertise and experience. In addition, YHA is committed to continuing education and training for Directors. The Committee also has oversight of the Human Resources function of the organisation, including the Workforce Development Plan and annual Employee Engagement Survey.

ELECTION COMMITTEE

The Election Committee is responsible for managing the Directors' selection process and familiarisation program, to ensure that candidates for the Board demonstrate the essential and desirable criteria required by Directors; understand their obligations under the Corporations Act, and are aware of their financial, strategic, operational and risk management responsibilities.



THE BOARD OF DIRECTORS AND CEO (L TO R): Robert McGuirk (Chair), David Neish, Dana Ghinzel, Euan Prentice (Vice-Chair), Robyn Antill, Tracey Powell, Julian Ledger (CEO), Leonie Thijssen, Matthew McNeil, Ross McDougall.

BOARD MEETINGS

The Board of Directors met 11 times between January and December 2016, including seven face-to-face meetings held in Sydney, Melbourne, Canberra and the Barossa Valley; two meetings by flying minute and two by teleconference. In addition, the Audit and Risk Committee held six meetings, the Nominations and HR Committee held six meetings, and the Election Committee held one meeting.

BOARD MEMBERS

During 2016 the Board was made up of nine Directors with each Director normally serving a three-year term before deciding whether to stand again for re-election, with up to a third of the Board potentially changing each year. Directors have travelled extensively within Australia and overseas, and continue to use the YHA network on their travels. The composition of the Board embraces diversity – by skills, experience, age and gender. The Directors' Report on pages 35-38 sets out their qualifications and experience.

HUMAN RESOURCES

AT 31 DECEMBER 2016

WORKFORCE PROFILE

At the year end, YHA Ltd employed 342 people from more than 35 different nationalities, creating a rich cultural diversity of employees. The median age of staff was 30 with 64% under 35 years old. The workforce profile was distributed between females (56%) and males (44%), with the number working either full-time or permanent-part time at 88% (89% in 2015), and 86% of those working in the hostels. YHA has a strong sense of community with staff working well together and supporting several local charities, fund-raising and awareness-raising events. In 2016, these included Clean Up Australia Day, Earth Day, Biggest Morning Tea, Sleep for Peace Day, and staff blood donations to the Australian Red Cross.

TRAINING & DEVELOPMENT

In 2016, YHA developed its first Workforce Development Plan – which sets out how to achieve the organisation's strategic and financial objectives through efficient utilisation of human resource capacity. The Plan will also help ensure YHA's HR processes are effective and adaptable, and result in a high performing workforce capable of fulfilling customers' expectations. Included in the Plan are actions and initiatives that aim to address gaps in the organisation's HR function by improving workforce effectiveness, enhancing staff wellbeing, and optimising guests' experience of YHA. The Plan is a living document and will be reviewed biennially in line with the organisation's Strategic Plan.

Training and staff development are important components of YHA's recruitment and retention with both in-house and external training provided. YHA conducts an induction program for new staff and provides ongoing training in sales and customer service, property management and customer database systems, safety, staff management, and Business Planning courses tailored specifically for the organisation. YHA ensures that all senior hostel staff are 'Provide First Aid' certified, and in a newer initiative we have provided Mental Health First Aid training for Hostel Managers and Deputies. YHA also supports its staff in gaining further qualifications relating to the business, by contributing up to 50% of tuition fees for approved courses.

YHA encourages exchanges between hostels and during the year exchanges took place involving staff from Adelaide, Airlie Beach, Alice Springs, Brisbane, Byron Bay, Cairns, Canberra, Darwin, Melbourne and Sydney. Additionally, YHA participates in university internships and student work experience programs.

During the year, several staff members were promoted internally including Arthur Lee to Manager and Lexie Ware to Deputy Manager of Canberra City YHA; Dean Thexton to Manager of Cairns YHA; and Natalie Hood to Deputy Manager of Glebe Point YHA.

ONLINE INFORMATION & TRAINING

YHA's Intranet, Egor, was upgraded and given a fresh look consistent with the rebranding. As a geographically-spread organisation, Egor has been a valuable communication channel for all staff. It also serves as an interactive resource hub for all things YHA, ensuring that staff from all across the country have access to consistent documentation and information from around the network. It contains resources, tools, guides, information sheets, and manuals to aid staff in their day-to-day work. Egor also offers online training delivered through an interactive eLearning system, Trainee, which is optimised for staff to use on portable devices. Eight eLearning modules are currently available, and additional modules are currently in development.

EMPLOYEE ENGAGEMENT SURVEY

During the year, YHA conducted the organisation's fourth Employee Engagement Survey. YHA Western Australia participated in the survey for the first time, and YHA NZ conducted the same survey in the same time frame to allow benchmarking between the two organisations. YHA received a very high response rate of 87% (313 out of 359 possible respondents) and achieved a positive 'agreement' average of 73.04%, which reflects good staff engagement and a high level of interest in making a difference within the organisation. Results were shared with staff through meetings, informal discussions and were also available on the company intranet. Opportunities identified in the survey related to system efficiencies, learning and development, rewards/recognition, and performance management. Feedback received from this survey assisted in the formation of the Workforce Development Plan.

RECOGNISING STAFF

YHA recognises and rewards performance through an 'Employee of the Month' scheme, and the 2016 'Employee of the Year' prize was awarded to Jennifer Palmer, Deputy Manager at Sydney Central YHA. Several staff members also reached significant service milestones during the year. Adelaide Central YHA Manager Anna Cornelisse celebrated 30 years with the organisation in 2016. Liz Bush (Blue Mountains YHA) reached a

notable 25 years with YHA, and a significant milestone was achieved by Sydney Central YHA Deputy Manager Jennifer Palmer, who was part of the hostel's opening team 20 years ago. Congratulations also to Alex Ramage (Building and Facilities), Tanya Schroeder (Adelaide Central YHA), Ross Lardner (Sydney Harbour YHA), Di Caught (Marketing), and Nadia Fadel (Hobart Central YHA), who all achieved 15 years of service; Tim Graham (Canberra City YHA), Elaine McMaster (Digital), Jonas Rosborg (Byron Bay YHA), Steve Townsend (Building and Facilities), Adam Short (Railway Square YHA), and Julieanne Walker (Travel) all achieved 10 years of service with YHA.

ENTERPRISE AGREEMENT

The YHA Enterprise Agreement covers all 258 hostel staff, and runs from 2016–2019.

EQUAL EMPLOYMENT OPPORTUNITY

YHA is committed to the principles of Equal Employment Opportunity (EEO) and each year submits a report to the Workplace Gender Equality Agency (WGEA). YHA continues to promote an inclusive and positive workplace environment, including training to prevent discrimination and harassment, and EEO is an integral part of training for new employees.

WORKPLACE HEALTH & SAFETY

Safety is an important issue for YHA, and the organisation has a good record with workplace safety and injury management. Workplace health and safety best practice means that YHA and its employees are all responsible and accountable. The YHA Ltd Workplace Health & Safety Consultative Group consists of 13 representatives from hostels and administration offices across the network, and meets four times each year to review, discuss, and provide advice to management on how to best manage workplace health and safety within the organisation.

WELLBEING

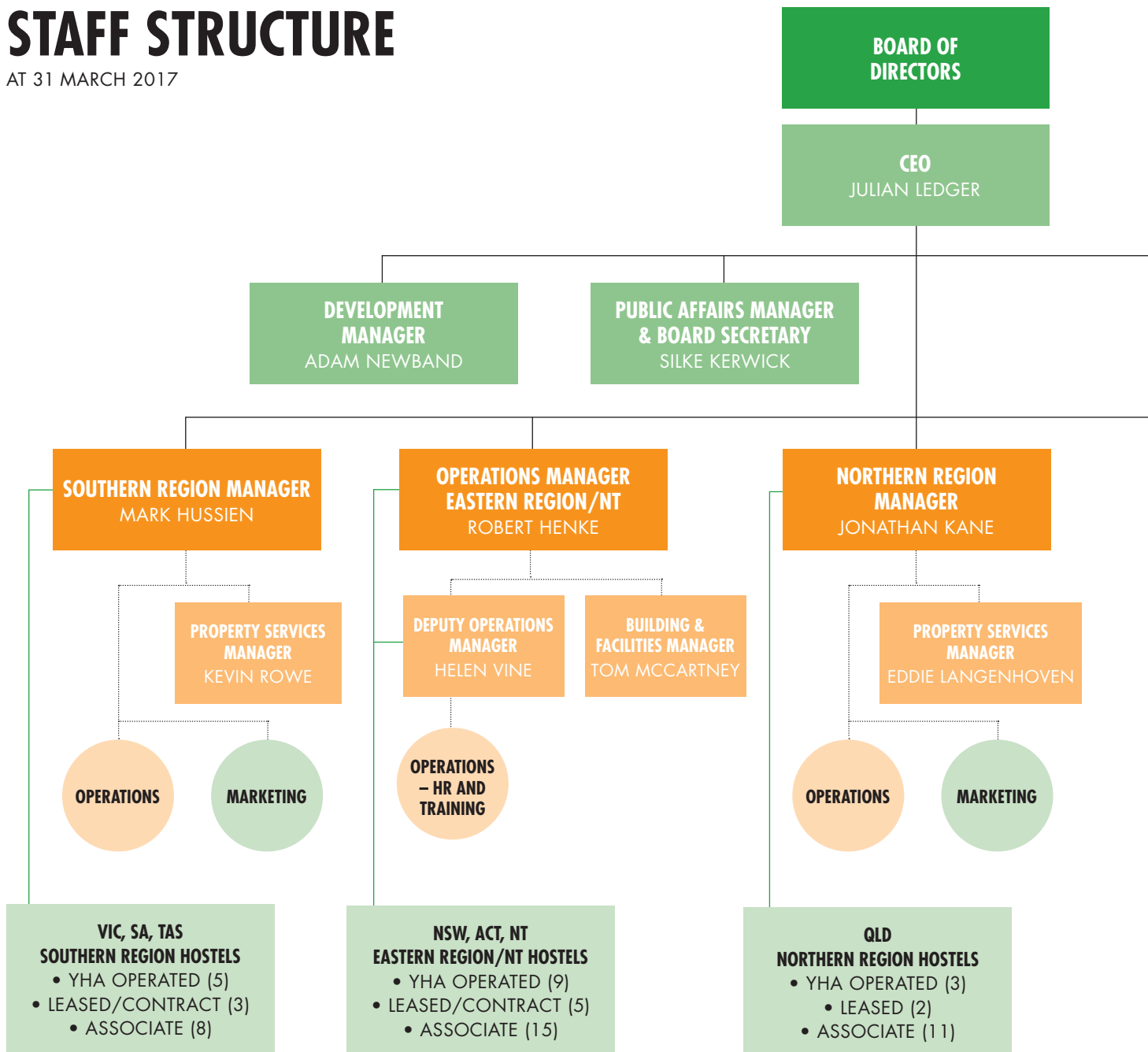
As part of its commitment to its people, YHA records staff sick leave against total hours worked. This allows YHA to monitor and react early to changes in staff wellbeing. Staff worked a total of 444,124 hours during the year and recorded 10,148 hours of personal leave (sick leave and carers' leave), comprising 2.3% (2015: 2.1%) of total hours worked. Flu vaccinations are offered to staff as a preventative measure.



CAIRNS HOSTED THE ANNUAL HOSTEL MANAGERS CONFERENCE

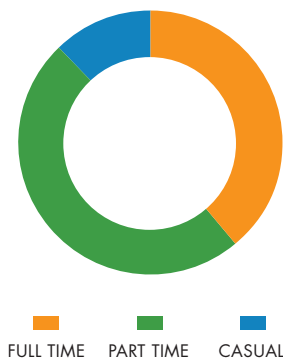
STAFF STRUCTURE

AT 31 MARCH 2017

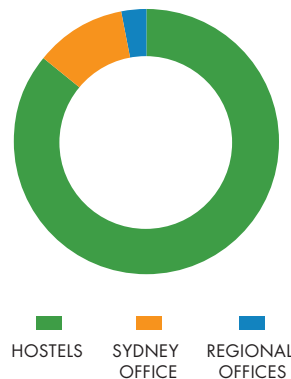


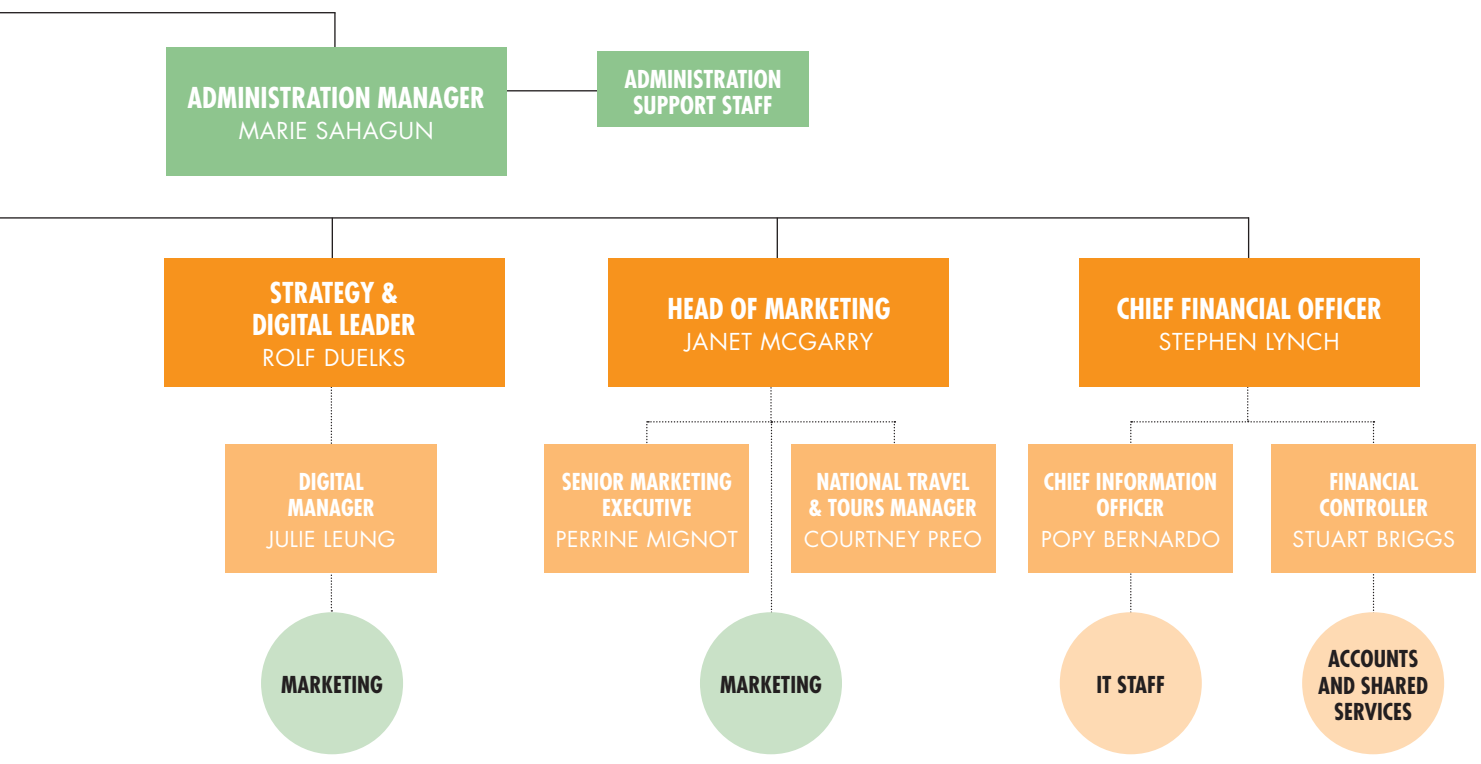
STAFF STATISTICS SNAPSHOT AS AT 31 DECEMBER 2016

EMPLOYEES



LOCATION





GENDER



■ FEMALE ■ MALE

STAFF TURNOVER



■ HIRED PRIOR YEARS ■ HIRED THIS YEAR

STRATEGIC PLANNING

STRATEGIC PLANNING

During 2016 the Board and Senior Management worked together to develop a new strategic plan. At the end of the year, the Board adopted a Strategic Plan for 2017–2020 built on five major themes: Culture of Sustainability, Brand, Network Development, Growth, and Governance. The Plan summary is featured below.

Progress against the Plan’s key performance indicators is reported on quarterly. The Strategic Plan is supported by a Tactical Plan and a number of subsidiary plans including

Hostel Development, Marketing, IT, Sustainability, and a new Workforce Development Plan.

As regards hostel development, priorities for the coming year include completion of the Byron Bay YHA extension, working up plans for the development application for the land at Surfers Paradise and evaluation of options in Melbourne. In addition the plan is flexible enough to allow YHA to consider opportunities as they arise. Making the right decisions about where to deploy capital is the most important determinant of future success.



YHA AUSTRALIA STRATEGIC PLAN AT A GLANCE

VISION

To be leaders in low-cost accommodation offerings that enrich people’s travelling

MISSION

To provide opportunity for all, but especially young people, for education by personal development, fostering friendship and bringing about a better understanding of others and the world around them (YHA’s Object #1).

KEY AREAS

CULTURE OF SUSTAINABILITY

The purpose of YHA is driven through environmentally, socially and financially sustainable activities

BRAND

YHA encourages travel, healthy recreational activities, environmental awareness, friendship and understanding. (Objects #3 & #4)

NETWORK DEVELOPMENT

YHA operates, and assists others to operate, hostels or similar accommodation. (Object #2)

GROWTH

Culture of Sustainability, Network Development and Brand is supported through growth strategies

GOVERNANCE

Optimal Organisational Structure and effective Governance

STRATEGIC OBJECTIVES

- | | | | | |
|---|---|---|---|---|
| <ul style="list-style-type: none"> • Improve environmental sustainability in all aspects of YHA’s buildings • Cultural sustainability and social responsibility • Integration of core values across all areas of the business • Profitability and cash generation to support growth | <ul style="list-style-type: none"> • Consistently high quality and standards • Promotion of a contemporary and purposeful brand • Customers understand and support the YHA Purpose and Ethos • Leadership role in high quality and safe accommodation • Industry leadership and advocacy | <ul style="list-style-type: none"> • Efficient and consistent network in existing and new locations • YHA presence in locations our core market wants to visit • Hostel interiors that centre on customers, reflect YHA’s brand image and support social interaction | <ul style="list-style-type: none"> • Alternative funding models • Flexible, motivated work force representing YHA’s values • Grow YHA Travel and Tours • Partnerships that drive occupancy • Direct business ensuring independence from OTAs • Digital capabilities to increase productivity and customer satisfaction • Expanding into Discovery Seeker customer segment • Alliance and relations with Pacific Rim and Asian Associations • Simple, affordable membership | <ul style="list-style-type: none"> • Single National Organisation • Effective, responsive and efficient structure • Balance of Board skills and experience • A culture that balances risk and opportunities |
|---|---|---|---|---|

PURPOSE DRIVEN BY YHA’S VALUES

Environmentally Friendly

Safe and Reliable

Honest and Trustworthy

Loyalty

Experience

OUTLOOK

Tourism trends

Australian inbound tourism enjoyed a very strong year in 2016 with traditional markets robust and the upsurge from China continuing. The Australian dollar was steady for most inbound visitors, and there was an increase in airline capacity into Australia with additional flights, new routes and competitive fares aided by the lower oil prices. Sydney airport, as the biggest gateway in to Australia is constricted, and the decision to proceed with the Western Sydney airport is welcome.

Youth tourism

The International Visitor Survey records 645,000 backpackers having visited Australia in 2016, staying for an average of 69 nights, and each spending around \$6,780. Arrivals were up however the number of nights spent in Australia was down. Backpacker tourism has been affected by uncertainty around the reciprocal working holiday maker scheme. A positive was the first 5,000 visas issued to Chinese working holiday makers, and this resulted in increased occupancy in the YHA network.

In the 2015 federal budget, the income tax rate for working holiday makers was proposed to be increased to 32.5% from the first dollar earned. After three reviews and much lobbying, this issue was finally resolved by the Parliament of Australia at the end of 2016, with a sensible compromise being reached. From 2017 a new flat tax rate of 15% applies to working holiday makers for earnings up to \$37,000. As part of the reforms, working holiday makers can now spend 12 months with the same employer in six-month stints in two different locations.

Employers must register with the Australian Tax Office (ATO) to employ working holiday makers and deduct the 15% tax rate.

Tourism Australia has \$10M of additional funding over three years to promote the scheme. The government has also undertaken to increase the maximum age for working holiday makers from 30 to 35 years old, however this will require negotiation with each participating country. The visa fee has also been an issue but unfortunately the government reneged on a decision originally made to cut the cost of the visa by 10% from 1 July 2017. The very low annual caps that apply to some nationalities also require review. Exploitation of vulnerable workers, including working holiday makers employed by labour hire contractors in agriculture, remains a problem. The increased budget for the Fair Work Ombudsman is welcomed.

The reciprocal working holiday maker scheme allows young outbound Australians, and young international visitors to Australia, the opportunity to live and work in another country. It enjoys broad community support, especially in regional areas. To maintain this, it is important that the scheme retains the primary 'holiday' purpose and does not just become a job-needs visa.

International students

International student numbers reached 550,000 in 2016. Whilst students are in Australia primarily to study, they also enjoy staying at YHA hostels on short breaks. Many come from Asia and almost half are women. YHA's hostels are suitable because they are safe, clean and calm, provide opportunities to meet others and practice English, provide good self-catering facilities and are not heavily focused on bar sales and alcohol.

Economic cycles

During the resources investment boom, particularly in Western Australia, the Northern Territory and Queensland, the tourism sector was affected as it struggled to compete for staff. Working holiday makers had previously been attracted by the work that was available. In 2016 growth shifted to Victoria and New South Wales, primarily in the cities of Melbourne and Sydney (which grew at 4.5%, the fastest rate for 15 years). This in turn contributed to YHA occupancies, whereas Perth and Darwin saw substantial reductions.

Tourism is by its nature a steady and sustainable industry, and has been identified along with international education as one of the five growth sectors for the Australian economy. YHA's users have also become more diverse. In the 2000 Olympic year 40% of international guests came from the UK. Since then the UK market has been steady, but by 2016 made up only 19% of YHA's hostel guests. This meant that any potential impact of Brexit and the subsequent sharp decline of the pound sterling on travel patterns was reduced.

Funding tourism marketing

The Queensland Tourism Industry Council has put forward the argument for a bed tax to fund state and regional tourism marketing. The premise is partly that if the industry pays, it will better hold those spending the money to account. YHA is a veteran of the ill-fated NSW bed tax which was abolished when the GST was introduced as a tax to fund state government activity. Bed taxes being levied on accommodation as only one form of tourism activity is discriminatory and in practice difficult to apply

fairly. Such a tax is inevitably passed onto customers and it is then likely to reduce demand, accordingly, YHA does not support a bed tax.

Book Direct and Save

In 2017, the focus will be on growing YHA's occupancy whilst maintaining yield, and carefully managing booking channels. Online travel agents have become a dominant force in distribution and offer customers the benefit of choice. However their licence agreements are one sided and their attempts to set accommodation rates across channels is anti-competitive and under scrutiny by the Australian Competition and Consumer Commission. Along with other accommodation providers YHA promotes a message to customers to book direct and save for the best deals. That is, to use the websites yha.com.au and hihostels.com to book their accommodation.

Holiday letting

Holiday letting has long been a part of the Australian tourism sector, mostly in regional areas, and on a seasonal basis. What has changed very quickly through the arrival of online platforms has been year-round bookings in apartments and other high density accommodation in cities. Depending on the apartment building, the street or the suburb, this has affected residential amenity and reduced community support for tourism as well as putting some budget travellers at risk in unsafe and illegal accommodation. State governments are only now starting to tackle the issue. YHA supports updated planning instruments which are clear and enforceable, creating a level playing field for existing accommodation providers and a practical licensing scheme which places responsibilities on the booking platforms and landlords, and which is resourced to ensure compliance.

New Membership

In 2013 it was agreed to undertake a major review of YHA's membership structure. Although YHA remains a membership organisation, there was a recognition that membership fees would not in future make a significant contribution to YHA's income. The principal drivers of reduced interest in membership are, the availability of information to consumers, the movement away from upfront membership fees, and the fact that loyalty is not achieved through the imposition of such fees. Over the last three years research was undertaken, options considered and refined, and a series of preparatory steps taken to enable change to occur.

YHA's 'Simple Affordable Membership' will be implemented in 2017. A feature is that through staying with YHA, all hostel guests will become members of the organisation, and the size of the membership roll will rapidly increase, allowing YHA to actively engage with all of its customers. Technical and IT investment is continuing to support a more advanced customer relationship management system.

A single national organisation

In 1996 a YHA Commission of Review considered the best structure for the organisation in the future. The conclusion was that the federation model was serving the organisation well however change to greater integration of effort was required. In August 2005 a special conference was convened and concluded that "there is an apparent case for merging all Member Organisations into a single entity and that the agreement should be verified and validated through the development of a business case that will address: Cost benefit, staffing, legal, risk management, and fine tune a model based on criteria assessed".

This work progressed but not without challenges. Whilst the road to a single organisation has taken much longer than could have been envisaged at that time, it is now close to being achieved. During the same period, YHA has made rapid progress in hostel development with many major projects, and at the same time it has also built a comprehensive integrated technical infrastructure.

In 2017 the merger of YHA Tasmania will be finalised. The former national organisation has been integrated into YHA Ltd (which trades as YHA Australia) and YHA Ltd has a shared service agreement with the remaining independent State Association, YHA Western Australia. The process is underway for a proposal to merge to be put to its members during 2017 and if agreed to, the final step in the merger process will then be completed. YHA Ltd would then become the sole national entity and a review of the management structure will be undertaken to ensure that the best structure is in place for the organisation's future development.

RELATIONSHIPS

The following is a summary of the organisation's relations with government.

COMMONWEALTH GOVERNMENT

YHA Ltd is not recognised as a charity and not exempt from Federal taxes such as Income Tax, Goods and Service Tax (GST) or Fringe Benefits Tax. Donations to YHA are not allowable tax deductions for personal income tax.

STATE, TERRITORY & LOCAL GOVERNMENTS

YHA receives concessions granted by the NSW Government, including exemptions from some Stamp Duties, Payroll Tax and Land Tax. YHA receives exemption from Land Tax in Queensland and South Australia.

City of Sydney has granted an exemption on Council rates at Sydney Harbour YHA and The Big Dig Archaeology Education Centre.

YHA leases land at modest rent from the Department of Environment & Resource Management (DERM) in Queensland and leases property from the SA Department of Environment, Water & Natural Resources (DEWNR).

Throughout the course of the year, YHA ensured the NSW Government, the ACT Government, the NT Government, the Queensland Government, the South Australian Government, the Victorian Government and Local Governments were kept informed of its role and activities.

YHA has maintained its contacts with a wide range of non-government groups including regional tourism bodies and recreational and environmental organisations.

INDUSTRY REPRESENTATION

The Operations/Eastern Region Manager is the Secretary of the NSW Backpacker Operators' Association (BOA) – an industry body representing almost 100 organisations in the backpacking sector. This group acts as a communication and advocacy body for the industry in NSW and is steadily becoming more significant as the industry matures. Meetings are also convened in regional NSW to target local participation from operators in country areas.

YHA is represented through the CEO on the Backpacker Youth Tourism Advisory Panel (BYTAP), a committee of the Australian Tourism Export Council (ATEC). BYTAP provides leadership for industry representations to government on youth tourism, including marketing and development, traveller safety, raising accommodation standards and

liberalisation of visas. The CEO is also a member of the Tourism Visa Advisory Group of the Department of Immigration & Border Protection (DIBP). Additionally, YHA liaises with various consulates in Australia, to ensure provision of accurate information to backpackers from foreign nations.

YHA is a member of the following organisations:

Adelaide West End Association	Nature Conservation Council of NSW
Adventure Queensland	National Capital Attractions Inc (NCAA)
AHK German Australian Chamber of Industry and Commerce	National Parks Association of NSW
Associations Forum Pty Ltd	National Trust of Australia (NSW)
Australian Conservation Foundation	Newcastle City Tourist Association
Australian Federation of Employers & Industries	NSW Business Chamber
Australian Institute of Management	Outdoor Recreation Industry Council of NSW
Australian Institute of Company Directors	Queensland Tourism Industry Council (QTIC)
Australian Society of Association Executives	South Australian Tourism Industry Council
Australian Society of Travel Writers	Study Brisbane
Australian Tourism Export Council (ATEC)	Study Cairns Australia
Backpacker Operators Association of NSW (BOA)	Study Gold Coast
Backpacker Youth Tourism Advisory Panel (BYTAP)	The North Coast Destination Network
Blue Mountains Accommodation and Tourism Association	The Rocks Chamber of Commerce
Brisbane Marketing	Thredbo Chamber of Commerce
Byron Visitors Centre	Tourism & Transport Forum (TTF) Australia
Canberra Convention Bureau	Tourism Central Australia (NT)
Central Australia Tourism Industry Association (CATIA)	Tourism Noosa
Coffs Tourism	Tourism Snowy Mountains
EcoBiz Partner Program (DERM)	Tourism Top End
Ecotourism Australia Ltd	Tourism Tropical North Queensland (TTNQ)
Glebe Chamber of Commerce	Tourism Whitsundays
Gold Coast Tourism (GCT)	Victorian Tourism Industry Council (VTIC)
Gold Coast Adventure Travel Group (GCATG)	Victorian Employers' Chamber of Commerce and Industry (VECCI)
History Teachers' Association of NSW	Wilderness Society
Mackay Tourism Queensland	Women in Tourism (WIT)
Museums Australia	Young Tourism Network
	Youth Action (NSW)

YHA LTD HOSTELS

YHA HOSTELS IN THE ACT, NSW, THE NT, QUEENSLAND, SA AND VICTORIA AT 31 DECEMBER 2016

HOSTEL	MANAGED BY	BEDS	OWNERSHIP	STATUS	NOTES
ACT					
CANBERRA CITY 7 Akuna St, Canberra	Arthur Lee	282	O	F	Converted office block.
NSW					
ALBURY 372 Wagga Rd, Lavington	Kerrie Day, Craig Richardson	24	A		Building in caravan park.
BATEMANS BAY Cnr of Old Princes Hwy & South St	Francis McLaughlin & Brent Bruen	40	A		Converted building in caravan park.
BELLINGEN 2 Short St	Rowan Simon	32	A		Converted commercial building with extensions.
BLUE MOUNTAINS 207 Katoomba St, Katoomba	Bronwen Johnston	200	O	F	Converted guesthouse.
BLUE MOUNTAINS – HAWKESBURY HEIGHTS 836 Hawkesbury Rd	Carolyn & John Beazley	12	O	L	Land leasehold; purpose built hostel owned by the organisation.
BONDI BEACHOUSE Cnr Fletcher and Dellview St, Bondi Beach	Kati Farthing	94	A		Converted guesthouse.
BUNDANOON 115 Railway Ave	Glenn Robinson & Alison Shaw	36	O	F	Leased to manager. Converted guesthouse.
BYRON BAY 7 Carlyle St	Paul Cason	107	O	F	Purpose built hostel.
CAPE BYRON Cnr Byron & Middleton Sts, Byron Bay	Todd Batson	130	A		Purpose built hostel.
COFFS HARBOUR 51 Collingwood St	Brett Banwell	92	O	F	Leased to manager. Purpose built hostel.
GLEBE POINT 262-264 Glebe Point Rd, Glebe	Craig Tester	151	O	F	Converted motel.
HUNTER VALLEY 100 Wine Country Drive, Nulkaba	Nigel Worton	48	A		Purpose built hostel.
MURWILLUMBAH 1 Tumbulgum Rd	Tassie Duff	24	A		Private residence converted into hostel.
NEWCASTLE BEACH 30 Pacific St, Newcastle	Damian Parkhouse	93	O	F	Converted heritage building. Management contract.
NIMBIN ROX 74 Thorburn St, Nimbin	Liam Brehme	28	A		Purpose built hostel.
PITTWATER Via Halls Wharf, Morning Bay	Michael Doherty & Sarah Polomka	32	O	F	Leased to manager. Converted residence.
PORT MACQUARIE 36 Waugh St	Richard Bock	59	A		Private homes extended into hostel.
PORT STEPHENS Frost Rd, Anna Bay	Mark & Sandy Munday	31	A		Purpose built hostel.

HOSTEL	MANAGED BY	BEDS	OWNERSHIP	STATUS	NOTES
RAILWAY SQUARE 8-10 Lee St, Sydney	Dean Grasselli	280	O	L	Leasehold from Rail Corporation NSW. Converted parcels office.
SYDNEY BEACHOUSE 4 Collaroy St, Collaroy Beach	James Dakin	214	A		Purpose built hostel.
SYDNEY CENTRAL 11 Rawson Place, Sydney	Sam Badans	556	O	F	Converted heritage office building.
SYDNEY HARBOUR 110 Cumberland St, The Rocks	Ross Lardner	354	O	L	Leased from Sydney Harbour Foreshore Authority. Purpose-built hostel raised above archaeological remnants, with onsite education centre.
TAMWORTH 169 Marius St	Carol Hobden	43	A		Converted commercial building.
THREDBO 8 Jacks Adam Pathway	Bianca Bott	52	O	S	Land sub-leased from Kosciuszko Thredbo Pty Ltd, on lease from National Parks & Wildlife Service.
WOLLONGONG 75-79 Keira St	Mary Sparks	32	A		Purpose built hostel, serviced apartments and student complex.
YAMBA 26 Coldstream St	Shane & Justin Henwood	90	A		Purpose built hostel.
NT					
ALICE SPRINGS Cnr Parsons St & Leichhardt Tce	Roger Wileman	108	O	F	Converted open air cinema.
DARWIN 97 Mitchell St	Relief Manager	168	O	S	Sub-leased from Globies P/L
QLD					
1770 Lot 12 Captain Cook Drive, Agnes Waters	Ross & Elizabeth Davis	62	A		Purpose built hostel also offering motel and apartments.
AIRLIE BEACH 394 Shute Harbour Rd	Kathryn & David Cowie	88	O	F	Converted motel. Management contract.
BRISBANE CITY 392 Upper Roma St	Mitchell Wilkins	373	O	F	Two lots amalgamated. Purpose built hostel.
CAIRNS CENTRAL 20-26 McLeod St, Cairns	Dean Thexton	230	O	F	Purpose built hostel.
CAPE TRIBULATION 152 Rykers Rd	Matthew Isabella	106	A		Purpose built cabins within rainforest.
COOKTOWN 9 Boundary St	Scott Orchard	60	A		Converted motel.
COOLANGATTA 230 Coolangatta Road, Bilinga	Warren Nicholas	100	O	L	Land leased from Department of Environment and Resource Management, Queensland. Building owned by organisation and leased to manager. Purpose built hostel.
HERVEY BAY 820 Boat Harbour Dr	Karen Inglis	95	A		Purpose built hostel also offering cabins and camping.
MAGNETIC ISLAND 40 Horseshoe Bay Rd	Brett & Janelle Flemming	120	A		Purpose built hostel also offering cabins and camping.
MISSION BEACH 76 Holland St, Wongaling Beach	Richard & Anthea Gilroy	80	A		Purpose built hostel.
NOOSA 2 Halse Lane, Noosa Heads	Drew Pearson	97	A		National Trust Heritage listed building with additional purpose built hostel.

HOSTEL	MANAGED BY	BEDS	OWNERSHIP	STATUS	NOTES
PORT DOUGLAS Port St	Tom Quealy	88	A		Converted motel.
ROCKHAMPTON 60 MacFarlane St	Auzen Mercader	62	A		Purpose built hostel.
STRADBROKE ISLAND 132 Dickson Way, Point Lookout	Zoe Asingh	66	A		Purpose built hostel with dive centre.
SURFERS PARADISE Mariners Cove, 70 Seaworld Drive, Main Beach	Nathan McGregor	100	O	S	Sub-leased from Sunland Group. Converted office.
TOWNSVILLE 113 – 119 Flinders Street, Townsville	Damien Rodgers	160	A		Purpose built hostel also offering villas.
SA					
ADELAIDE CENTRAL 135 Waymouth St, Adelaide	Anna Cornelisse	230	O	F	Converted office building.
MT LOFTY Cleland Conservation Park	Managed via Adelaide Central YHA	10	O	L	Stone cottage leased from SA Department of Environment, Water & Natural Resources (DEWNR).
PORT ELLIOT 13 The Strand	Steve Woodward	60	O	F	Leased to Manager. Converted guest house.
PORT LINCOLN 26 London St	Debi & Robert Forster	71	A		Converted sporting facility.
WIRRABARA Forest Rd	Managed via Adelaide Central YHA	20	O	L	Former schoolhouse on Crown land. Closed during 2014 due to bushfires in area.
VIC					
APOLLO BAY 5 Pascoe St	John & Gail Affleck	72	O	F	Management service contract. Purpose built hostel.
BALLARAT Magpie St	Neil Robbins	12	A		Converted worker's cottage.
FOSTER 40 Station Rd	Mohya & John Davies	10	A		Converted worker's cottage.
GRAMPIANS/HALLS GAP Cnr Grampians and Buckler Rd	Stuart & Rebecca Usherwood	64	O	F	Management service contract. Purpose built hostel.
MELBOURNE CENTRAL 562 Flinders St	Bronwyn Adams	244	O	F	Converted heritage hotel building.
MELBOURNE METRO 78 Howard St, North Melbourne	Dooshyant Jhowry	361	O	F	Purpose built hostel.
PHILLIP ISLAND 10-12 Phillip Island Tourist Rd, Newhaven	Larson Henderson	145	A		Purpose built hostel.
PORT FAIRY 8 Cox St	Alison & Kadir Zehir	50	A		Converted heritage building.

Ownership Key:

O = Owned and/or operated by YHA
A = Associate hostel – privately owned

Status Key:

F = Freehold owned by YHA
L = Leasehold
S = Sub-lease

FINANCIAL SUMMARY

OVERVIEW

Total income for 2016 before sale of assets was \$45.3M. This was \$2.3M above the previous year. The net surplus was \$2.085M. The number of overnight stays by guests from traditional international markets improved during 2016. Australian guest numbers were lower than 2015 but this did not represent a significant reduction in their share of the market mix.

BORROWINGS

The cash advance facility interest expense was lower as expected, assisted by the low official cash rate for the full year. The facility has no requirement to be reduced over the term and this gives YHA the flexibility to accumulate cash reserves for acquisitions or development. Newcastle Beach YHA was acquired in January 2016 without increasing the loan facility limit. Further cash accumulation was used to fund development of an extension at Byron Bay YHA, and a larger capital improvement program was also funded by drawdown of \$1.0M of the development facility. In August 2016 the purchase of land at 3 Beach Road, Surfers Paradise was funded by an increase in borrowings of \$4M.

CASH FLOW

Operating cash flows were higher than 2015 with an increase in receipts from customers. Finance costs paid were lower than 2015. Cash flows from investing activities included expenditure on existing hostels of \$3.827M compared to \$2.67M in 2015. Payments were made for the acquisition of Newcastle Beach YHA (\$3.697M); the acquisition of Surfers Paradise land (\$4.522M) and the development of Byron Bay YHA (\$2.164M). Cash flows from financing activities were \$5.0M.

Cash holdings were \$3.085M, which was lower than the previous year as funds were expended on the Newcastle Beach YHA acquisition as well as development at Byron Bay.

CAPITAL EXPENDITURE

Capital expenditure other than special projects was \$3.827M (2015: \$2.670M) spent primarily on maintaining the standards of plant, furniture and equipment of the hostels, as well as an investment in systems, and sustainability initiatives.

HOSTEL DIVISION

In hostels operated by YHA, international overnights on a like-for-like basis (i.e. including Newcastle Beach YHA) increased by 7.6% while domestic overnights

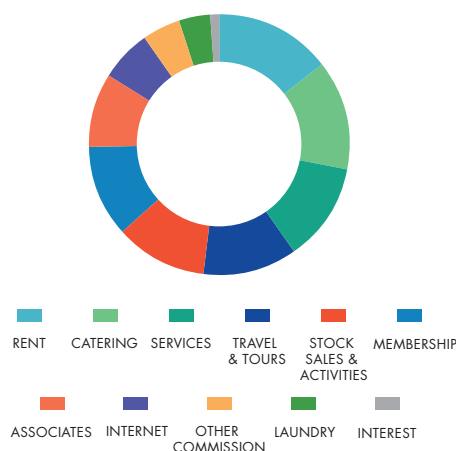
decreased by 6.0%. Much of this increase was in Sydney. Overnights from groups increased by 3.9%. Overnight stays were not affected by the Rio Olympic Games (which could have provided an alternative long haul destination to backpackers from the Northern Hemisphere).

There was an increase in total YHA guest overnights from Asia (12.5%), the UK (3.3%), Europe (9.2%) and American countries (4.0%) of 49,000 overnights.

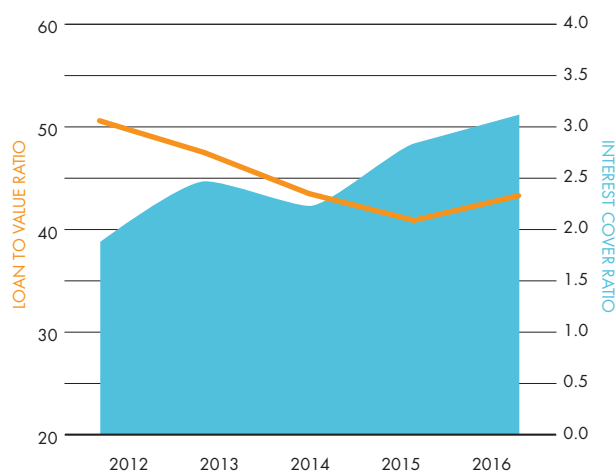
MEMBERSHIP DIVISION

Australian memberships decreased by 3.8% and international membership decreased by 5.3% despite a full year of slightly lower and simpler pricing (\$25). Income from membership was lower than the previous year as that had included an adjustment for deferred membership income. On a like-for-like basis, membership income reduced by \$182k or 18%.

SOURCE OF OTHER OPERATING INCOME



LOAN TO VALUE AND INTEREST COVER RATIO



YHA LTD ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

YHA LTD (ACN 008 387 791)

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DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'group') consisting of YHA Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 31 December 2016.

1. THE NAMES AND OTHER INFORMATION OF THE DIRECTORS OF THE COMPANY IN OFFICE

The names, qualifications and experience of the Directors in office at any time during or since the end of the financial year are:

NAME	QUALIFICATIONS	EXPERIENCE	RESPONSIBILITIES	ELECTED TO
Robyn Joan Antill	BSc, MSc(Maths), MSc(Operations Research), PMP, GAICD	YHA member since 2014. Hostelling International member since 1990. Project Management Consultant.		April 2018
Dana Denise Ghinzel	BCom, CPA, GAICD	YHA member since 1983. Accountant with public sector.		April 2017
Ross Peter McDougall	BA, LLB, GAICD	YHA member since 2012. Solicitor.		April 2017
Robert Anthony McGuirk	BA, LLB, FFin, GAICD	YHA member since 1990. Former member of YHA Victoria Board, held roles of Chair, Vice Chair. Former Hostelling International Vice President. Lawyer, Property Manager, IT Consultant.	Chair.	April 2019
Matthew McNeil	BArch(Hons)	YHA member since 1988. Architect.		April 2019
David John Neish	BArch Melb, FRAIA, MAICD	YHA member since 1976. Former member of YHA Queensland Board. Architect.		In office to February 2017
Tracey Michelle Powell	BBus, GAICD	YHA member since 2000. Former member of YHA South Australia Board, held role of Chair. Director and Principal of Business & Marketing Consultancy.	Chair Nominations & Human Resources Committee. Chair of Election Committee.	April 2018
Euan Gordon Prentice	BCom, A Fin	YHA member since 2009. Owner of capital markets research business.	Vice Chair.	April 2018
Leonie Isabelle Thijssen	BCom, CPA, GIA (Cert), GAICD	YHA member since 2000. Former member of YHA Queensland Board. Held roles of Treasurer YHA Queensland and Vice Chair of YHA Ltd. Finance and HR manager.	Chair Audit & Risk Committee.	April 2019

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

Julian Ledger has held the role of Company Secretary since 23 April 2003 and Stephen Lynch was also appointed as Company Secretary on 23 September 2009.

DIRECTORS' REPORT CONTINUED

2. MEETINGS OF DIRECTORS

The following table sets out the Board and Committee meetings held during the year and the number attended by each Director where applicable. The Committees are: Audit and Risk, Nominations and Human Resources, and Election.

DIRECTOR	BOARD OF DIRECTOR MEETINGS		COMMITTEE MEETINGS	
	NUMBER HELD/ POSSIBLE TO ATTEND	NUMBER ATTENDED	NUMBER HELD/ POSSIBLE TO ATTEND	NUMBER ATTENDED
Robyn Antill	11	10	6	6
Dana Ghinzel	11	10	6	6
Ross McDougall	11	9	6	5
Robert McGuirk	11	11	6	4
Matthew McNeil	11	10	6	4
David Neish	11	10	6	6
Tracey Powell	11	10	6	6
Evan Prentice	11	11	6	4
Leonie Thijssen	11	11	6	6

The above meeting attendance is for YHA Ltd. Youth Hostels Association of Queensland (YHA Queensland) also held 2 Board meetings and YHA Victoria Limited held 2 Board meetings during the year. These were held on the same days at the same time and location as the above meetings reported for YHA Ltd.

3. SHORT AND LONG TERM OBJECTIVES

The objects of the company were changed at the 2016 AGM by Members resolution and are now:

- a) represent the interests of the company and its Affiliated Entities internationally with Hostelling International and its Affiliated Entities;
- b) promote youth hostelling internationally, including fostering an appreciation of a range of cultural values;
- c) promote youth hostelling throughout Australia and its dependent territories, and to promote interstate and international friendship through the development of youth hostelling;
- d) provide educational opportunities in Australia for all people, but especially young people, to:
 - i) achieve personal development;
 - ii) foster friendship; and
 - iii) bring about a better understanding of others and the world around them;
- e) facilitate education by providing, operating and assisting others to provide and operate, hostels or similar accommodation in which there are no distinctions of race, nationality, colour, religion, gender, sexual orientation, class or political opinion;
- f) educate, by promoting and encouraging:
 - i) travel;
 - ii) healthy recreational activities;
 - iii) environmental awareness; and
 - iv) interstate and international friendships and understanding, particularly through the development and provision of facilities and services to assist travellers within and outside Australia;
- g) actively promote Australia as a prime holiday destination for the members of overseas organisations affiliated with Hostelling International; and
- h) provide information or advice to any government, company or any other organisation in relation to any of the foregoing.

4. STRATEGY FOR ACHIEVING OBJECTIVES

- 1) To be the market leader in the provision of low cost, quality accommodation in the ACT, NSW, the NT, Queensland, South Australia and Victoria and at least maintain current market share.
- 2) To be the market leader in providing services to free independent travellers (FITs).
- 3) To be a dynamic market driven organisation responsive to change.
- 4) To develop the business and activities of YHA in accordance with the national and international aims and objectives of the organisation.
- 5) To achieve the most effective structure for YHA in Australia.
- 6) To provide an annual operating surplus to reinvest in the further growth and development of YHA services and resources.
- 7) To continue to exercise the organisation's social, cultural, economic, educational and environmental responsibilities as a major international membership organisation.
- 8) To continue to develop YHA's human resources as a means of achieving the above objectives.
- 9) To manage risk through selected strategies and regular review.

5. PRINCIPAL ACTIVITIES

The principal activities of the group during the financial year were to provide secure, high quality, low cost accommodation to members in YHA hostels and, through affiliated organisations, enable access to such accommodation throughout the world. In addition, the company operates travel and tour desk services. These activities are directed at achieving the specific objectives of the group.

6. OPERATING RESULTS

The consolidated surplus for the financial year ended 31 December 2016 was \$2,008,645 (2015 surplus of \$982,973). The surplus includes a recognition as revenue of the net assets value (\$619,583) of HI Australia whose operations were integrated on 1 January 2016.

The group uses occupancy percentage or utilisation of the hostel beds as a measure of performance together with quality ratings from guests. The hostel bed occupancy in 2016 for operated hostels was 66.7% (2015 65.3%), ratings were in the desired range and several hostels achieved consistently high ratings.

7. REVIEW OF OPERATIONS

The annual report is prepared on a consolidated basis and includes the operations of YHA Ltd (hostel operations, membership, travel and tour sales), YHA Queensland (property owner) and YHA Victoria (property owner).

Revenue improved over the prior year with an increase in international traveller visitation. Australian guest nights were lower than last year and group guest nights improved on the previous year.

8. DIVIDENDS

YHA Ltd is a not for profit company limited by guarantee and does not pay dividends. Every Member undertakes to contribute to the property of the company in the event of it being wound-up for payment of the debts and liabilities of the company, such amount as may be required, not exceeding \$1.

9. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

YHA Ltd was endorsed as the Australian Member Affiliate of Hostelling International at the 2016 Conference held in Gatwick, UK in September 2016. YHA Ltd assumes this role as part of the integration with Hostelling International Australia Incorporated agreed to by its Member Organisations in 2015.

The Directors of the group are not aware of any matter or circumstance not otherwise dealt with in this report or the financial report that has significantly or may significantly affect the operations of the group, the result of those operations or the state of affairs of the group for the year ended 31 December 2016.

DIRECTORS' REPORT CONTINUED

10. SIGNIFICANT EVENTS SINCE THE END OF FINANCIAL YEAR

During the year the YHA Ltd Board decided and Members of Youth Hostels Association of Tasmania Inc. (YHA Tasmania) voted to merge. This merger was achieved on 1 January 2017. YHA Tasmania has applied for cancellation of its registration under the Associations Incorporations Act 1964 effective from this date and all the property and business assets have been transferred to YHA Ltd. The loans payable by YHA Tasmania to Commonwealth Bank of Australia as at 31 December 2016 were repaid. Title to the Hobart Central YHA was transferred to YHA Ltd and is secured by first mortgage to ANZ. The net assets of YHA Tasmania as at 31 December 2016 were \$2,257,159.

The Victoria State Revenue Office has granted an exemption to YHA Ltd for stamp duty on the transfer of four properties from YHA Victoria Limited. These properties will be transferred to YHA Ltd in the first quarter of 2017.

The Directors of the Company are not aware of any other matter or circumstance that has arisen since the end of the financial year which is likely to significantly affect the operations of the group, the results of those operations or state of affairs of the group in future financial years.

11. LIKELY DEVELOPMENTS

Likely developments in the operations of the group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the group.

12. DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged a Directors' and Officers' Liability Insurance policy, which covers all the Directors and Officers of the Company against certain liabilities they may incur in carrying out their duties for YHA Ltd. The terms of the policy prohibit disclosure of details of the amount of the insurance cover, the nature thereof and the premium paid.

13. ENVIRONMENTAL REPORTING

The group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State or Territory.

14. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

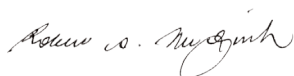
15. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 31.

16. ROUNDING OF AMOUNTS

The Company is of a kind referred to in the ASIC legislative Instrument 2016/191 relating to 'rounding off' of amounts in the Directors' Report. Amounts have been rounded off in accordance with the instrument to the nearest dollar.

Signed in accordance with a resolution of the Directors.



Robert McGuirk
Director
25 February 2017



Leonie Thijssen
Director
25 February 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 \$	2015 \$
Revenue or other income			
Rendering of services		43,741,081	42,066,801
Other income		1,563,654	876,266
	3	45,304,735	42,943,067
Expenses			
Employee benefits expense	4	(18,825,043)	(17,165,506)
Depreciation & amortisation	4	(5,131,072)	(4,637,293)
Finance costs	4	(3,176,427)	(4,243,514)
Other expenses	4	(16,159,410)	(15,913,781)
		(43,291,952)	(41,960,094)
Surplus before income tax		2,012,783	982,973
Income tax (expense) / benefit	5	(4,138)	–
Surplus after income tax		2,008,645	982,973
Other comprehensive income		–	–
Total Comprehensive Income		2,008,645	982,973

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NOTE	2016 \$	2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	3,085,709	5,462,676
Trade and other receivables	7	523,409	532,683
Inventories	8	71,307	93,357
Other current assets	9	711,470	301,597
Total Current Assets		4,391,895	6,390,313
Non-current Assets			
Property, plant and equipment	10	124,378,625	116,073,752
Intangible assets	11	2,814,401	1,507,685
Total Non-current Assets		127,193,026	117,581,437
TOTAL ASSETS		131,584,921	123,971,750
LIABILITIES			
Current Liabilities			
Trade and other payables	12	3,398,502	2,911,891
Derivative financial instruments	16	403,154	367,750
Provisions	14	2,131,928	1,861,702
Other liabilities	15	2,814,699	2,803,349
Total Current Liabilities		8,748,283	7,944,692
Non-current Liabilities			
Trade and other payables	12	63,359	62,505
Borrowings	13	80,000,000	75,000,000
Derivative financial instruments	16	709,882	932,690
Provisions	14	183,961	161,072
Total Non-current Liabilities		80,957,202	76,156,267
TOTAL LIABILITIES		89,705,485	84,100,959
NET ASSETS		41,879,436	39,870,791
Accumulated surplus		36,421,090	34,412,445
Revaluation reserve		5,458,346	5,458,346
TOTAL EQUITY		41,879,436	39,870,791

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	REVALUATION RESERVE \$	ACCUMULATED SURPLUS \$	TOTAL EQUITY \$
Balance at 1 January 2015		5,458,346	33,429,472	38,887,818
Surplus after income tax		–	982,973	982,973
Other comprehensive income		–	–	–
Balance at 31 December 2015	10	5,458,346	34,412,445	39,870,791
Surplus after income tax		–	2,008,645	2,008,645
Other comprehensive income		–	–	–
Balance at 31 December 2016		5,458,346	36,421,090	41,879,436

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from members and customers		48,732,124	47,601,540
Receipts from integration of HI Australia		136,675	–
Payments to employees		(17,423,608)	(15,451,949)
Payments to suppliers		(21,312,576)	(22,130,762)
Income taxes paid		(4,138)	–
Interest received		66,070	53,837
Finance costs paid		(3,360,287)	(3,503,307)
Net cash provided by operating activities	23	6,834,260	6,569,359
Cash flows from investing activities			
Purchase of plant, equipment & software		(3,827,278)	(2,670,441)
Purchase of property		(4,522,805)	–
Payment for purchase of business net of cash acquired	19	(3,697,000)	(203,000)
Development of property		(2,164,144)	–
Net cash (used in) investing activities		(14,060,227)	(2,873,441)
Cash flows from financing activities			
Proceeds from borrowings – bank		5,000,000	–
Net cash provided by financing activities		5,000,000	–
Net (decrease) increase in cash and cash equivalents		(2,376,967)	3,695,918
Cash and cash equivalents – beginning of period		5,462,676	1,766,758
Cash and cash equivalents – end of period	6	3,085,709	5,462,676

The accompanying notes form part of these financial statements.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the Australian Accounting Standards – Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board ('AASB'), as appropriate for not for profit orientated entities and the Corporations Act 2001. The consolidated financial report of the group as at and for the year ended 31 December 2016 comprises the company and its controlled entities which include Youth Hostels Association of Queensland and YHA Victoria Limited. YHA Ltd as an entity is a company limited by guarantee, incorporated and domiciled in Australia. The following is a summary of the material accounting policies adopted by YHA Ltd in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements were authorised for issue by the Directors on 25 February 2017.

New, revised or amending Accounting Standards and Interpretations adopted

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. No other new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the company.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the group. The group is working through the impact of these new standards and interpretations.

AASB 9 Financial Instruments applicable for financial years commencing on or after 1 January 2018

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

AASB 15 Revenue from Contracts with Customers applicable for financial years commencing on or after 1 January 2018

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of 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. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

AASB 16 Leases applicable for financial years commencing on or after 1 January 2019

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction 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 only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

BASIS OF PREPARATION

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTING POLICIES

Property Plant & Equipment

Property, plant and equipment are brought to account at cost, less, where applicable, any accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

DEPRECIATION

Buildings, plant and equipment are depreciated on a straight line basis over the estimated useful life of the asset to the Company.

The estimated useful lives are:

Freehold Buildings	17 – 50 years
Leasehold Buildings	lesser of the term of the lease agreement and 40 years (except Thredbo where the carrying value is written down over 50 years.)
Plant and Equipment	3 – 8 years
Intangible assets	term of the lease if applicable

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Profit or Loss and Other Comprehensive Income.

FINANCIAL INSTRUMENTS

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments.

Derivative financial liabilities are recognised at the fair value of interest rate swaps and are calculated as the present value of the estimated future cash flows based on observable yield curves. Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-Financial Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss and Other Comprehensive Income.

Cash and Cash Equivalents

Cash and cash equivalents include deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis. The bank overdraft is excluded from cash because it is part of a term facility.

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

Inventories

Inventories are measured at the lower of cost and net realisable value, using the First In First Out basis.

Liquor Licence

Liquor licence is tested annually for impairment and is carried at cost less accumulated impairment losses, if any.

Software

Software is recorded at cost. Software has a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of between 3 and 5 years. It is assessed annually for impairment.

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Revenue

Revenue from the provision of services and sale of goods is recognised upon providing the service or on delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Membership Revenue

The Annual Membership Year runs from the month of Membership purchase for 1 year. Fees are payable yearly in advance or can be purchased for 2 year terms also. Membership Fees are recognised as revenue in the year that they are sold and are not refundable.

Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of GST, except where GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. Cash flows are presented in the Statement of Cash Flows on a gross basis and GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Taxation Authority, are classified as operating cash flow.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

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 their fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred. For each business combination, the non-controlling interest in the acquiree is measured at fair value. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred is recognised as goodwill.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

Due to the principle of mutual income, a significant portion of the receipts recognised as income represents amounts received from members and does not represent income of the consolidated entity for income tax purposes.

As such, the consolidated entity is not in a taxable position.

Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Employee benefits

ii) Other long-term employee benefit obligations

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Rounding of amounts

The Company is of a kind referred to in the ASIC legislative Instrument 2016/191 relating to 'rounding off' of amounts in the Financial Report. Amounts have been rounded off in accordance with the instrument to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2 – CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives of assets are less than previously estimated or technically obsolete. Non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Deferred Tax Assets

Recovery of tax losses

The entity does not regard it as appropriate to recognise in its financial statements any possible future income tax benefit arising from the aforementioned tax losses and other timing differences as there is no probability of recovery of this benefit.

NOTE 3 – REVENUE

	2016 \$	2015 \$
Hostel	37,570,441	35,386,155
Catering	969,018	859,288
Other hostel	2,528,451	2,564,933
Membership	807,033	1,291,760
Travel & tours commission	833,447	920,933
Rent	1,032,691	1,043,732
Rendering of services	43,741,081	42,066,801
Sundry income	876,999	798,984
Contribution from HI Australia integration	619,583	–
Interest	67,072	77,282
Other Income	1,563,654	876,266
Total revenue and other income	45,304,735	42,943,067

Consideration received from the HI Australia integration represents the net assets of the HI Australia Association transferred to YHA Ltd as part of the HI Australia Integration agreement.

NOTE 4 – EXPENSES

Salaries and wages	16,230,175	14,721,548
Superannuation	1,672,893	1,566,288
Other benefits	921,975	877,670
Employee benefits	18,825,043	17,165,506
Depreciation of property plant & equipment	4,733,548	4,558,520
Amortisation of software	397,524	78,773
Depreciation and amortisation	5,131,072	4,637,293
Borrowing costs	50,625	520,861
Bank interest	3,313,206	3,467,355
Fair value (gain) loss on interest rate swaps	(187,404)	255,298
Finance costs	3,176,427	4,243,514
Cost of goods sold	1,083,533	1,135,227
Loss on disposal of assets	72,762	56,897
Operating expenses	6,907,142	6,402,391
Administration and marketing	4,847,324	5,710,418
Property expenses	3,153,455	2,535,508
Audit	95,194	73,340
Other expenses	16,159,410	15,913,781

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 5 – INCOME TAX

	2016 \$	2015 \$
a) Reconciliation of effective tax rate		
Income tax expense using the domestic corporation tax rate of 30% (2015: 30%)	602,594	294,892
Tax effect amounts which are not deductible in calculating taxable income:		
Income and expenses exempt under principle of mutuality	(602,594)	(294,892)
Prior year under provision for income tax	4,138	–
Income tax expense	4,138	–

b) Principle of mutuality

The estimated amount of income subject to the mutuality principle is 95% (2015: 95%).

c) Unrecognised tax losses

The following tax losses from non-mutual income have not been brought to account as a deferred tax asset:

YHA Ltd	9,350,445	9,006,008
YHA Queensland	2,407,075	2,299,947
YHA Victoria Limited	969,894	472,348
Tax losses	12,727,414	11,778,303

The consolidated entity does not regard it as appropriate to recognise in its financial statements any possible future income tax benefit arising from the aforementioned tax losses and other timing differences as there is no probability of recovery of this benefit.

NOTE 6 – CASH AND CASH EQUIVALENTS

Cash on hand	65,469	64,567
Cash at bank	2,919,224	5,167,249
Cash on deposit	101,016	230,860
	3,085,709	5,462,676

NOTE 7 – RECEIVABLES

Trade receivables	523,409	532,683
	523,409	532,683

NOTE 8 – INVENTORIES

Finished goods	71,307	93,357
	71,307	93,357

NOTE 9 – OTHER ASSETS

Current

Prepayments	711,470	300,442
Deferred expenditure	–	1,155
	711,470	301,597

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	2016 \$	2015 \$
Freehold Land and Building		
At cost	107,066,583	96,151,771
Less: Accumulated depreciation	(28,605,809)	(26,487,282)
	<u>78,460,774</u>	<u>69,664,489</u>
Leasehold Land and Buildings		
At cost	47,760,594	47,660,288
Less: Accumulated depreciation	(8,890,732)	(7,898,384)
	<u>38,869,862</u>	<u>39,761,904</u>
Plant and Equipment		
At cost	18,861,223	17,465,422
Less: Accumulated depreciation	(11,813,234)	(10,818,063)
	<u>7,047,989</u>	<u>6,647,359</u>
Total Property, Plant and Equipment	<u>124,378,625</u>	<u>116,073,752</u>
Independent valuations of interest in Land & Buildings		
2016	7,500,000	–
2015	10,625,000	10,625,000
2014	173,960,000	173,960,000
Total	<u>192,085,000</u>	<u>184,585,000</u>

The total independent valuation reports value of \$192,085,000 represents 24 freehold and leasehold properties. The written down value of these properties, which are recorded at cost in the financial report is \$121,041,745.

The following are movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

Reconciliations	2016 \$	2015 \$
Freehold Land & Buildings		
Balance at the beginning of year	69,664,489	71,062,146
Additions	5,389,600	280,797
Additions through business combination (Note 19)	2,932,899	203,000
Development work in progress	2,164,144	–
Transfers	428,167	132,008
Depreciation expenses	(2,118,525)	(2,013,462)
Carrying amount at the end of year	<u>78,460,774</u>	<u>69,664,489</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT *continued*

	2016 \$	2015 \$
Leasehold Land & Buildings		
Balance at the beginning of year	39,761,904	40,670,794
Additions	135,953	126,813
Disposal	(3,372)	6,159
Transfers	(681)	5,390
Depreciation expenses	(1,023,942)	(1,047,252)
Carrying amount at the end of year	38,869,862	39,761,904
Plant & Equipment		
Balance at the beginning of year	6,647,359	6,106,224
Additions	2,502,837	2,234,162
Disposal	(69,640)	(57,823)
Transfers	(441,486)	(137,398)
Depreciation expenses	(1,591,081)	(1,497,806)
Carrying amount at the end of year	7,047,989	6,647,359
Total		
Balance at the beginning of year	116,073,752	117,839,164
Additions	8,028,390	2,641,772
Additions through business combination (Note 19)	2,932,899	203,000
Development work in progress	2,164,144	–
Disposal	(73,012)	(51,664)
Transfers	(14,000)	–
Depreciation expenses	(4,733,548)	(4,558,520)
Carrying amount at the end of year	124,378,625	116,073,752

Revaluation Reserve

The hostel land and buildings of YHA Victoria Limited was adjusted to independent market value over the years 2000 to 2010 and the net balance of the revaluation reserve for these changes is \$1,700,637. YHA South Australia Inc. was adjusted to independent market value over the years 2000 to 2013 and the net balance of the revaluation reserve for these changes is \$3,757,709. The revaluation reserve now totals \$5,458,346.

NOTE 11 – INTANGIBLE ASSETS

	2016 \$	2015 \$
Licences – at cost	116,681	116,681
Goodwill – at cost	1,378,965	1,378,965
Goodwill – acquired through business combination (Note 19)	764,101	–
Less: accumulated amortisation	(78,965)	(78,965)
	2,064,101	1,300,000
Computer software – at cost	3,056,451	250,078
Less: accumulated amortisation	(2,422,832)	(159,074)
	633,619	91,004
Total intangible assets	2,814,401	1,507,685

The recoverable amount of the Liquor Licence is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 10-year period with the period extending beyond five years extrapolated using an estimated growth rate.

The recoverable amount of the Goodwill is determined together with the cash-generating unit which includes property, plant and equipment and is based on value-in-use calculation.

The following are movements in the carrying amounts for each class of liquor licence, goodwill and computer software between the beginning and the end of the current financial year.

	LICENCES \$	GOODWILL \$	COMPUTER SOFTWARE \$	TOTAL \$
Carrying amount at the beginning of year	116,681	1,300,000	91,004	1,507,685
Additions	–	–	926,138	926,138
Additions through business combinations (Note 19)	–	764,101	–	764,101
Transfers	–	–	14,000	14,000
Amortisation charge	–	–	(397,523)	(397,523)
Carrying amount at the end of year	116,681	2,064,101	633,619	2,814,401

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 12 – TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
Current		
Trade creditor	448,248	249,382
Accrued expenses	2,218,320	1,727,346
BAS payable	281,288	506,096
Other payables	303,670	416,494
Deferred revenue	146,976	12,573
	3,398,502	2,911,891
Non-current		
Rental bonds	63,359	62,505
	63,359	62,505

NOTE 13 – BORROWINGS

Non-current		
Bank loans	80,000,000	75,000,000
Total Borrowings	80,000,000	75,000,000

- The ANZ facility consists of a Cash Advance Facility of \$80,000,000 for YHA Ltd borrowings for a term of four and a half years to June 2019. The facility allows prepayment and with any prepayment a permanent reduction in the facility. An additional 12 month facility for development is also financed amounting to one million dollars though this is not drawn as at the balance date. Prepayments are not required. The ANZ facility includes an overdraft of \$750,000 though this is only available during the slower trading months from March to October each year.
- The bank facilities are secured by a first ranking fixed and floating charge over all the assets of the group and first ranking mortgages over 22 hostel properties. The covenants within the bank borrowings require the group to maintain the loan to value ratio at less than or equal to 55% and an interest cover ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) less provision for capital expenditure of 4% of hostel revenue over interest expense greater than or equal to 1.4 times. The group complied with the financial covenants of its borrowing facilities during the 2016 and 2015 reporting periods.

The bank facilities as at the balance date are:

Credit facilities	81,875,000	77,875,000
Amount utilised	80,000,000	75,000,000
	1,875,000	2,875,000

The unused credit facilities consist of cash advance facility of \$1,000,000 (2015: \$2,000,000), bank overdraft \$750,000 (2015: \$750,000) and corporate card facility \$125,000 (2015: \$125,000).

Assets Pledged as Security

The carrying amounts of assets pledged as security are:

First mortgage and floating charges		
Total assets	131,584,921	123,971,750

NOTE 14 – PROVISIONS

	2016 \$	2015 \$
Current		
Employee benefits	2,077,928	1,777,702
Onerous contract	54,000	84,000
	2,131,928	1,861,702
Non-current		
Employee benefits	183,961	161,072
	183,961	161,072

The provision for onerous contract is for the 2016 cost of fulfilling the obligations for the hosting of computer technology in the data centre for the property management system which is no longer in use.

Aggregate liability for employee benefits provision including on-costs

Employee benefits	2,261,889	1,938,774
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	EMPLOYEE ENTITLEMENTS \$
Movements in provisions	
Balance at the beginning of year	1,938,774
Additions	1,731,785
Transfers	145,550
Amounts used	(1,554,220)
Balance at the end of year	2,261,889

NOTE 15 – OTHER LIABILITIES

Current		
Bookings in advance	2,814,699	2,803,049
Unexpired other membership income	–	300
	2,814,699	2,803,349

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

	2016 \$	2015 \$
The group has the following derivative financial instruments:		
Current		
Interest rate swap contracts – non-hedging	403,154	367,750
Non-current		
Interest rate swap contracts – non-hedging	709,882	932,690
	1,113,036	1,300,440

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. This classifies them as Level 2 financial instruments. In 2016 the fair value has been determined by reference to the ANZ value of the interest rate swap agreements as at 31 December 2016. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Derivatives are classified as held for trading and accounted for at fair value through the Statement of Profit or Loss and Other Comprehensive Income unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

NOTE 17 – COMMITMENTS

a) Capital commitments

Capital expenditure commitments contracted for:

– Capital expenditure projects	515,923	308,182
– Acquisition of Newcastle Beach YHA	–	3,952,500
– Development of Byron Bay YHA	3,799,942	–
	4,315,865	4,260,682

Commitments for capital expenditure projects will be payable not later than 1 year.

The development commitment for Byron Bay YHA represents a commitment for works that will be completed in 2017.

b) Operating leases

Payable not later than 1 year	1,314,067	2,140,165
Later than 1 year but not later than 5 years	1,780,411	1,644,615
Later than 5 years	3,559,467	3,544,930
	6,653,945	7,329,710

Operating leases pertain to properties leased for the provision of accommodation to members, the administration of the entity and IT infrastructure services. The leases typically run for periods up to 5 years with varying terms and renewal options except for Thredbo YHA (to 2057) and Sydney Harbour YHA (to 2108).

c) Other commitments

The Company entered into a Lease Agreement with the Sydney Harbour Foreshore Authority to develop and operate a Youth Hostel and Education Centre in the Rocks, Sydney. The lease requires a contribution to a sinking fund to be used for the maintenance of The Rocks Big Dig archaeology site which the hostel sits over. This sinking fund is capped at \$500,000 with annual CPI adjustments to the contribution per overnights from 2009.

NOTE 18 – RELATED PARTY DISCLOSURES

Three directors of the parent entity are also directors of an affiliated body HI Australia which in 2015 provided goods and services on terms and conditions no more favourable than those applying to any other affiliated bodies and in 2016 whose HI Australia activities were integrated into YHA Ltd.

NOTE 19 – BUSINESS COMBINATIONS

	2016 \$
On 29 January 2016 the Newcastle Beach YHA freehold property and business was purchased by YHA Ltd. Details of the acquisition are as follows:	
Land & Buildings	3,135,899
Net assets acquired	3,135,899
Goodwill	764,101
Acquisition-date fair value of the total consideration transferred	3,900,000
Representing:	
Cash paid or payable to vendor	3,900,000
Acquisition costs expensed to profit or loss	200,648

A deposit of \$203,000 was paid in 2015 with the balance paid in 2016.

NOTE 20 – FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's activities expose it to financial risks including interest rate risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses financial instruments such as fixed interest rate contracts to reduce certain interest rate risk exposures. These contracts are exclusively used to minimise interest rate risk, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and cash flow forecasting for liquidity risk.

Risk management is carried out by senior management, finance executives ('finance') and Audit & Risk Committee under policies approved by the Board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and mitigates financial risks within the consolidated entity and reports to the Board on a monthly basis.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings with variable rates, which expose the consolidated entity to cash flow interest rate risk. The policy is to maintain at least 50% and up to 95% of its borrowings at a fixed rate using interest rate swaps to achieve this when necessary.

The consolidated entity manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these swaps, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Generally, the consolidated entity raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the consolidated entity borrowed at fixed rates directly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 20 – FINANCIAL INSTRUMENTS *continued*

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Foreign currency risk

The consolidated entity is not exposed to any significant foreign currency risk.

Price risk

The consolidated entity is not exposed to any significant price risk.

Credit risk

The consolidated entity is not exposed to any significant credit risk.

NOTE 21 – KEY MANAGEMENT PERSONNEL COMPENSATION

All Directors are members of the company and do not receive any remuneration for their services. They are entitled to receive, upon application, discounts no more favourable than those available to all members.

Key management personnel include the Directors listed in the Directors' Report, the Chief Executive Officer, Operations (Eastern Region) Manager, Head of Marketing, Chief Financial Officer, Digital and Strategy Leader, Northern Region Manager and Southern Region Manager.

	SALARY	SUPERANNUATION	TOTAL
	\$	\$	\$
2016	1,453,247	132,879	1,586,126
2015	1,329,238	118,024	1,447,262

NOTE 22 – PARENT ENTITY INFORMATION

	PARENT ENTITY	
	2016	2015
	\$	\$
Set out below is the supplementary information about the parent entity.		
Statement of comprehensive income		
Surplus after income tax	2,520,283	494,500
Total current assets	4,322,008	6,317,230
Total assets	119,566,379	111,414,671
Total current liabilities	8,673,410	7,842,922
Total Liabilities	89,630,612	83,999,189
Equity		
Total equity	29,935,767	27,415,482

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2016.

Capital commitments

The parent entity had capital commitments for property, plant & equipment as at 31 December 2016 of \$4,315,865 and 31 December 2015 of \$4,260,682.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed at Note 1.

NOTE 23 – RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED ENTITY	
	2016 \$	2015 \$
Surplus after income tax	2,008,645	982,973
Non-cash flow in profit		
Depreciation and amortisation	5,131,072	4,637,294
Fair value adjustment to derivatives	(187,404)	255,298
Loss on sale or disposal of property, plant & equipment	72,762	56,898
Contribution from HI Australia recognised as plant and equipment and software	(604,197)	–
Changes in assets and liabilities		
Decrease (Increase) in receivables	9,274	(53,494)
Decrease (increase) in inventory	22,050	8,184
(Increase) decrease in other assets	(409,872)	562,730
Increase (decrease) in payables	487,465	139,208
Increase in provisions	293,115	51,438
Increase (decrease) in other liabilities	11,350	(71,170)
Net cash provided by operating activities	6,834,260	6,569,359

NOTE 24 – EVENTS AFTER REPORTING PERIOD

Merger with Youth Hostels Association of Tasmania Incorporated

During the year the YHA Ltd Board decided and Members of Youth Hostels Association of Tasmania Inc. (YHA Tasmania) voted to merge on 1 January 2017. This merger was achieved on 1 January 2017. YHA Tasmania has applied for cancellation of its registration under the Associations Incorporations Act 1964 effective from this date and all the property and business assets have been transferred to YHA Ltd. The loans payable by YHA Tasmania to CBA as at 31 December 2016 were repaid. Title to the Hobart Central YHA was transferred to YHA Ltd and will be secured by first mortgage to ANZ. The net assets of YHA Tasmania as at 31 December 2016 were \$2,257,159.

Transfer of property from YHA Victoria Limited to YHA Ltd

The Victoria State Revenue Office has granted an exemption to YHA Ltd for stamp duty payable on the transfer of four properties from YHA Victoria Limited. These properties will be transferred to YHA Ltd in the first quarter of 2017.


No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF YHA LTD
ABN: 94 008 387 791**

In relation to the independent audit for the year ended 31 December 2016, to the best of my knowledge and belief there have been:

- i. no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and
- ii. no contraventions of any applicable code of professional conduct.

This declaration is in respect of YHA Ltd and the entities it controlled during the year.



M A ALEXANDER
Partner

PITCHER PARTNERS
Sydney

25 February 2017


DIRECTORS' DECLARATION

The Directors of YHA Ltd declare that:

1. The financial statements and notes, as set out on pages 39 to 59, are in accordance with the Corporations Act 2001:
 - a. Comply with Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. Give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors.



Robert McGuirk
Director
25 February 2017



Leonie Thijssen
Director
25 February 2017

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF YHA LTD
ABN 94 008 387 791**

Report on the Financial Report

Opinion

We have audited the financial report of YHA Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors declaration.

In our opinion, the financial report of 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 31 December 2016 and of its performance for the year ended on that date; and
- b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

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 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2016, 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 any form of assurance conclusion thereon.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF YHA LTD
ABN 94 008 387 791**

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent 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 – Reduced Disclosure Requirements 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 has no realistic alternative but to do so.

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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

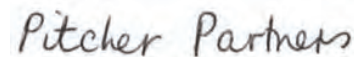
**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF YHA LTD
ABN 94 008 387 791**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



M A ALEXANDER
Partner



PITCHER PARTNERS
Sydney

25 February 2017

YHA AUSTRALIA HOSTEL LOCATIONS

AT 31 DECEMBER 2016



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MISSION

TO PROVIDE OPPORTUNITY FOR ALL, BUT ESPECIALLY YOUNG PEOPLE, FOR EDUCATION BY PERSONAL DEVELOPMENT, FOSTERING FRIENDSHIP AND BRINGING ABOUT A BETTER UNDERSTANDING OF OTHERS AND THE WORLD AROUND THEM.

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