



YHA^{Ltd}



Year in Review 2012



Background to YHA



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Mission Statement

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 95 YHA hostels in Australia, including 64 in the ACT, NT, NSW, Queensland and Victoria. The first YHA hostel in Australia was opened in 1939 in Warrandyte in Victoria, followed by the first hostel in NSW in the Royal National Park in 1943 under the sponsorship of the National Fitness Council of NSW, and the first hostel in Queensland in 1962.

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

1. To be the market leader in the provision of low cost, quality accommodation in the ACT, NSW, the NT, Queensland and Victoria and to 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.

YHA Ltd

- Operates as YHA.
- Is a company limited by guarantee under the Corporations Act (2001)
- Is a not-for-profit organisation.
- Retains and reinvests all surpluses. There is no distribution of surpluses as dividends.
- Provides low cost accommodation for individual and group YHA members from ACT, NSW, NT, Queensland and Victoria, other Australian states and overseas.
- Has 37,856 individual and group members in the ACT, NSW, the NT, Queensland and Victoria.
- Operates its own fully licensed travel agency trading as 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 operate simple hostels and organise social and outdoor activity programs.
- Is a member organisation of YHA Australia which is affiliated with Hostelling International.

Introduction

Dear Members & Friends

This report sets out YHA's activities and achievements over 2012 in the ACT, NT, NSW, Queensland and Victoria, providing a high quality accommodation network for travellers. YHA is a not-for-profit, member-based organisation, with 37,856 individual and group members, and a further 17,948 international visitors who joined while travelling in Australia.

Results

In the three States and two Territories, the network comprises 64 properties, either owned or leased by YHA or privately operated. In 2012, an increased total of 1,218,661 overnight stays were recorded by guests. Hostels in urban centres, including the new ones in Brisbane, Melbourne and Sydney, grew occupancy however some regional destinations hosted fewer visitors. Flow-on effects of the global economic downturn, coupled with the strength of the Australian dollar against foreign currencies also constrained the average bed rate.

After the rapid expansion of the hostel network in recent years, 2012 was a year of consolidation, integration and debt retirement. On a turnover of \$40.09 million there was a loss of \$0.8M recorded and with borrowings reduced by \$2.9M.

Innovation

During the year YHA invested significantly in upgrading to a new property management system. The new system, GuestCentrix, interfaces with yha.com.au and the website was also re-launched with major improvements for customers. YHA staff installed the new system in a total of 40 hostels, trained 244 staff across Australia and travelled a combined total of 109,434 km in the process! A new YHA Travel & Tours web-based system for selling Australian travel product was also rolled out at all YHA operated hostels.

Awards

Several hostels won prestigious awards including Sydney Harbour YHA winning 'Best Backpacker Accommodation in Australia' and Brisbane City YHA winning silver.

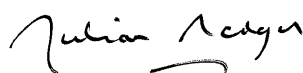
Towards a national merger

YHA made another substantial step towards becoming a national organisation when YHA Victoria merged with YHA Ltd from 1 January 2012. The decision followed a successful shared service accounting arrangement, due diligence undertaken by the Board and Management and careful planning for the integrated organisation. A Memorandum of Understanding was also signed with YHA South Australia, with South Australian members expected to vote on a proposed merger later in 2013.

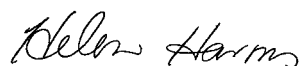
Future focus

A priority for 2013 is integrating the property management system with a new membership and customer relationship management system, whilst maintaining and increasing demand for YHA's services. A strategic focus of the Board and Management is to review and recast YHA membership to make it a more compelling offering. YHA is also embracing the changing demographics of visitors by attracting more guests from Asia including individual travellers and groups.

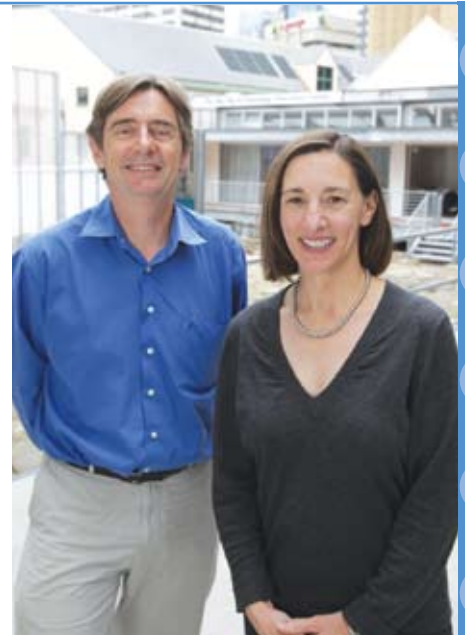
YHA is proud of its long standing mission of providing opportunity for young people for education through travel, to bring about friendships and an understanding of the world. Thanks go to all our members, guests, staff, volunteers and industry partners for making this mission statement a reality.



Julian Ledger CEO



Helen Harms Chairperson



Left to right: Julian Ledger (CEO) & Helen Harms (Chairperson)

2012 in Summary

Highlights

- Successful merger of YHA Victoria into YHA Ltd
- Launch of new national property management system, integrated with rebuild of the website, yha.com.au
- YHA again honoured with national tourism awards
- YHA one of the first organisations accredited under the new national tourism accreditation scheme, T-QUAL

YHA accommodation

- 3,300 people accommodated each night in the ACT, NT, NSW, Queensland and Victoria with a 1.6% overall increase in occupancy including growth in stays by organised groups
- Fewer visitors from the UK and Scandinavia were offset by more guests from Asia, particularly China and Taiwan, as well as Japan, Korea, Malaysia and Singapore
- Increased usage in the major cities of Brisbane, Melbourne and Sydney but reduced travel to some regional areas
- Capital works projects at YHAs at Melbourne Central, Sydney Harbour, Thredbo and Byron Bay

Marketing and member services

- Continuation of previous trends with a fall in membership by individuals but an increase in membership by groups
- New YHA Travel & Tours web-based system for selling Australian travel product rolled out at YHA operated hostels
- Sydney Harbour YHA awarded best backpacker accommodation in Australia; Brisbane City YHA awarded silver; Cairns YHA a regional award winner
- Positive media coverage and social media marketing

Finance

- Total turnover of \$40.09M (\$41.83M in 2011 – included sale of former Sydney office)
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) of \$9.98M (\$11.44M in 2011)
- Commitments included integration of operations in Victoria (incurring one-off restructuring costs) as well as investment in major IT innovation projects
- Operating loss of \$0.8M due in particular to the high Australian dollar and only modest growth in overnight rates in a competitive marketplace
- Significant items included sale of Heritage Floor Space Rights at Sydney Central for \$0.5M and settlement of Garie Beach YHA insurance claim for \$0.3M

Merger & shared services

- Re-location of the Sydney YHA Ltd office and the YHA National office to a single floor at 9 Castlereagh St, Sydney, bringing greater efficiencies and integration
- A Memorandum of Understanding entered into with YHA South Australia to work towards a merger with due diligence underway and expected to be voted upon by YHA SA members in 2013

Governance

- AGM held in Sydney and 50th anniversary of YHA in Queensland celebrated in Brisbane
- The Board of YHA Ltd operated with ten directors and two sub committees with meetings split between NSW, Queensland and Victoria
- Two former YHA Victoria Directors co-opted to the Board from 1 January 2012



The Management Team.
Left to right: Marie Sahagun (Administration Manager); Stephen Lynch (CFO); Kim Francis (Southern Region Manager); Julian Ledger (CEO); Janet McGarry (Marketing Manager); Robert Henke (Operations/Eastern Region Manager); Kimberly Mustchin (Northern Region Manager)

Five Year Comparison

		Consolidated			2010	2009	2008
		2012	2011	% Change	\$	\$	\$
		\$	\$				
Total revenue		39,337,735	39,254,845	0.2	39,957,956	36,188,547	32,375,661
Total expenses		40,911,621	40,786,644	0.3	40,871,590	37,087,982	31,479,387
(Deficit) / surplus before disposal of assets		(1,573,886)	(1,531,799)	2.7	(913,634)	(899,435)	896,274
Earnings before interest, tax, depreciation & amortisation		9,219,998	8,858,718	4.1	7,017,127	5,451,194	5,927,210
Gain (loss) on disposal / (impairment) of assets		758,730	2,581,816	(70.6)	848,940	(467,808)	(1,138,781)
(Deficit) / surplus after tax		(815,156)	1,050,017	(177.6)	(64,694)	(1,367,243)	(242,507)
Capital expenditure		1,993,143	13,549,650	(85.3)	988,819	37,032,535	17,627,869
Total assets		119,581,884	123,481,070	(3.2)	114,139,717	119,395,713	88,864,578
Total borrowing		81,349,000	84,286,815	(3.5)	78,424,747	82,318,696	49,910,626
Total equity		30,791,231	31,606,390	(2.6)	30,556,472	28,920,428	32,535,569
Gearing	(note A)	0.73	0.73	(0.3)	0.72	0.74	0.61
Interest cover	(note B)	1.88	2.04	(8.1)	1.79	1.75	2.21
Number of members	(note C)	37,856	43,020	(12.0)	47,803	54,319	57,867
Number of hostels	(note D)	64	68	(1.4)	69	74	78
Number of employees	(note E)	328	341	(3.8)	333	324	292

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

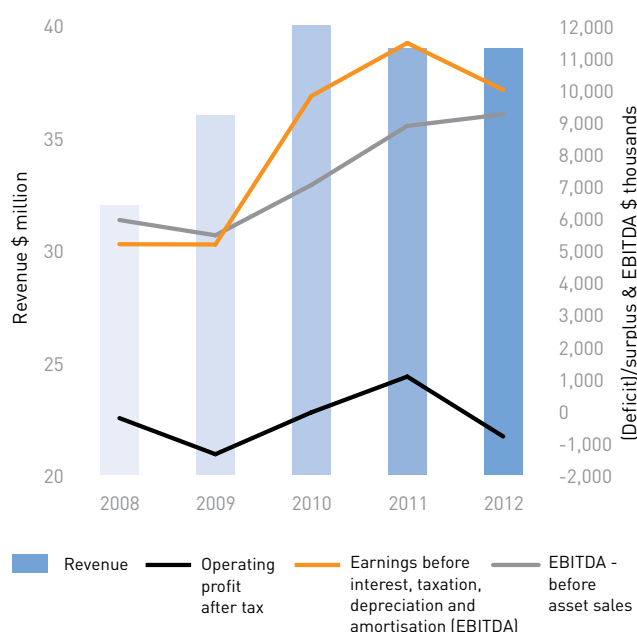
Note B: Based on operating surplus before interest charges and depreciation

Note C: Includes adult, under 18, group and life Australian members

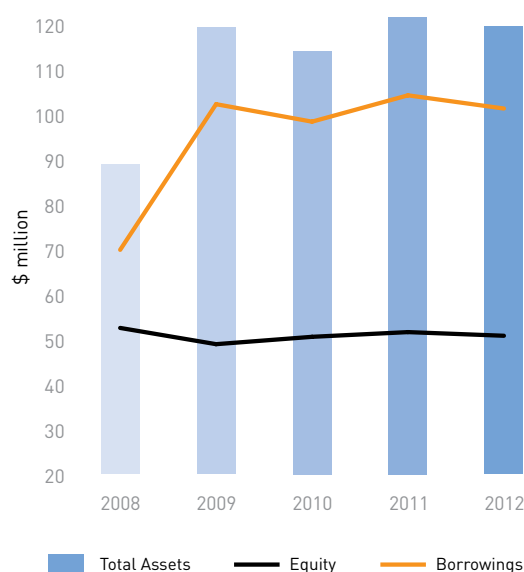
Note D: Includes staff operated, leased and associate hostels

Note E: Full time and part time equivalent to full time employees employed by YHA

Revenue, Operating (deficit)/surplus, EBITDA



Total Assets, Equity and Borrowings



YHA Accommodation

Sources of guests

YHA's largest source of guests is international visitors, making up 66% of hostel usage. A proportion of these are working holidaymakers from many countries including Canada, Germany, Japan, Korea, Scandinavia, the UK and USA. In 2012, there was a small reduction in the number of guests from some traditional markets, such as the UK and Canada, with small growth from Ireland, France, Germany, Italy and the USA and significant growth from most Asian countries.

The domestic market makes up 34% of guests. Group business continues to grow and is now 11% of total overnights. Group business is 26% of domestic overnights and 3% of international overnights. YHA also encourages young Australians travelling overseas to take out membership and use the Hostelling International global network of 4,000 hostels.

Results

In 2012, a total of 1,218,661 overnight stays were recorded at 64 hostels in the ACT, NSW, NT, Queensland and Victoria (compared to 1,198,909 overnight stays in 2011, a rise of 1.6%). Of these, 290,000 overnight stays (24%) were booked via yha.com.au and a growing proportion came through other online booking engines. While occupancy was strong in urban locations, including Brisbane and Sydney, it was under pressure in regional areas.

Hostel network

Regional hostels play an important role in dispersing both Australian and international travellers throughout the country, especially on the popular touring route of the Pacific Highway. During the year, several quality hostels joined the YHA network, at Phillip Island (Victoria), Port Macquarie (NSW) and Cape Tribulation and Mission Beach (Queensland).

Development

A reduced program of capital works was completed, amounting to \$860,000. This included construction of a partial roof and raised balustrade on the terrace at Sydney Harbour YHA; installing a new deck at Thredbo YHA; refurbishing bathrooms at Byron Bay YHA; creating a new outdoor kitchen at Darwin YHA, and reconfiguring kitchens and adding extra beds to reach the hostel's full potential at Melbourne Central YHA.

On the Gold Coast, where YHA has a property on a short term leasehold, a contract to purchase a building on a site with longer term development potential was entered into subject to due diligence. The process uncovered potentially expensive compliance issues and it was decided to withdraw from the purchase.

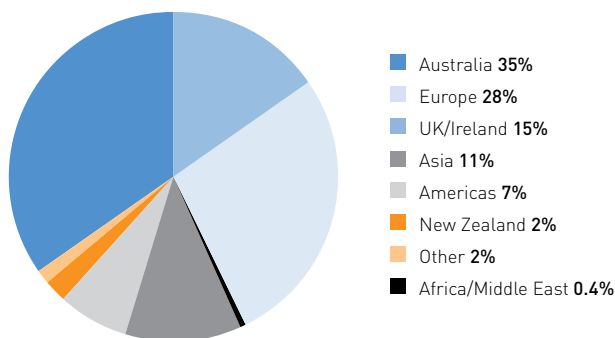
Innovations

During the year, YHA invested significantly in upgrading to a new national property management system. This was arguably the most complex and wide-ranging project in the organisation's history. Whilst there were many challenges along the way, the core components were completed on time and on budget and whilst continuity of services to guests was maintained. The new system, GuestCentrix, interfaces with bookings from yha.com.au. The website was also re-built with major improvements for customers.

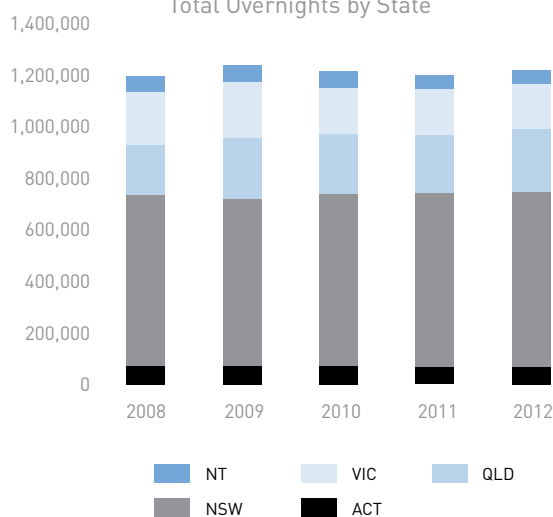


Extra rooms were added on the rooftop at Melbourne Central YHA

2012 Overnights by Country of Origin



Total Overnights by State





Students from a new partner organisation, Urban Challenge organising an itinerary

YHA Travel & Tours

Tour desks at hostels encourage guests to experience regional activities and adventures, and to stay with YHA on their travels. YHA Travel was rebranded YHA Travel and Tours and provides services for Australian and international YHA members travelling around Australia. It offers 'Australian Adventures' packages and is promoted in brochures and on yha.com.au. YHA Travel and Tours also has alliances with key travel operators, focusing on

industry leaders who share a common goal of providing affordable, quality travel services. YHA works with a range of national transport providers including Greyhound and Adventure Tours Australia and negotiates national agreements, offering members valuable discounts on key products. At the year end after a long due diligence process a new YHA Travel and Tours web-based system provided by a third party for selling Australian travel product was rolled out at all major hostels.

Groups

Attracting groups to stay at hostels has been a major focus in recent years, through broad and local marketing, as well as building alliances with major companies organising group itineraries. Group usage has grown steadily at key hostels as a result. Smaller regional hostels are also promoted through the Rent-a-YHA scheme. In August, Sydney Harbour YHA welcomed its 500th group staying overnight (22 students from Ungarie Central School in regional NSW) with an event which also celebrated the founding of the youth hostel movement by German school teacher, Richard Schirrmann, in 1909.

One of most interesting innovations during the year was 'Urban Challenge' which involves small groups of high school students organising their own stays and itineraries to YHA city hostels in an exercise to develop leadership and self reliance. The concept is modern and novel and has great potential for growth.



A group of school children from Ungarie Central School celebrated the 103rd anniversary of the youth hostel movement

YHA Accommodation

Managers' conference

A successful Hostel Managers' Conference was held in the Blue Mountains in May with over 110 delegates attending. Representatives from hostels, YHA Australia, YHA South Australia and YHA New Zealand also attended. The focus of the conference was on the roll out of the new systems and it also covered the topics of social media, channel management and sustainability.

Regional meetings

Regional meetings also took place to strengthen relations between hostel managers in various parts of the network. Five regional meetings were held during October, in Thredbo (NSW south coast meeting); Brisbane (northern NSW & southern Queensland); Port Macquarie (NSW mid-north coast); Apollo Bay (Victoria) and Cairns (northern Queensland). These meetings covered marketing, operations and cross-referrals of customers.

Number of hostels on 31 December 2012

	2010	2011	2012
Operated and/or Owned	23	23	23
Associates	44	43	39
Temporary	2	2	2
Total	69	68	64

Number of beds on 31 December 2012

	2010	2011	2012
Operated and/or Owned	3,997	3,997	4,014
Associates	2,474	2,434	2,391
Temporary	244	244	172
Total	6,715	6,675	6,577

It is assumed that at those Associate Hostels which operate another business alongside the YHA hostel, that the given number of beds is the maximum normally used by YHA members/backpackers.

Number of overnights for year to 31 December

	2010	2011	2012
Operated and/or Owned	946,236	944,812	965,391
Associates	266,512	253,070	252,572
Temporary	1,085	1,027	698
Total	1,213,833	1,198,909	1,218,661

Overnights

By Australians	378,989	414,919	420,377
By Non Australians			
From HI Countries	820,404	770,353	780,138
From Non HI Countries	14,440	13,637	18,146
Total Overnights	1,213,833	1,198,909	1,218,661

Ratios - permanent only

Beds per hostel	97	97	103
Overnights per hostel	18,101	18,150	19,645
Overnights per bed	187	186	190

Quality and Awards

YHA has rigorous systems in place to assure quality, ranging from customer ratings on yha.com.au to internal assessments. Hostelling International (HI), which is based in the UK, coordinates a program known as HI Quality (HIQ) and all major hostels are certified under the scheme. YHA also runs a mystery shopper program, providing valuable feedback from visits throughout the network.

During the year, YHA Australia gained accreditation of the network under the Australian Government's tourism quality program (T-QUAL).



YHA is generally acknowledged as having the highest quality hostels in Australia and the world and the following awards and accreditations were bestowed throughout the year.



Sydney Harbour YHA is now the most awarded hostel in the world
Left to right: Monique Ribeiro (Deputy Manager Sydney Harbour YHA) and Ross Lardner (Manager)



Brisbane City YHA entered the Queensland Tourism Awards 'Hall of Fame'
Left to right: Jon Kane (Property Services Manager, Northern Region); Kimberly Mustchin (Northern Region Manager) and Peter Miller (Brisbane City YHA Manager)

Awards & Accreditations 2012

Apollo Bay Eco YHA

- Eco Certification 4 (Ecotourism Australia)

Brisbane City YHA

- Best Backpacker Accommodation (Queensland Tourism Awards)
– Hall of Fame

Cairns Central YHA

- Best Backpacker Accommodation (Tourism Tropical North Queensland)

Grampians Eco YHA

- Eco Certification 4 (Ecotourism Australia)

Sydney Beachouse YHA

- Winner, Tourism Services (Sydney Northern Beaches Local Business Awards)

Sydney Harbour YHA

- Best Backpacker Accommodation (NSW Tourism Awards)
- Best Backpacker Accommodation (Qantas Australian Tourism Awards)

YHA Australia

- T-QUAL Accreditation

YHA Ltd

- Bronze award for 2011 Year in Review (Australasian Reporting Awards)

Sustainability

Environmental sustainability

YHA is committed to reducing its environmental impact and promoting the benefits of travelling lightly on the planet. YHA has had an environmental policy in Australia for 25 years, and is constantly reviewing practices to 'green' the organisation further. Environmentally-friendly initiatives range from grey water recycling at Blue Mountains YHA to passive solar design at Apollo Bay YHA, and vegetable gardens and composts at Cairns Central YHA.

Alice Springs solar energy

During the year, an interactive display was installed at Alice Springs YHA to show guests in real time the energy savings generated from solar power. Solar power was installed at this hostel with assistance from a federal government 'Solar City' grant, as well as a contribution from YHA's 'Sustainable Hostels Fund' (made up of guests' voluntary contributions of \$1 per booking at yha.com.au).

Carbon audits

Despite occupancy of the five largest hostels in NSW/ACT increasing by over 3,800 overnights in 2012, these hostels used over 200,000 kilowatt hours less electricity than in 2011 as a result of a range of energy saving measures introduced. The combined carbon footprint of these properties was therefore reduced by approximately 6%.

YHA sponsored students from regional Australia to visit Sydney
Left to right: Student from Clontarf Academy, Broome; Julian Ledger (YHA Ltd CEO); Silke Kerwick (Communications Manager)

Social responsibility

YHA places emphasis on social, as well as environmental, responsibility and throughout the year was involved in several projects to 'give back' to the community. This included a team of staff collecting rubbish in Jubilee Park, Glebe (NSW) for 'Clean Up Australia' Day. To celebrate diversity and social inclusion, YHA was a participant at 'Coast Out' ('Gay, Lesbian & Friends' festival) in Coffs Harbour. To promote low-impact travel and environmental awareness, YHA sponsored two international teams cycling around Australia.

YHA also sponsored a group of indigenous teenagers from Broome staying at Sydney Central YHA under a Clontarf Foundation program that brings young people on familiarisation trips from the country to the city. At Sydney Harbour YHA, accommodation was provided for the winners of a Human Rights Commission competition, bringing ten budding film-makers from around Australia to produce an anti-cyber bullying video at the National Institute of Dramatic Art (NIDA).

Preserving the past for future generations

At Sydney Harbour YHA - where just over \$1 from each guest's overnight stay goes to a fund for conserving and interpreting the onsite history and archaeology - several public events were held over the year. The site was showcased to 360 people as part of Historic Houses Trust 'Sydney Open'; 15 volunteers participated in a successful 'Archaeology Weekend' program (experiencing first-hand what it is like to be an archaeologist), and an inaugural 'Teaching Archaeology' symposium was hosted, bringing educators from around the country together to discuss ways to get students engaged with archaeology.



Member Services

Member services

YHA provides a range of services to members to complement the guest experience at hostels. From travel services to online magazines and electronic newsletters, YHA aims to build a community of connected travellers who can share their travel experiences.

Membership trends

There are 37,856 YHA members in the ACT, NSW, NT, Victoria and Queensland and a further 17,948 international members who joined while in Australia. During the year, Australian membership decreased by 12% while group membership (taken out by educational, cultural and sporting organisations) grew by 9%. International membership decreased by 14% due in part to changed arrangements with a particular inbound partner.

More than half of YHA's members (51%) join online and 37% renew online at yha.com.au, with a further 16% renewing via BPAY. YHA runs a coordinated direct mail campaign to encourage existing members to renew, using email as the primary means of communication. As an incentive to renew online, a free night at selected hostels was offered during some of 2012, with a stable renewal rate during the year of 37%.

YHA online

YHA's website - yha.com.au - records an average of 6,300 user sessions each day, with the typical user spending 5 minutes on the site. YHA guests are very active on posting hostel reviews on the site. YHA is also active in social media, particularly Facebook and YouTube. Several new videos were produced to promote YHA online, including footage shot on the 'Legendary Pacific Coast' in NSW north of Sydney to complement marketing of this route.

Marketing to members

A range of marketing activities was carried out including media liaisons, brochures, tactical campaigns and e-communications. State-based activities are complemented by national and international marketing carried out by YHA Australia, including coordination of the website, yha.com.au, and production of the annual YHA Accommodation Guide. During the year, ongoing advertising, cooperative marketing and public relations with tourism partners took place.

Media coverage

There was positive coverage of YHA in a range of media, including The Age, Brisbane Times, Sydney Morning Herald, Jetstar magazine, Scoot airlines magazine, CLEO magazine,



YHA is moving more towards online communications with members and guests

National Geographic Traveller and Education Today. Brisbane City YHA even hosted a weather team from Channel 10 to conduct a live broadcast from the rooftop. International media coverage flowed from familiarisation visits for journalists and bloggers from around the world. As a result, many items about YHA were published or broadcast in metropolitan newspapers, on online news and travel sites, and in industry publications.

Communications

YHA's members' magazine, *Backpacker Essentials*, was mailed to 25,000 members nationally three times during the year. A digital flip version was sent to a further 25,000 members. The November 2012 edition was the final print version produced, as, from 2013, *Backpacker Essentials* became an online only publication, available in both 'digital flip' and iPad versions. A major advantage of digital publications is that they can be accessed wherever YHA members are travelling. Thanks were extended to the Managing Editor of *Backpacker Essentials*, Janet McGarry, for the success of the magazine over 54 print editions.

Membership Statistics as at 31 December 2012

ACT,NSW,NT, QLD & VIC	2010	2011	2012	%
Youth	4,200	3,381	2,692	(20)
Adult	32,596	28,535	24,494	(14)
Life	10,090	10,124	9,601	(5)
Group	917	980	1,069	9
Individual & Group Membership	47,803	43,020	37,856	(12)
Internationals	22,110	20,829	17,948	(14)
Total Membership	69,913	63,849	55,804	(13)

Member Services

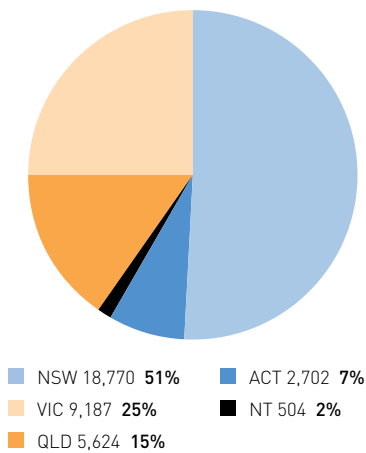
Events

YHA staff attended the Melbourne and Sydney Adventure Travel & Backpackers Expos with a '2 years for 1' membership special offer. YHA was also promoted at university 'O Weeks', international days, careers/gap year and travel expos, and community events. YHA participated in an Australia & New Zealand Agent Workshop (ANZAW) to develop links with education agents and language school representatives, and also hosted the first Tourism Queensland Operator and Agent Workshops in Brisbane. At Melbourne Metro YHA an 'Exposure' event was held to celebrate the hostel's 20th anniversary, and Melbourne Central YHA hosted 'The Amazing Race' with an event for guests and representatives of the travel industry.

Partnerships

YHA works with various partners in the tourism, youth, cultural and educational fields. Joint promotions took place throughout the year including cooperative marketing with National Youth Week, universities, Kathmandu outdoor equipment/clothing company and a range of discount providers.

2012 Individual Members by State



YHA provides members with a range of discounts

Corporate Affairs

Communicating with members

The Annual General Meeting (AGM) was held in Sydney in April, with voting for the Board of Directors election conducted electronically with members. A Members' Meeting was also held in Brisbane in August.

Towards a national merger

YHA made another substantial step towards becoming a national organisation when YHA Victoria merged with YHA Ltd from 1 January 2012, with restructuring and integration following. By the end of 2012, 92% of total members in Victoria had transitioned their membership to YHA Ltd. A Memorandum of Understanding was also signed with YHA South Australia in late 2012, and due diligence commenced, with South Australian members expected to vote on a proposed merger with YHA Ltd later in 2013.

Office consolidation

The former Sydney office of YHA NSW was sold in 2011 and then leased back on a short term basis. In April 2012 this office and the adjacent leasehold offices were vacated and after a thorough search YHA Ltd and YHA Australia relocated to a single floor in a modern building at 9 Castlereagh Street. The benefits of having the whole team in one place and in an improved working environment immediately began to be realised. Meeting rooms were named after Richard Schirrmann (the founder of youth hostels), Altena castle (the location of the first hostel) and Paddy Pallin (a founder of YHA in NSW).

Industry involvement

In 2011, the CEO of YHA Ltd, Julian Ledger, chaired a panel of the NSW Government's Visitor Economy Taskforce on Youth and International Education. Some of the recommendations of that panel have now been realised with concessions on NSW public transport for international students, a unit within Destination NSW with responsibility for the youth sector and finally a greater appreciation of the role of events and festivals in driving youth travel choices. The youth

sector is discrete and it is essential that Tourism Australia and the State Tourism Organisations are sufficiently resourced to build expertise in the market, bring partnerships together and strengthen Australia's reputation as a global leader in youth travel and tourism.

Connecting with 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. During the year, the CEO of YHA Ltd, Julian Ledger attended the HI CEO meeting at one of the Cologne DJH hostels in Germany. One session was for regional breakouts including a productive Asia Pacific group meeting. Director, John Clancy, and the CEO also joined the YHA Australia delegation to the 49th Hostelling International Conference held in Slovenia. HI has a major project underway called HI-360 which includes redevelopment of the international website hihostels.com.

50th anniversary of YHA in Queensland

In October, Brisbane City YHA hosted the 50th anniversary of YHA in Queensland. Over 80 guests attended the event, including members, directors, and staff past and present. Special guests included Brian Lepper (the first President of YHA Queensland, from 1962-1972) and Bob Bimrose (the last President, from 2000-2009 - currently President of YHA Ltd.) Also in attendance was Robert Kay (the first Chairperson of YHA Queensland, from 1962-1964) and Toni Vincent (the last Chairperson, from 2002-2009). Geoff Cowles, former Returning Officer for YHA Queensland gave a speech celebrating the history and achievements of the organisation and thanking the people who had helped build it, especially Dawn Montgomery (the first Executive Officer). From records kept, YHA was able to construct displays of past hostels, as a tribute to the early endeavours of the Board, members and 'bushies'. A commemorative

publication highlighting successes and events over the 50 years extracted from 'The Queensland Hosteller' was also produced as a memento of the occasion.

Archive project

During the year, work was undertaken on YHA's historic archives collection, consisting of materials from the beginning of YHA in Australia to the present. Items in the collection were reviewed for relevance, with further cataloguing and documenting of materials occurring. The archives were also relocated to a specialist archival storage, with an emphasis on preserving significant items for posterity and for celebrating YHA's 75th anniversary in Australia, in 2014.

Small Hostels Development Fund

YHA has a Small Hostels Development Fund to assist with works at regional hostels. During the year, YHA launched a donations and bequests program, and received with thanks donations from Father John O'Ryan and Robert Fyfe, plus many other donors who have chosen to remain anonymous. A bequest was also received with thanks from the estate of former Victorian member, John Scholes.

Vale Charlie Hormann

YHA honours the passing of Honorary Life Member, Charlie Hormann, who died aged 86. Charlie's membership of YHA dated back to the 1940s when he was an early active member and whose carpentry skills were in demand as he volunteered his services at small bush hostels. Later he was employed by YHA in Sydney as Hostel Services Manager, a position he filled for almost 20 years. In this time hostels he helped develop, and which are still in the YHA network, included Thredbo, Pittwater and Bundanoon. He played a key role in setting a standard for good design and quality of fittings and for commitment by an employee, which have served YHA and its members very well. In his retirement Charlie maintained an active interest in YHA's development, including the bigger and more modern hostels, and he always carried with him his original YHA membership card.

Governance

as at 31 December 2012

Directory of the organisation

PATRON

Her Excellency Professor
Marie Bashir AC, CVO,
Governor of New South Wales

HONORARY LIFE MEMBERS

Ms E Lyle OAM
Mrs B Grant OAM
Mr W King
Mr T W Blunden
Mr J M Cras
Mr C Hormann
Mr B Hansford
Mr D Wardle
Mr H Andrew
Mr J Bowles
Mr J Whitehead
Mr K Grey
Mrs G Grey
Mr Ian Newson
Mr A Schmidt

PRESIDENT

Mr Bob Bimrose

VICE PRESIDENTS

Mr Greg Mortimer OAM
Mr Hugh Andrew
Mr Paul Page
Mr David Wardle
Miss Edna Lyle OAM
Mr Ray Temperley
Mr Jim Whitehead
Mr Bruce Hart
Mr Russell Thomson

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 and a register is kept outlining disclosures, which is updated yearly or as a disclosure is made.

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 CEO is responsible for day to day management of the business, subject to policies and directions 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.

Chairperson

Ms Helen Harms

Vice Chairperson

Ms Leonie Thijssen

Chief Executive Officer

Mr Julian Ledger

Board committees

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

Each Committee has a written Charter that sets out 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. 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.

Nominations and HR committee

A key part of the objectives of the Nominations and HR Committee is to ensure that the YHA Board is skills based, shows diversity and is made up of Directors with a range of expertise and experience. The Committee is responsible for managing the Directors Familiarisation Program. The aim of the program is to ensure that candidates for the Board understand the obligations of a Director under the Corporations Act. The Directors Familiarisation Program specifically covers the operation of the Board and its Committees and financial, strategic, operational and risk management issues. Once elected, new Directors participate in an induction program, and the Nominations & HR Committee ensures that an effective process is in place for any newly elected Director, and regularly reviews the effectiveness of that process. In addition, YHA Ltd arranges continuing education and training for the Directors.

The Board recognises that regular reviews of its effectiveness and performance are critical to improvement of the governance of the organisation. Accordingly, the Board, with the assistance of the Nominations and HR Committee, undertakes an annual review and evaluation of the performance of the Board (including against the requirements of the Board Charter) and its Committees. The Chair of the Board and the Chair of the Nominations & HR Committee are responsible for the annual review and evaluation.

Audit and risk committee

The Board recognises risk management is an integral component of good corporate governance and 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. The Board is responsible for determining risk likelihood, overseeing the development and implementation of a risk management framework, and maintaining adequate monitoring and reporting.

Board meetings

The Board of Directors met in person eight times between January and December 2012 with four supplementary teleconferences. In addition, the Nominations and HR Committee met five times and the Audit and Risk Committee six times throughout 2012, with both these committees undertaking detailed work on behalf of the Board.

Board members

During 2012 the Board was made up of ten Directors with each Director normally serving a three-year term before deciding whether to stand again for re-election, with a third of the Board potentially changing each year. The additional (one) Director was as a result of the co-opting of two YHA Victoria Directors with the merger of YHA Ltd and YHA Victoria Limited on 1 January 2012 and the Board will drop back to nine in 2013. The Board of YHA Queensland and YHA Victoria Limited have the same Directors as YHA Ltd.

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 page 28 sets out their qualifications and experience.

Board evaluation

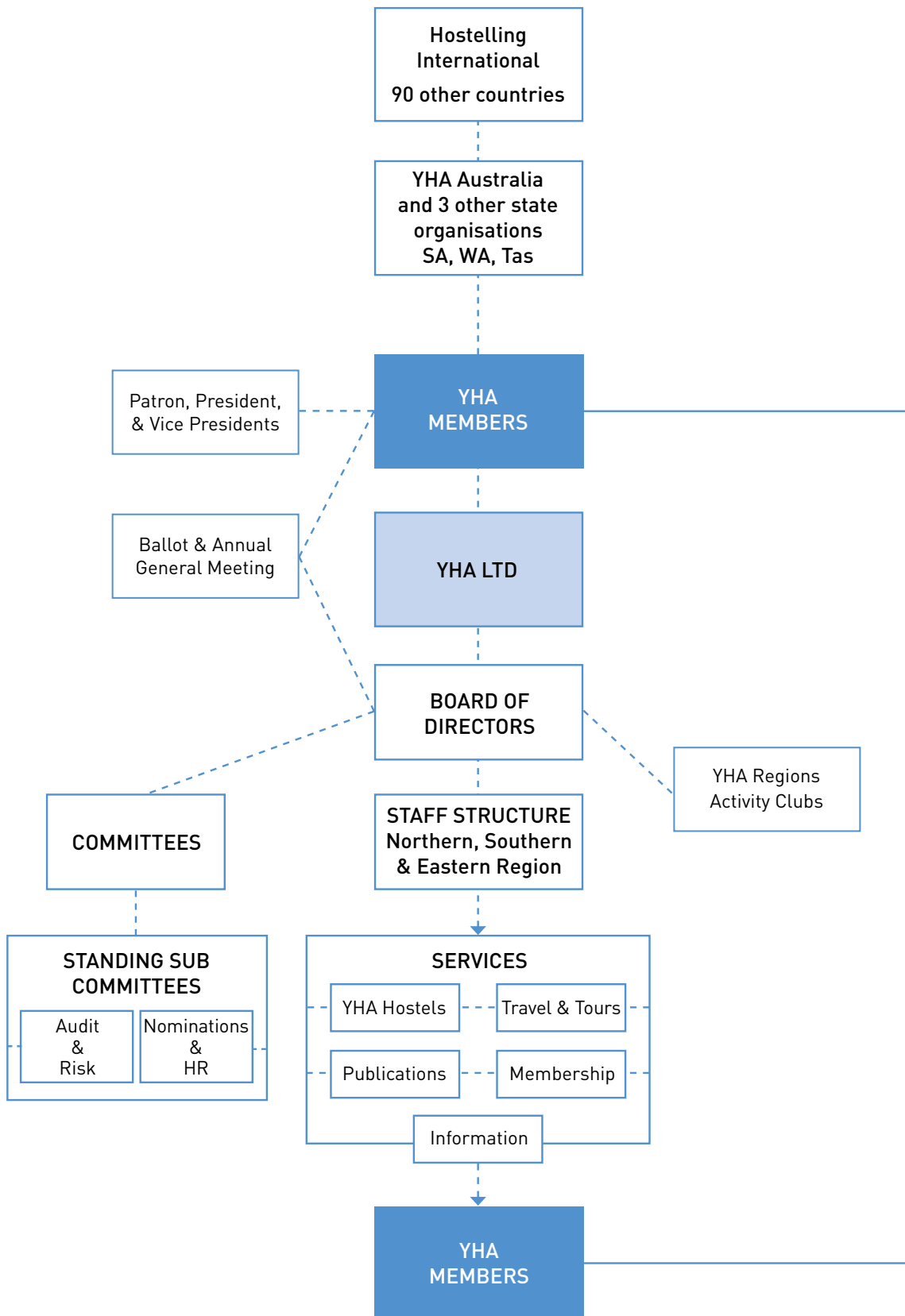
In 2012 for the first time an external evaluation of the Board took place with input from Directors and management. The evaluation found that the YHA Board is operating very effectively and its members consider the organisation to be in transition, dealing with the challenges of moving from a regional to a national model, and moving from a development to management focus, while addressing challenges and opportunities such as the high Australian dollar and the Asian market. The Boardroom environment is considered to be inclusive and respectful, which is facilitated by the Chair. Overall, there is the challenge of remaining true to the YHA mission, but recognising the commercial focus required in being sustainable into the future. The evaluation process itself was useful and the report provided valuable recommendations for the Board to act upon.



Left to right: Julian Ledger (CEO); Euan Prentice; Helen Harms; Leonie Thijssen; Toni Vincent; Cameron Quinten; Janet Richardson; Sam Vella; David Neish; John Clancy; Rob McGuirk



Structure of the Organisation



Human Resources

as at 31 December 2012

Workforce profile

At the year end, YHA employed 328 people in the ACT, NSW, NT, Victoria and Queensland. YHA Ltd employs over thirty-five different nationalities, showcasing the rich cultural diversity of employees. The average age of staff was 32 with 86% 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 decreasing to 90% (91% in 2011), with 83% 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 2012, these included the City to Surf fun run, staff blood donations to the Australian Red Cross, a bake off competition (also supporting the Red Cross) and a Christmas raffle to raise funds for Community Aid Abroad (Oxfam).

Training & developing staff

Training and staff development are important components of YHA's recruitment and retention policy, with both in-house and external training provided. YHA conducts an induction program for new staff in Sydney, Blue Mountains, Canberra, Brisbane and Melbourne, as well as Sales/Customer Service and Business Planning courses tailored specifically for the organisation. 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 actively encourages exchanges between hostels and during the year several two to four week exchanges took place involving staff from Alice Springs, Canberra, Cairns, Thredbo, Perth, Sydney, Adelaide and Melbourne. YHA also encourages transfers, secondments and promotions between States and Territories. YHA also participates in university internships and student work experience programs.

Recognising staff

YHA recognises and rewards performance through an 'Employee of the Month' scheme. The 2012 'Employee of the Year' was shared between two Canberra City YHA staff; Deputy Michelle Vicary and Receptionist Arthur Lee. Several staff members also reached significant service milestones during the year. Congratulations to Helen Vine (Operations) who has worked for YHA for twenty years, Paul Cason (Byron Bay YHA) for 15 years and Robert Henke (Operations), Arlene Eksikloglu, Lisa Lin, Ananda Armstrong (Sydney Central YHA), and Jeffrey Dineson (Melbourne Metro) who each achieved 10 years of service.

Highlights of the year

- The Manager of Canberra City YHA gave a presentation at the YHA New Zealand Managers' Conference
- The development of a new YHA Ltd Workplace Health and Safety Management System
- YHA Ltd staff trained a total of 244 staff from YHA Ltd, YHA WA and YHA SA in the new property management system, GuestCentrix.

Enterprise Agreement

The YHA Enterprise Agreement covers all 272 hostel staff, and runs from 2011 to 2015. YHA Victoria hostel employees all transitioned to this agreement successfully at the merger date of 1 January 2012.

Technology innovations

YHA's Intranet, named Egor, continues to be an interactive resource centre of up to date documentation and information from around the network. Each month, the home page receives an average of 22,500 visits. Besides many operational and communication tasks, the Intranet is also used for distribution of papers for both YHA Ltd and HI Australia Boards.

YHA is committed to training staff across the network, and during the year rolled out an eLearning system, Trainee, to deliver online training. Five eLearning modules have been developed and a total of 111 employees completed eLearning modules in 2012. Additional modules are in development with a plan of increased emphasis on eLearning in the future.

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

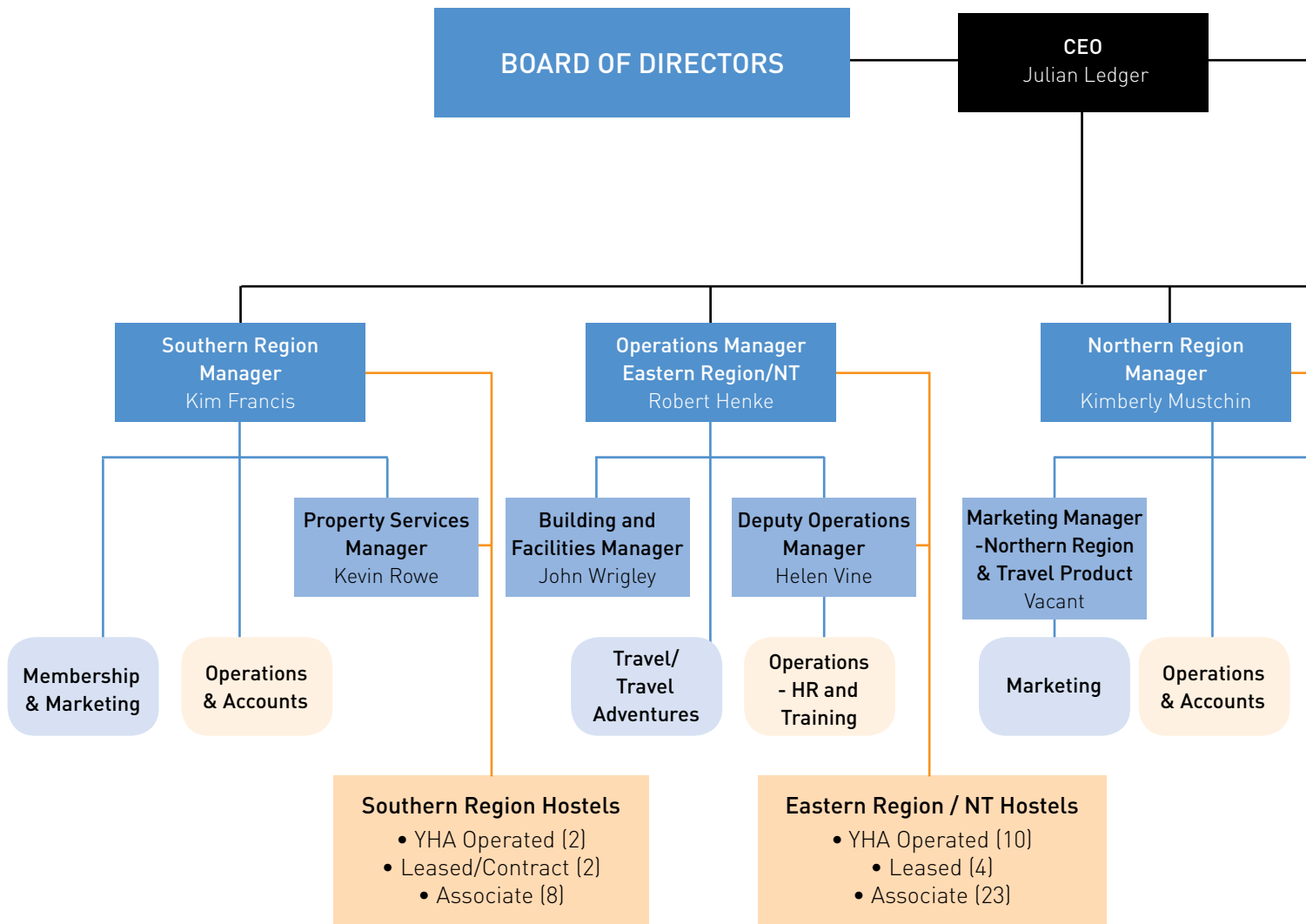
Safety is an important issue for YHA and the organisation has a good record with workplace safety and injury management. Workplace health and safety best practice means that YHA and its employees are all responsible and accountable. YHA has Workplace Health & Safety Committees based in both Sydney and Brisbane, with representatives from hostels and administration offices meeting four times a year. Amendments required for the new Workplace Health & Safety harmonisation laws were researched and are being implemented.

Wellbeing

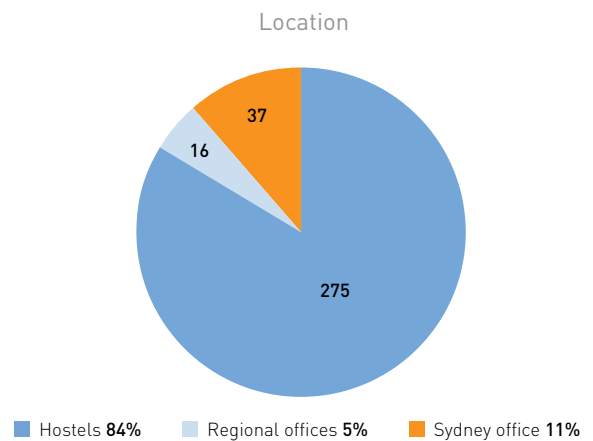
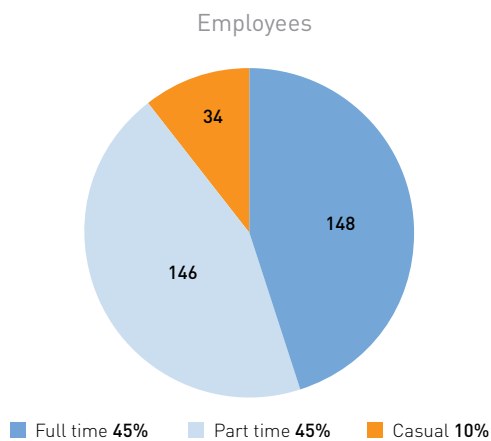
As part of its commitment to its people, YHA records staff sick leave against total hours worked. This allows YHA to monitor and react early to changes in staff wellbeing. Staff worked a total of 478,140 hours during the year and recorded 7,350 hours personal leave (sick leave and carers' leave), comprising 1.5% of total hours worked. This was the same ratio as the year before and low by external standards. Flu vaccinations are offered to staff as a preventative measure.

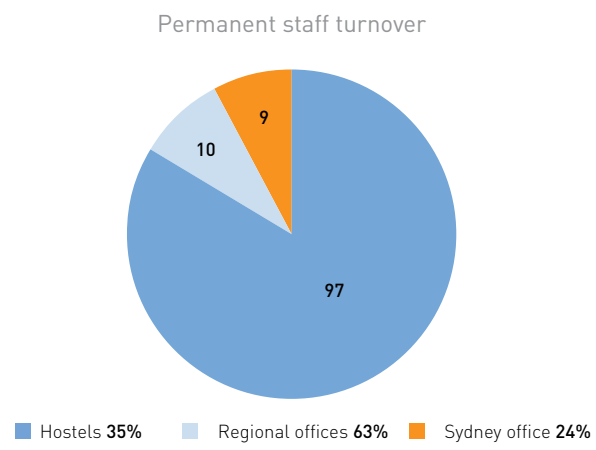
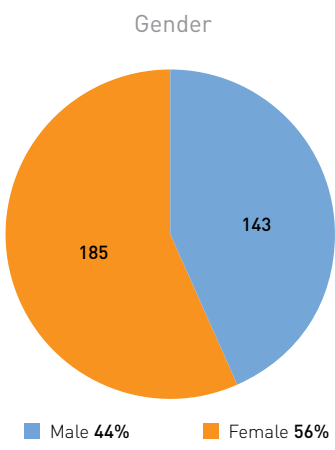
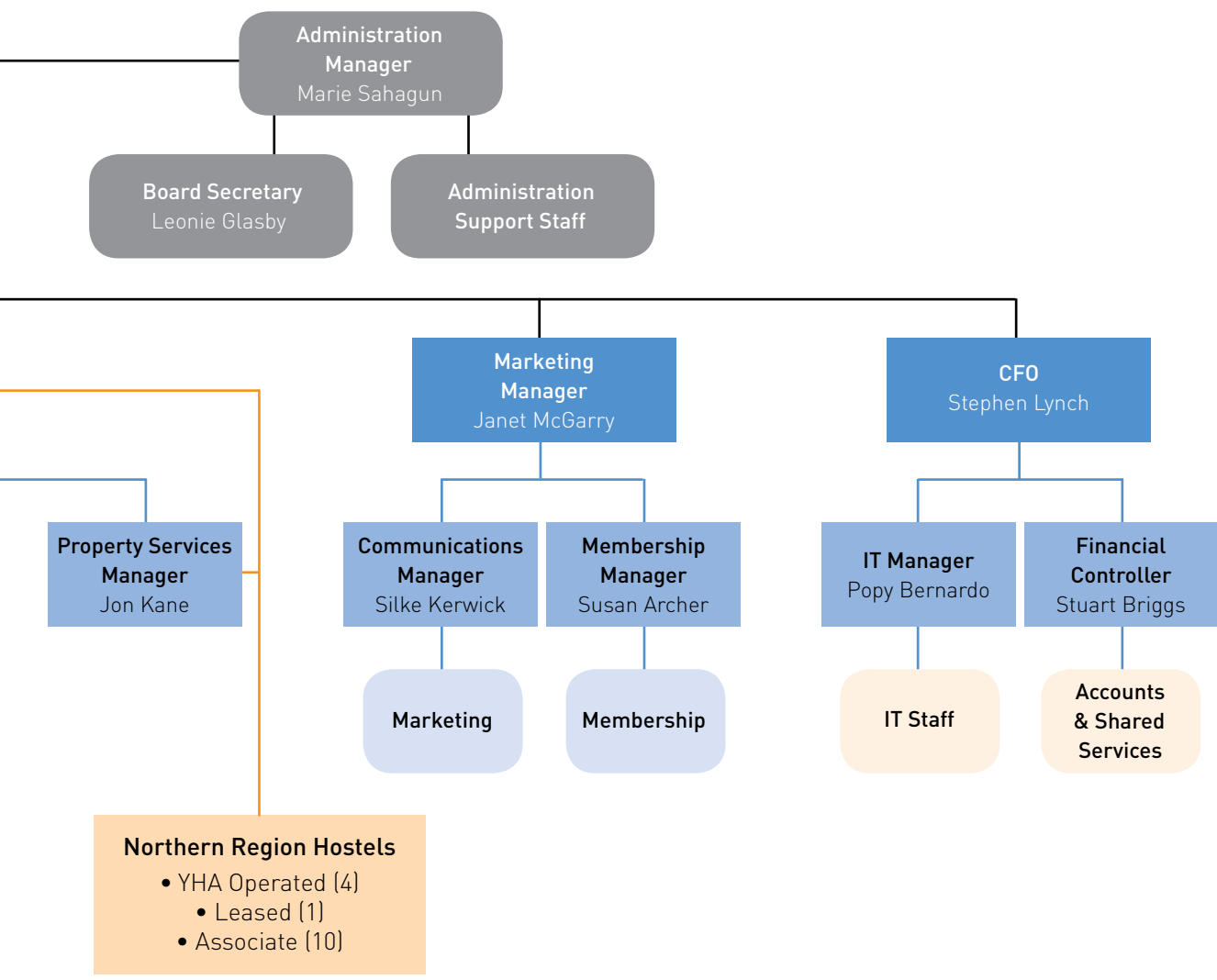
Human Resources

Staff structure as at 31 March 2013



Staff statistics snapshot as at 31 December 2012





Strategic Planning & Outlook

Strategic planning

YHA's 2011-2015 Strategic Plan is built from the organisation's core values, and dovetails with the Plan of YHA Australia nationally. The Strategic Plan encompasses a range of critical success factors designed to focus the business and ensure that YHA remains a market leader. These include emphasis on high quality hostels in the right locations; on delivering the best guest experience; a culture of sustainability; having skilled, motivated staff, and efficient and effective processes; being change ready; developing industry relationships in Australia and overseas, and delivering effective governance and risk management.

More than 75% of the actions in the Plan have now been completed and the next major review will take place in July 2013 in Alice Springs at a Joint Strategic Planning Conference with the National Office and YHAs in other states. The output will be a new 2014-2018 integrated Strategic Plan for YHA in Australia. Themes will include:

- The 20-year vision for YHA
- Customer engagement, loyalty and membership
- Accommodating the growth in travellers from Asia
- The life cycle of YHA's accommodation and investing in the future
- A national YHA organisation.

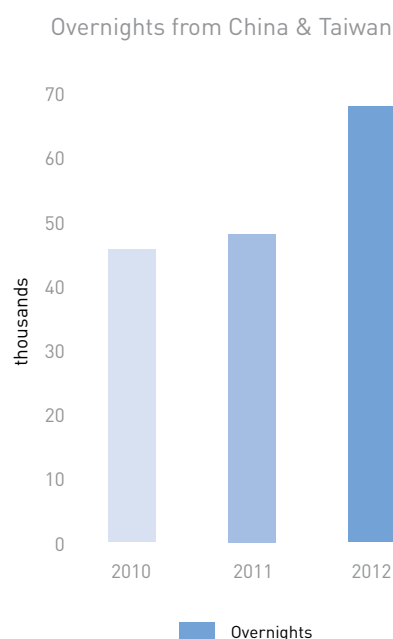
During the decade leading up to 2010, YHA grew the hostel network at a rate which had not been previously achieved. New hostels were built at Brisbane, Sydney, Apollo Bay and Coffs Harbour and the hostel in Cairns was extended. Existing buildings were purchased at Blue Mountains, Airlie Beach, Canberra, Melbourne and Byron Bay, and in most cases required major refurbishment. In 2011, the previously leased hostel at Sydney's Railway Square was purchased. Over the 12 year period,



The number of Asian guests has been steadily increasing

putting aside those beds in smaller hostels in the same location that were sold, there was a total net increase of 1,710 beds in hostels operated by YHA. In particular three major projects at Sydney Harbour YHA, Melbourne Central YHA and Brisbane City YHA were each completed in 2009 with a total of 782 additional beds, with Railway Square having a further 280 beds. These projects were completed at the time by the three respective State organisations which have since merged to become YHA Ltd. The total project costs were over \$60M and the projects were funded by a mix of YHA equity and a significant increase in bank debt.

After this major expansion, YHA is now in a period of consolidation. The four major new properties are all very well located and typically are achieving bed occupancy of up to 80%. YHA's focus is on debt retirement through maximising its earnings before interest, tax, depreciation and amortisation (EBITDA). This is being aided by historically low interest rates, however, on the other hand, international visitation numbers have been uneven.



General outlook

In 2012, the tourism sector continued the weakness experienced in recent years, caused mainly by the poor economic environment in Europe and the US, youth unemployment and lessening confidence to long-haul travel to Australia. The strength of the Australian dollar against foreign currencies also had an ongoing negative impact, with Australia now perceived as an expensive destination for many international visitors.

The rise of Asia continues, with China now having overtaken the UK as the second largest source of visitors to Australia (after New Zealand). Aiding this growth has been the rapid addition of airline capacity from China; an easing of restrictions on gaining tourist and student visas, and a re-pivoting of Tourism Australia's promotional efforts to focus more on Asian markets. YHA is well placed to accommodate these visitors with its offering of clean, safe, good value facilities.

Overall, backpacker numbers have remained stable; however, proportionally more time is now spent in the cities and slightly less in regional areas and people are spending a larger part of their visit in rented accommodation. However, on a very positive note, the numbers taking advantage of working holiday visas into Australia has continued to grow at an increasing rate. In the second half of 2012, the increase in new visas was 23% over the previous year. At any one time, there are more than 160,000 working holidaymakers in Australia. Overall 565,000 backpackers visited Australia in 2012 and stayed for an average of 80 nights. On present trends, an increase in numbers is expected.

In 2013, Tourism Australia is undertaking a major global youth campaign to attract working holidaymakers with a six 'best jobs in the world' promotional offer. Focusing on working holidays is the right strategy whilst the Australian dollar remains high and casual work is available in Australia especially to young international visitors who are flexible to travel and find it.

Outlook for YHA

- YHA will continue to invest in innovative IT systems integrated with yha.com.au to make the bookings process more efficient for members and guests. The new property management system, GuestCentrix, and new YHA Travel and Tours system were rolled out in 2012 and YHA's website, yha.com.au was re-launched including Chinese, Japanese and Korean translations. In 2013, the new membership system, fully integrated with the front desk system, will be launched along with a new version of the hostel-to-hostel booking system known as eNights.
- YHA has embraced the changing external environment by targeting more guests from Asia, including individual travellers and groups. In August 2012, for the first time ever, YHA received more bookings from China on yha.com.au than from any other source country. The significant growth in visitation from China (including Hong Kong and Taiwan) from tourists and students will continue. To gear up for the growth in numbers of Chinese guests, many city hostels now have Mandarin speaking staff on their reception teams.
- The high Australian dollar has become the new normal, meaning that YHA will continue to be constrained in increasing hostel rates to cover rising costs, and must build profitability and focus on productivity savings through business planning at the hostel level and better systems.
- YHA will leverage the new global youth campaign targeting working holidaymakers and have a strong presence at the World Youth Student Travel Conference being held in Sydney in September 2013. YHA's priority remains to build occupancy at key city hostels, which in turn can feed the regional network by dispersing travellers throughout the country.
- YHA will target more Australian guests, including groups, which continue to grow in numbers each year. Some hostels are already at capacity for groups in many months and so the challenge is to direct the business to the quieter periods and hostels.
- With domestic airfares remaining very competitive as the airlines battle it out, this creates opportunity to further tap into prompting short breaks where good value airfares can be combined with great value YHA accommodation. For the youth market, the ongoing operation of Tiger Airlines either as part of, or separate to, Virgin is important, as are the number of regional destinations served by low cost carriers.
- Finally, YHA will continue to work towards a national merger, following the successful integration of YHA Victoria into YHA Ltd that took place in 2012. The due diligence process is now underway with YHA South Australia with the objective of a merger later in 2013. The task of continuing to integrate operations with YHA Australia will also continue.

Relations with the Government and other Organisations

YHA Ltd is an autonomous self-financing body. 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.

YHA hostel employees are covered by an Enterprise Agreement under the Fair Work Act 2009 and the National Employment Standards.

State, Territory & Local Governments

The Governor of NSW, Her Excellency, Professor Marie Bashir, AC, CVO is Patron of the organisation.

YHA Ltd is a not for profit company limited by guarantee under the Corporations Act (2001).

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.

NSW Government Stores allow YHA to buy from them at contract prices. (Authorisation No: 7921000).

YHA Travel is registered under the NSW Travel Agents Registration Act, under the NT Consumer Affairs and Fair Trading (Travel Agents) Regulations, and in Queensland and Victoria.

YHA leases land at modest rent from the Department of Natural Resources and Water in Queensland.

Throughout the course of the year, YHA ensured the NSW State Government, the ACT Government, the NT Government, the Queensland State Government, the Victorian State Government and Local Government 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 over 100 organisations in the backpacking sector, including publishers, accommodation providers, travel agents and transport and tour operators. This group acts as a communication and lobby body for the industry in NSW and is steadily becoming more significant as the industry matures. The BOA Secretariat is based at the YHA office in Sydney and meetings are also convened in regional NSW to target local participation from operators in country areas. Local operators participated in the Adventure Travel & Backpackers Expo in Sydney, with stands promoting regional backpacking in NSW.

The Northern Region Marketing Manager is on the committee of Adventure Queensland (AQ); a committee member of the Gold Coast Adventure Travel Group (a group funded by Gold Coast City Council and Gold Coast Tourism; and also assists Women in Tourism.

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 a member of the Tourism Visa Advisory Group of the Department of Immigration & Citizenship (DIAC).

YHA Ltd is a member of the following organisations:

Accommodation Association of Australia (AAA)
ACT & Region Chamber of Commerce & Industry
Adventure Queensland
Associations Forum Pty Ltd
Australian Conservation Foundation
Australian Federation of Employers & Industries
Australian Institute of Management
Australian Institute of Company Directors
Australian Society of Archivists
Australian Society of Association Executives
Australian Society of Travel Writers
Australian Sports Commission
Australian Tourism Export Council (ATEC)
Backpacker Operators Association of NSW (BOA)
Backpacker Youth Tourism Advisory Panel (BYTAP)
Blue Mountains Tourism Association
Brisbane Marketing
Byron Visitors Centre
Central Australia Tourism Information Association (CATIA)
Coffs Tourism
ecoBiz Partner Program (DERM)
Ecotourism Association of Australia
Glebe Chamber of Commerce
Gold Coast Tourism (GCT)
Gold Coast Adventure Travel Group (GCATG)
History Teachers' Association of NSW
International Air Transport Association (IATA)
Museums Australia
Nature Conservation Council of NSW
National Parks Association of NSW
National Trust of Australia (NSW)
Newcastle City Tourist Association
Outdoor Recreation Industry Council of NSW
Property Council of Australia
Queensland Tourism Industry Council (QTIC)
RIM Professionals Australasia
Southern Queensland Tourism
Study Gold Coast
Study Cairns Australia
Sydney Convention & Visitors Bureau
The Legendary Pacific Coast
The Rocks Chamber of Commerce
Thredbo Chamber of Commerce
Travel Compensation Fund
Tourism Industry Council NSW
Tourism Snowy Mountains
Tourism Top End
Tourism Tropical North Queensland (TTNQ)
Victorian Tourism Industry Council (VTIC)
Victorian Employers' Chamber of Commerce and Industry (VECCI)
Wilderness Society
Women in Tourism (WIT)
YHA Australia (HI Australia)
Youth Action and Policy Association

YHA Hostels in the ACT, NSW, the NT, Queensland and Victoria

as at 31 December 2012

Hostel	Managed by	Beds	Status
Airlie Beach 394 Shute Harbour Rd, QLD 4802	Mark Juppenlatz	86	Freehold owned by organisation. Converted motel.
Alice Springs Cnr Parsons St & Leichhart Tce, NT 0870	Roger Wileman	108	Freehold owned by organisation. Converted open air cinema.
Apollo Bay 5 Pascoe St, VIC 3233	Gay & Gilbert Brooks	72	Freehold owned by organisation. Management Service Contract. Purpose built hostel.
Blue Mountains 207 Katoomba St, Katoomba NSW 2780	Ann Westgate	200	Freehold owned by organisation. Converted guesthouse.
Blue Mountains Hawkesbury Heights 836 Hawkesbury Rd, NSW 2777	Carolyn & John Beazley	12	Land leasehold; purpose built hostel owned by the organisation.
Brisbane City 392 Upper Roma St, QLD 4000	Peter Miller	373	Freehold owned by organisation. Two lots amalgamated. Purpose built hostel.
Bundanoon Railway Ave, NSW 2578	Glenn Robinson & Alison Shaw	36	Freehold owned by organisation and leased to the manager. Converted guesthouse.
Byron Bay 7 Carlyle St, NSW 2481	Paul Cason	107	Freehold owned by organisation. Purpose built hostel.
Cairns Central 20-26 McLeod St, Cairns, QLD 4870	Courtney Preo	225	Freehold owned by organisation. Purpose built hostel.
Canberra City 7 Akuna St, Canberra, ACT 2600	Wim Hanse	284	Freehold owned by organisation. Converted office block.
Coffs Harbour 51 Collingwood St, NSW 2450	Graeme Diffey	92	Owned by organisation and leased to manager. Purpose built hostel.
Coolangatta 230 Coolangatta Road, Bilinga, QLD 4225	Warren Nicholas	82	Owned by organisation and leased to manager. Purpose built hostel.
Darwin 97 Mitchell St, NT 0800	David Boyce	168	Sub-leased from Globies P/L
Glebe Point 262-267 Glebe Point Rd, Glebe, NSW 2037	Craig Tester	151	Freehold owned by organisation. Converted motel.
Grampians/Halls Gap Cnr Grampians and Buckler Rd, VIC 3381	AJ & Jason Bunn	64	Freehold owned by organisation. Management Service Contract. Purpose built hostel.
Melbourne Central 562 Flinders St, VIC 3000	Bronwyn Adams	208	Freehold owned by organisation. Converted heritage hotel building.
Melbourne Metro 78 Howard St, VIC 3051	Marjon Burgess	360	Freehold owned by organisation. Purpose built hostel.
Pittwater Via Halls Wharf, Morning Bay, NSW 2105	Michael Doherty & Sarah Polomka	32	Freehold owned by organisation and leased to manager. Converted residence.
Railway Square 8-10 Lee St, Sydney, NSW 2000	Dean Grasselli	280	Leasehold from Rail Corporation NSW. Converted parcels office.
Surfers Paradise Mariners Cove, 70 Seaworld Drive, Main Beach, QLD 4217	Nathan McGregor	100	Sub-leased from Raptis. Purpose built hostel.
Sydney Central 11 Rawson Place, Sydney NSW 2000	Jon Hutchinson	556	Freehold owned by the organisation. Converted heritage office building.
Sydney Harbour 110 Cumberland St, The Rocks, NSW 2000	Ross Lardner	354	Leased from Sydney Harbour Foreshore Authority. Purpose-built hostel raised above archaeological remnants, with onsite education centre.
Thredbo 8 Jacks Adam Pathway, NSW 2625	Nadia Fadel	48	Land leasehold. Building owned by organisation but reverts to lessor (National Parks & Wildlife Service) on expiry of lease if not renewed.

YHA Hostels in the ACT, NSW, the NT, Queensland and Victoria

as at 31 December 2012

Associate Hostels - privately owned	Managed by	Beds	Status
Albury 372 Wagga Rd, Lavington NSW 2641	Sophie Lebner	24	Building in a caravan park.
Armidale 39 Waterfall Way, NSW 2350	Chris & Sigrid Mitchell	32	Building in a caravan park.
Ballarat Magpie St, VIC 3350	Neil Robbins	12	Converted worker's cottage.
Batemans Bay Cnr of Old Princes Hwy & South St, NSW 2536	Francis McLaughlin & Brent Bruin	40	Converted building in caravan park.
Bellingen 2 Short St, NSW 2454	Joel Parkhouse & Holly Williams	32	Converted commercial building with extensions.
Bondi Beachouse Cnr Fletcher and Dellview St, Bondi Beach, NSW 2026	Kati Farthing	94	Converted guesthouse.
Cape Byron Cnr Byron & Middleton Sts, Byron Bay, NSW 2481	Bob Kay	130	Purpose built hostel.
Cape Tribulation 152 Rykers Rd, QLD 4873	Dean & Julie Reedy	132	Purpose built hostel within rainforest.
Cronulla Beach Level 1, 40-42 Kingsway, Cronulla, NSW 2230	Michael Keogh	66	Converted commercial building with extensions.
Cooktown 9 Boundary St, QLD 4871	Scott Orchard	66	Converted motel.
Echuca 103 Mitchell St, VIC 3564	Kym Kelly	10	Private residence and converted workers cottages.
Foster 40 Station Rd, VIC 3960	Mohya & John Davies	10	Converted worker's cottage.
Hervey Bay 820 Boat Harbour Dr, Qld 4655	Jeff and Karen Huston	66	Purpose built hostel also offering cabins and camping.
Hunter Valley 100 Wine Country Drive, Nulkaba, NSW 2325	Nigel Worton	46	Purpose built hostel.
Lakes Entrance 669 Princess Hwy, VIC 3909	Samantha Huinick & Rikki McKenna	18	Converted motel.
Lennox Head 3 Ross St, NSW 2478	Graeme & Anna Dicker	42	Purpose built hostel.
Magnetic Island 40 Horseshoe Bay Rd, QLD 4819	Brett & Janelle Flemming	120	Purpose built hostel, offering cabins and camping as well.
Manly Summer 151 Darley St, Manly, NSW 2095	Daniel Robertson	66	Summer hostel facility in student accommodation at the International College of Tourism & Hotel Management.
Merimbula 8 Marine Pde, NSW 2548	Wayne & Betty Tuckfield	49	Purpose built hostel.
Mission Beach 49 Porter Promenade, QLD 4852	Richard & Anthea Gilroy	30	Purpose built hostel.
Mount Buller The Avenue, VIC 3723	Mark Elliot	46	Under construction.
Murwillumbah 1 Tumbulgum Rd, NSW 2484	Tassie Duff	24	Private residence converted into hostel.

Associate Hostels - privately owned	Managed by	Beds	Status
Narooma 243 Princess Hwy, NSW 2546	Darren Brass & Karli Walters	35	Holiday accommodation converted into hostel.
Newcastle Beach 30 Pacific St, Newcastle NSW 2300	Damian Parkhouse	99	Converted heritage building.
Nimbin Rox 74 Thorburn St, Nimbin NSW 2480	Sam Lewis	28	Purpose built hostel.
Noosa 2 Halse Lane, Noosa Heads, QLD 4567	Drew Pearson	95	National Trust Heritage listed building with additional purpose built hostel.
Phillip Island 10-12 Phillip Island Tourist Rd, Newhaven VIC 3925	Larson Henderson	120	Purpose built hostel.
Port Douglas Port Street, QLD 4877	Wendy & Michael Smith	120	Converted motel.
Port Fairy 8 Cox St, VIC 3284	Alison & Kadir Zehir	50	Converted heritage building.
Port Macquarie 36 Waugh St, NSW 2444	Richard Bock	68	Private home extended into hostel.
Port Stephens Frost Rd, Anna Bay, NSW 2316	Mark & Sandy Munday	31	Purpose built hostel.
Rockhampton 60 MacFarlane St, QLD 4701	Auzen Mercader	62	Purpose built hostel.
Rockhampton Outback 1591 Baralaba Rannes Rd, Baralaba, QLD 4702	Lyn Eather	39	Purpose built hostel within a cattle station.
Sorrento 3 Miranda St, VIC 3943	Evonne Yanez	21	Purpose built hostel.
Stradbroke Island 132 Dickson Way, Point Lookout, QLD 4183	James Griffith	62	Purpose built hostel with dive centre.
Summer YHA @ Victoria Park 96 City Road, Chippendale, NSW 2008	George Kazan	162	Summer hostel facility in student accommodation at the University of Sydney.
Sydney Beachouse 4 Collaroy St, Collaroy Beach, NSW 2097	James Dakin	214	Purpose built hostel.
Tamworth 169 Marius St, NSW 2340	Carol Hobden	43	Converted commercial building.
Terrigal 9 Ocean View Dr, NSW 2260	Matthew Castle	39	Converted guesthouse.
Wollongong 75-79 Keira St, NSW 2500	Mary Sparks	32	Purpose built hostel, serviced apartments and student complex.
Yamba 26 Coldstream St, NSW 2464	Shane & Justin Henwood	90	Purpose built hostel.

Financial Summary

Overview

Total income for 2012 before sale of assets was \$39.34M, which was \$0.1M above the previous year. The net deficit was \$0.82M and includes a profit on the disposal of assets for heritage floor space at Sydney Central YHA and the insurance settlement for Garie Beach YHA amounting to \$0.76M. The economic background for 2012 continued with slow global growth in traditional markets but stronger growth in Asia. This shift was reflected in the guest mix. The AUD exchange rate compared to both the Euro and USD continued at the high levels attained in 2011 and the perception of Australia is now that of a destination of higher expense. Working holidaymakers did provide some strong growth in overnights in the capital cities though the further away from these gateways, overnight growth was less.

Cash flow

Operating cash flows were higher than 2011 as growth returned after a year affected by floods and Cyclone Yasi in the first quarter. Finance costs were up on 2011 as the finance facility was re-established to include YHA Victoria and extended a further two years requiring an additional establishment fee to be paid as well as interest costs for the borrowings for the Railway Square hostel acquisition of \$11.25M in December 2011.

Capital expenditure

Capital expenditure included refurbishment of Byron Bay YHA bathrooms for \$173,000; Sydney Harbour YHA balustrade and roof extension for \$267,000; Melbourne Central additional room conversion and completion for \$265,000; and the replacement of the balcony at Thredbo YHA for \$116,000. The remainder was spent primarily on maintaining the standards of plant and equipment of the hostels, investment in systems and sustainability initiatives. General borrowings were reduced by \$2.94M during the year including the repayment of the YHA Victorian bank overdraft and repayments to HI Australia for \$375,000. At year end, net borrowings decreased to \$81.35M.

Contribution from divisions

The contribution of each division to the profit before interest and tax is compared in percentage terms in the graph below. The hostel division is the major contributor to overall surplus, with membership making a small contribution.

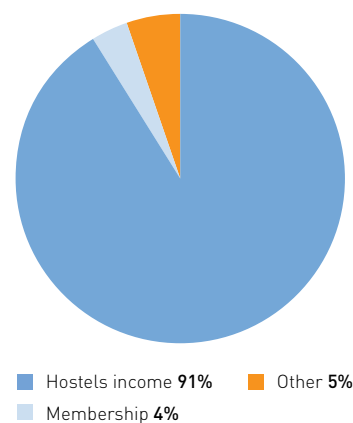
Hostel division

Arrivals of travellers from the UK and European countries were down 1.8% (2011, down 8.4%) on the previous year. Overnights increased by 2.8% from international guests and there was 1% growth from domestic visitation, particularly group travel which was up 8%. The strength of the local economy continued to be an attraction for international travellers seeking working holidays. The primary driver for growth in international overnights was from Asia with more than a 30,000 increase over 2011.

Membership division

Australian memberships decreased by 12% for the year mainly due to lower numbers of new members and renewing members. International membership sales decreased 14% to 17,948 in part due a change in a procedure with an inbound operator bringing in working holiday makers. Income decreased as the accounting for memberships in 2011 for YHA Victoria included an accounting adjustment to hostel income for daily membership cards.

2012 Source of Gross Revenue



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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 2012.

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
Murray John Bowles		Elected to the YHA NSW Board in 1980. Held role of Chair, Secretary and delegate to National Board. YHA member since 1971. Experience in medical regulatory affairs.		04/12
John Derry Clancy	BBus, SA Fin CPA	YHA member since 1979. Elected to the YHA NSW Board in 2005. Held role of Treasurer. Public Sector employee in corporate finance and policy.	YHA Ltd delegate to National Board from 04/11.	04/14
Geneve Nicole Fox	CPA, GAICD	Former member YHA Qld Board. Held roles of Treasurer and Secretary. YHA member since 1997. Public sector employee with financial management skills.		04/12
Helen Margaret Harms	BSc, MBA, GAICD	YHA member since 2007. Elected to the YHA NSW Board in 2007. General Manager IT, Financial Services company.	Held position of Chair YHA Ltd from 04/08.	04/15
Robert Anthony McGuirk	BA LLB, FFin, MAICD	Former member of YHA Victoria Board. Held roles of Chair, Vice Chair, HI Vice President. YHA member since 1990. Lawyer, Property Manager & IT Consultant.	YHA Victoria Limited delegate to National Board.	Appointed 01/12 to 04/13
David Neish	BA Arch(Melb) FRAIA	YHA member since 1996. Elected to the YHA Qld Board in 2005. Architect.		04/14
Euan Prentice	BCom, A Fin	YHA member since 2009. Partner in investor relations consulting firm.		04/15
Cameron James Quinten	BEd(Sec), BSc(Hon), Grad Dip AppSci, DipBus, Dip Sustainability, Cert IV Train & Assess, AIMM	Former member of YHA Victoria Board. Held role of Chair. YHA member since 1995. Enterprise Manager in the Vocational Training and Education sector.		04/15
Janet Richardson	M HlthSc, BAppSc(Hon), BAppSc(OHS) EMBA, GAICD	YHA member since 1995. Elected to the YHA Qld Board in 2005. Held role as Hon Treasurer. Public sector employee in safety, risk and emergency management.	YHA Queensland delegate to National Board.	04/14
Leonie Isabelle Thijssen	BCom, CPA, CSA (Cert), GAICD	YHA member since 2000. Elected to the YHA Qld Board in 2008. Held role of Treasurer. Specialist in tax and compliance.	Vice Chair from 04/11. Chair, Audit & Risk Committee from 10/11.	04/13
Salvator (Sam) Thomas Vella	FCPA, FCIS, FAICD	YHA member since 2003. Elected to the YHA NSW Board in 2005. Held roles of Vice Chair, Secretary. Company Director.	Chair Nominations and HR Committee from 1/10.	04/13
Toinette Vincent	BA, Grad Cert Ad Ed & Trg, GAICD	YHA member since 1990. Elected to the YHA Qld Board in 1996. Held roles of Chair and Hon Secretary of YHA Qld and Vice Chair YHA Ltd. Experience in HR and Training.		04/13

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

2. Meetings of Directors

The following table on page 29 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 and Nominations and Human Resources.

Directors' Report (cont.)

Director	Board of Directors Meetings		Committee Meetings	
	Number held	Number attended	Number held	Number attended
John Bowles	4	3	0	0
John Clancy	11	11	6	6
Helen Harms	11	11	6	5
Robert McGuirk	11	9	0	0
David Neish	11	11	6	6
Euan Prentice	7	6	4	4
Cameron Quinten	11	10	4	3
Janet Richardson	11	9	6	5
Leonie Thijssen	11	10	6	6
Sam Vella	11	10	9	9
Toinette Vincent	11	10	0	0
Geneve Wilcox (nee Fox)*	4	0	3	0

* Leave of absence

The above meeting attendance is for YHA Ltd. Youth Hostels Association of Queensland (YHA Queensland) also held 4 board meetings. YHA Victoria Limited held 3 meetings and YHA Travel (QLD) Pty Ltd held 3 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 are:

- (a) to provide educational opportunities in Australia for all people, but especially young people, to:
 - (1) achieve personal development;
 - (2) foster friendship; and
 - (3) bring about a better understanding of others and the world around them;
- (b) to facilitate education by providing, operating and assisting others to provide and operate, hostels or similar accommodation;
- (c) to educate, by promoting and encouraging:
 - (1) travel;
 - (2) healthy recreational activities;
 - (3) environmental awareness; and
 - (4) interstate and international friendships and understanding, particularly through the development and provision of facilities and services to assist travellers within and outside Australia; and
- (d) to 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 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 a travel agency and offers tour desk services. These activities are directed at achieving the specific objectives of the group.

6. Operating Results

The consolidated deficit for the financial year ended 31 December 2012 was \$815,156 (2011 surplus \$1,050,017). This included the gain on disposal of assets of \$758,730.

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 for 2012 for operated hostels was 66.1% (2011 64.7%), ratings were in the desired range and several hostels achieved consistently high ratings.

Directors' Report

7. Review of Operations

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

Revenue was affected in the second and third quarters by a slowdown in international travellers as a continuing result of the high exchange rate for the AUD against the USD, GBP and Euro. The fourth quarter saw a return to growth over prior year and over the full year the growth in overnights from Asian countries was strong. Domestic overnight stays were steady. Membership sales to Australians slowed and international membership sales were also down.

Some of the heritage floor space at Sydney Central YHA was sold and an insurance claim settlement for the Garie Beach hostel was received during the year. The integration of the YHA Victoria Limited entity was achieved including the refinance of the all bank borrowings until December 2014.

8. Dividends

YHA Ltd is a not for profit company limited by guarantee and does not pay dividends.

9. Significant Changes in the State of Affairs

The Directors of the group are not aware of any matters or circumstances that have arisen 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 2012.

10. Significant Events since the end of Financial Year

The HI Australia Board decided in 2012 to wind up the Hostel Building Assistance Fund by first changing its rules to convert the fund to a Hostel Reserve Fund. As part of this decision a deed to wind up the Hostel Reserve Fund was signed by HI Australia and its Member Organisations including YHA Ltd on 23 February 2013. The effect of this deed will be to return mutual funds to YHA Ltd and enable the early repayment of the loans to HI Australia for assistance in developing hostels in Brisbane, Sydney and Melbourne.

The Directors of the Company are not aware of any other matters or circumstances that have 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.

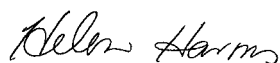
14. Proceedings on behalf of the Company

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 45.

Signed in accordance with a resolution of the Directors.



Helen Harms

Director

23 February 2013



Leonie Thijssen

Director

23 February 2013

Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 \$	2011 \$
Revenue or other income			
Rendering of services		38,187,083	38,575,764
Other income		1,909,382	3,260,897
	2	40,096,465	41,836,661
Expenses			
Employee benefits expense	3	(15,325,265)	(14,514,361)
Depreciation & amortisation	3	(4,942,881)	(4,449,666)
Finance costs	3	(5,851,003)	(5,940,851)
Other expenses	3	(14,792,472)	(15,881,766)
		(40,911,621)	(40,786,644)
(Deficit) / surplus before income tax			
		(815,156)	1,050,017
Income tax expense	4	-	-
(Deficit) / surplus after income tax			
		(815,156)	1,050,017
Total comprehensive income			
		(815,156)	1,050,017

The accompanying notes form part of these financial statements.

Statement of Financial Position

For the year ended 31 December 2012

	Note	2012 \$	2011 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	1,703,813	2,310,667
Trade and other receivables	6	673,644	1,104,128
Inventories	7	149,417	160,892
Other current assets	8	790,082	874,937
Total current assets		3,316,956	4,450,624
Non-current assets			
Property, plant and equipment	9	114,634,563	117,486,260
Intangible assets	10	1,536,913	1,544,186
Other non-current assets	8	93,452	-
Total non-current assets		116,264,928	119,030,446
TOTAL ASSETS		119,581,884	123,481,070
LIABILITIES			
Current liabilities			
Trade and other payables	11	3,158,832	3,280,459
Borrowings	12	3,222,000	4,404,915
Provisions	13	1,522,424	1,503,729
Other liabilities	14	2,376,811	2,336,347
Total current liabilities		10,280,067	11,525,450
Non-current liabilities			
Trade and other payables	11	57,753	57,930
Borrowings	12	78,127,000	79,881,900
Provisions	13	137,046	86,819
Other liabilities	14	188,787	322,581
Total non-current liabilities		78,510,586	80,349,230
TOTAL LIABILITIES		88,790,653	91,874,680
NET ASSETS		30,791,231	31,606,390
ACCUMULATED SURPLUS		30,791,231	31,606,390

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Revaluation Reserve \$	Accumulated Surplus \$	Total Equity \$
Balance at 1 January 2011		1,700,637	28,855,733	30,556,370
Total Comprehensive Income for the year		-	1,050,017	1,050,017
Balance at 31 December 2011	9	1,700,637	29,905,750	31,606,387
Total Comprehensive Income for the year		-	(815,156)	(815,156)
Balance at 31 December 2012		1,700,637	29,090,594	30,791,231

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Receipts from members and customers		45,075,536	42,659,112
Payments to employees		(15,350,870)	(14,599,080)
Payments to suppliers		(18,290,229)	(19,813,510)
Interest received		25,317	36,939
Finance Costs		(6,105,170)	(5,841,559)
Net cash provided by operating activities	20	5,354,584	2,441,901
Cash flows from investing activities			
Purchase of plant, equipment & software		(2,004,268)	(1,523,250)
Purchase of property		-	(12,026,400)
Proceeds from sale of property, plant & equipment		-	3,851,455
Net cash (used in) investing activities		(2,004,268)	(9,698,195)
Cash flows from financing activities			
Proceeds (Advance) of borrowings - Internal		1,613	-
Working Capital Settlement - YHA Ltd and YHA Victoria Limited		(1,020,968)	-
Proceeds (Repayment) of borrowings - HI Australia		(375,000)	(125,000)
(Repayment) of borrowings - bank		(3,182,915)	(4,900,000)
Proceeds of borrowings - bank		620,100	13,034,000
Net cash (used in) provided by financing activities		(3,957,170)	8,009,000
Net (decrease) increase in cash and cash equivalents		(606,854)	752,707
Cash and cash equivalents - beginning of period		2,310,667	1,557,960
Cash and cash equivalents - end of period	5	1,703,813	2,310,667

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2012

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 (including Australian Accounting Interpretations) and the Corporations Act 2001. The consolidated financial report of the group as at and for the year ended 31 December 2012 comprises the company and its controlled entities which include Youth Hostels Association of Queensland, YHA Travel (QLD) Pty Ltd 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.

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.

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 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	30 - 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 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.

Impairment

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

Notes to the Financial Statements

For the year ended 31 December 2012

Impairment 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 Comprehensive Income.

Employee Benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. The liability for annual leave has been measured at the amount expected to be paid when the liability is settled including on-costs. The liability for long service leave represents the present value of the estimated future cash outflow to be made in respect of services provided by employees to balance date. Contributions are made by the group to employee superannuation funds and are charged as expenses when incurred.

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.

Lease

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, 3 or life terms also. Only those Membership Fees that are attributable to the current year are recognised as revenue. Fees that relate to future periods are shown in the Statement of Financial Position under the heading Current Liabilities – Other or Non-Current Liabilities - Other.

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.

Comparative Figures

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

Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

NOTE 2 - REVENUE

	2012 \$	2011 \$
Hostel	31,381,194	30,561,945
Catering	825,106	868,272
Other hostel	3,024,320	3,366,387
Membership	1,408,512	1,670,968
Travel	531,293	1,033,018
Rent	1,016,658	1,075,174
Rendering of services	38,187,083	38,575,764
Sundry income	1,120,909	641,779
Gain from disposal of assets	758,730	2,581,816
Interest	29,743	37,302
Other Income	1,909,382	3,260,897
Total revenue and other income	40,096,465	41,836,661

The gain from disposal of assets for 2012 was for proceeds received from the sale of heritage floor space at the Sydney Central hostel and insurance claim settlement for the Garie Beach hostel destroyed by fire in December 2010. In 2011 the gain from disposal of assets represents the profit on sale of the 422 Kent Street building (former Office, Membership and Travel Centre for YHA).

NOTE 3 - EXPENSES

	2012 \$	2011 \$
Salaries and wages	13,337,848	12,703,690
Superannuation	1,218,677	1,162,344
Other benefits	768,740	648,327
Employee benefits	15,325,265	14,514,361
Depreciation of property plant & equipment	4,879,233	4,299,524
Amortisation of software	63,648	141,368
Amortisation of goodwill	-	8,774
Depreciation and amortisation	4,942,881	4,449,666
Borrowing costs	364,460	193,587
Bank interest	5,320,557	5,603,347
Affiliated interest	165,986	143,917
Finance costs	5,851,003	5,940,851
Cost of goods sold	802,439	1,276,468
Operating expenses	6,144,953	5,716,073
Administration and marketing	5,446,311	5,585,262
Property expenses	2,352,383	3,202,579
Audit	46,386	101,384
Other expenses	14,792,472	15,881,766

Notes to the Financial Statements

For the year ended 31 December 2012

NOTE 4 - INCOME TAX

The calculation of income tax payable by the group is based on the principle of mutuality which in broad terms means that income which is contributed by members will be excluded from assessable income. Similarly, expenditure which relates directly to the revenue received from members will not be allowed as a deduction. Remaining expenditure may be apportioned against mutual and non-mutual income. The Australian Taxation Office has agreed in principle with the method of apportionment adopted. The Australian Taxation Office has granted a private ruling that income from members and visiting international members of Hostelling International is mutual income. Each controlled entity of the group is required to lodge an income tax return if the non-member income exceeds the statutory limit of \$416. Under the self-assessment legislation, the lodgement of a tax return is deemed to be an assessment and until or unless a tax audit is carried out there can be no official confirmation that the income tax return has been accepted without alteration. For the 2012 taxation year, each controlled entity in the group lodged a tax return and in total the tax losses were \$620,550 (2011: tax losses of \$403,061) which increased the carried forward tax losses to \$10,182,000 (2010: \$9,561,450).

The group 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 5 - CASH AND CASH EQUIVALENTS

	2012 \$	2011 \$
Cash on hand	70,453	74,664
Cash at bank	1,557,415	2,164,599
Cash on deposit	75,945	71,404
	1,703,813	2,310,667

NOTE 6 - RECEIVABLES

Trade receivables	673,644	569,732
Other receivables	-	79,688
BAS receivable	-	454,708
	673,644	1,104,128

NOTE 7 - INVENTORIES

Finished goods	149,417	160,892
	149,417	160,892

NOTE 8 - OTHER ASSETS

Current

Rental and utility deposit	12,759	22,769
Prepayments	473,855	585,665
Deferred expenditure	303,468	266,503
	790,082	874,937

Non-current

Intercompany Loan - HI Australia	93,452	-
	93,452	-

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

	2012 \$	2011 \$
Freehold Land and Building		
At cost	85,102,943	84,558,709
Less: Accumulated depreciation	(19,885,697)	(17,971,723)
	65,217,246	66,586,986
Leasehold Land and Buildings		
At cost	47,332,907	46,820,914
Less: Accumulated depreciation	(4,782,341)	(3,771,069)
	42,550,566	43,049,845
Plant and Equipment		
At cost	16,606,085	16,237,011
Less: Accumulated depreciation	(9,739,334)	(8,387,582)
	6,866,751	7,849,429
Total Property, Plant and Equipment	114,634,563	117,486,260
Independent valuations of interest in Land & Buildings		
-2012	97,450,000	-
-2011	28,200,000	28,200,000
-2010	25,050,000	123,620,000
-2006	1,100,000	1,100,000
-2004	2,270,000	2,270,000
Total	154,070,000	155,190,000

The NSW hostel portfolio consisting of the 6 larger hostels was revalued in late 2012.

Notes to the Financial Statements

For the year ended 31 December 2012

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT (cont.)

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

	2012 \$	2011 \$
Freehold Land and Building		
Balance at the beginning of year	66,586,986	69,816,674
Additions	544,235	132,205
Disposal	-	(1,157,113)
Transfers	-	(288,443)
Depreciation expenses	(1,913,975)	(1,916,337)
Carrying amount at the end of year	65,217,246	66,586,986
Leasehold Land & Buildings		
Balance at the beginning of year	43,049,845	32,042,998
Additions	443,318	11,945,322
Disposal	-	-
Transfers	69,219	(67,956)
Depreciation expenses	(1,011,816)	(870,518)
Carrying amount at the end of year	42,550,566	43,049,845
Plant & Equipment		
Balance at the beginning of year	7,849,429	7,739,212
Additions	930,517	1,437,467
Disposal	(41,025)	(35,934)
Transfers	(69,219)	289,059
Depreciation expenses	(1,802,951)	(1,580,375)
Carrying amount at the end of year	6,866,751	7,849,429
Total		
Balance at the beginning of year	117,486,258	109,598,884
Additions	1,918,070	13,514,994
Disposal	(41,025)	(1,193,048)
Transfers	-	(67,340)
Depreciation expenses	(4,728,742)	(4,367,230)
Carrying amount at the end of year	114,634,563	117,486,260

NOTE 10 - INTANGIBLE ASSETS

	2012	2011
	\$	\$
Liquor licence - at cost	116,681	116,681
Travel licences - at cost	10,000	10,000
Licences	126,681	126,681
Goodwill - at cost	1,378,965	1,378,965
Less: Accumulated amortisation	(78,965)	(78,965)
	1,300,000	1,300,000
Computer software - at cost	1,219,207	1,251,956
Less: Accumulated amortisation	(1,108,975)	(1,134,451)
	110,232	117,505
Total intangible assets	1,536,913	1,544,186

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 Travel Licence is for the Travel Compensation Fund contributions for expanding to new branches or territories.

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
Balance at the beginning of year	126,681	1,300,000	117,505	1,544,186
Additions	-	-	56,376	56,376
Amortisation charge	-	-	(63,649)	(63,649)
Carrying amount at the end of year	126,681	1,300,000	110,232	1,536,913

NOTE 11 - TRADE AND OTHER PAYABLES

	2012	2011
	\$	\$
Current		
Trade creditors	429,293	918,542
Accrued expenses	1,821,619	1,733,327
BAS payable	256,673	93,330
Other payables	560,226	513,654
Deferred revenue	91,021	21,606
	3,158,832	3,280,459
Non-current		
Rental bonds	57,753	57,930
	57,753	57,930

Notes to the Financial Statements

For the year ended 31 December 2012

NOTE 12 - BORROWINGS

	2012 \$	2011 \$
Current		
Bank overdraft	-	404,915
Bank loans	3,222,000	3,625,000
Affiliated body loans	-	375,000
	3,222,000	4,404,915
Non-current		
Bank loans	75,577,000	77,331,900
Affiliated body loans	2,550,000	2,550,000
	78,127,000	79,881,900
Total Borrowings	81,349,000	84,286,815

1. A loan of \$550,000 granted by HI Australia to YHA Ltd is secured by a registered mortgage over a Northern Territory hostel. The loan was interest free for the first two years and subject to interest from July 2009. The loan is repayable \$100,000 per annum from 2013 to 2016 and the balance of \$150,000 in 2017.
2. Another loan of \$1,000,000 granted by HI Australia to YHA Ltd is secured by second mortgage over two Sydney hostels. The loan was interest free for the first two years and subject to interest from September 2010. The loan is repayable \$125,000 per annum from 2011 to 2018.
3. Another loan of \$1,000,000 granted by HI Australia to YHA Queensland is secured by second mortgage over a Brisbane hostel. The loan was interest free for the first two years and subject to interest from April 2011. The loan is repayable \$125,000 per annum from 2011 to 2018.
4. The HI Australia loans to the group will be repaid in 2013 as HI Australia and YHA Ltd have entered into a deed to wind up the Hostel Reserve Fund meaning that a return of mutual funds allows for the early repayment of the loans. This deed was signed subsequent to the balance date of 31 December 2012.
5. The Westpac Cash Advance Facility was renewed on 13 January 2012 to include the YHA Victoria Limited entity and the term extended from 31 March 2013 to 31 December 2014. It consists of a Cash Advance revolving facility for YHA Ltd borrowings and a Cash Advance Term Facility for the YHA Queensland and YHA Victoria borrowings. The facility allows prepayment and with any prepayment a permanent reduction in the facility. Prepayments are required in 2013 with \$1,409,500 repayable by June 2013 and a further \$1,812,500 repayable by December 2013. The terms of the amortisation were amended in December 2012 as the amortisation made for YHA Queensland and YHA Victoria in 2012 was \$1,653,000 rather than the required \$2,500,000. It was agreed to defer the amortisation missed in 2012 to 2013 and 2014. The YHA Ltd bank overdraft was increased from \$500,000 to \$750,000. The YHA Victoria Limited bank overdraft of \$620,100 was cancelled on the financial settlement with Westpac on 13 January 2012. The bank facilities are secured by a first ranking fixed and floating charge over all the assets of the group. The covenants within the bank borrowings require the group to maintain the loan to value ratio at less than or equal to 55% and the interest cover ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) less provision for Capital Expenditure of 3% of revenue over interest expense greater than or equal to 1.5 times. The group currently complies with the borrowing covenants.

	2012 \$	2011 \$
The bank facilities as at the balance date are:		
Credit facilities	78,799,000	81,361,815
Amount utilised	78,799,000	81,361,815
	-	-

The unused credit facilities consist of cash advance facility Nil (2011 Nil) and bank overdraft \$750,000 (2011 \$715,185).

Assets Pledged as Security

The carrying amounts of assets pledged as security are:

-First mortgage and floating charges

Total Assets	116,264,928	119,030,446
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NOTE 13 - PROVISIONS

	2012	2011
	\$	\$
Current		
Employee benefits	1,406,911	1,393,043
Insurance	115,513	110,686
	1,522,424	1,503,729
Non-current		
Employee benefits	137,046	86,819
	137,046	86,819

The provision for insurance is for the Garie Beach hostel that was destroyed by fire in December 2010. The provision represents the expected cost for the removal of debris from the site in the Royal National Park.

Aggregate liability for employee benefits provision including on-costs
Employee benefits

1,543,957	1,479,862
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Movements in provisions

	Employee Entitlements	Insurance	Total
Balance at the beginning of year	1,479,862	110,686	1,590,548
Additions	1,453,462	4,827	1,458,289
Amounts used	(1,389,367)	-	(1,389,367)
Balance at the end of year	1,543,957	115,513	1,659,470

NOTE 14 - OTHER LIABILITIES

	2012	2011
	\$	\$
Current		
Bookings in advance	2,047,789	1,841,762
Unexpired life membership income	73,448	86,617
Unexpired other membership income	161,824	192,671
Deferred Income	93,750	215,297
	2,376,811	2,336,347
Non-current		
Unexpired life membership income	104,504	126,229
Unexpired other membership income	84,283	102,602
Deferred Income	-	93,750
	188,787	322,581

Notes to the Financial Statements

For the year ended 31 December 2012

NOTE 15 - COMMITMENTS

a. Capital commitments

Capital expenditure commitments contracted for:

-Capital expenditure projects

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

b. Operating leases

Payable not later than 1 year

Later than 1 year but not later than 5 years

Later than 5 years

	2012 \$	2011 \$
	109,235	180,781
	109,235	180,781
	1,005,119	536,439
	1,738,338	953,918
	3,854,284	3,864,290
	6,597,741	5,354,647

Operating leases pertain to properties leased for the provision of accommodation to members and the administration of the entity. 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). An annual payment is included in the above figures for Thredbo to 2057.

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 16 - RELATED PARTY DISCLOSURES

Three directors of the parent entity are also directors of an affiliated body HI Australia which provides goods and services on terms and conditions no more favourable than those applying to any other affiliated bodies.

During the year administration fees were paid to YHA Ltd by YHA Travel (Qld) Pty Ltd amounting to \$6,806 (2011 \$233,245). The YHA Travel (QLD) Pty Ltd entity was deregistered and its capital returned to YHA Queensland amounting to \$10,681.

NOTE 17 - FINANCIAL INSTRUMENTS

Financial risk management

General objectives, policies and processes

In common with all businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the group's risk management objectives and policies. The group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the group where such impacts may be material. The Board receives reports from the Chief Executive Officer through which it reviews the effectiveness of the process put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible.

NOTE 18 - 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 Manager, Chief Financial Officer, Northern Region Manager, Southern Region Manager and Marketing Manager. The CEO of YHA Victoria Limited has been excluded from the analysis as the position was terminated in December 2011.

	Salary \$	Superannuation \$	Total \$
2012	967,371	87,063	1,054,435
2011	860,171	77,415	937,586

NOTE 19 - PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

	Parent Entity	
	2012 \$	2011 \$
Statement of comprehensive income		
(Loss) / profit after income tax	(769,555)	1,848,231
Total comprehensive income	(769,555)	1,848,231
Total current assets	3,113,970	4,105,688
Total assets	75,569,142	75,519,655
Total current liabilities	6,916,026	6,182,841
Total Liabilities	55,008,612	54,189,568
Equity		
Retained earnings	20,560,530	21,330,087

Contingent liabilities

The parent entity has a contingent liability for Council Rates for one of its Sydney hostels. The Council granted an exemption from rates in 2009 and subsequently determined to remove this exemption. YHA Ltd believes it is entitled to the exemption and is contesting the reversal of this decision by the Council. If YHA Ltd fails to have the exemption upheld then the Council Rates amounting to \$200,000 will need to be paid.

Capital commitments

The parent entity had capital commitments for property, plant & equipment as at 31 December 2012 of \$109,235 and 31 December 2011 of \$188,000.

Significant accounting policies

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

Notes to the Financial Statements

For the year ended 31 December 2012

NOTE 20 - RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated Entity	
	2012 \$	2011 \$
(Deficit) / surplus after income tax	(815,156)	1,050,017
Non-cash flow in surplus		
Depreciation and amortisation	4,942,881	4,427,076
Adjustment to retained earnings from prior year	-	(16,800)
Working capital adjustment - YHA Victoria	141,745	-
(Profit) on sale of property, plant & equipment	-	(2,684,653)
Loss on sale or disposal of property, plant & equipment	41,025	22,746
Changes in assets and liabilities		
Decrease (Increase) in receivables	565,034	(671,375)
Decrease (Increase) in inventory	11,475	52,844
Decrease (Increase) in other assets	30,198	(264,129)
Increase (Decrease) in payables	461,790	281,876
Increase (Decrease) in provisions	68,922	151,991
Increase (Decrease) in other liabilities	(93,331)	92,308
Net cash provided by operating activities	5,354,584	2,441,901

NOTE 21 - EVENTS AFTER REPORTING PERIOD

1. The Hostel Building Assistance Fund and Hostel Reserve Fund

In 2012 the HI Australia National Board voted to change the rules of the Association to convert the Hostel Building Assistance Fund (HBAF) to the Hostel Reserve Fund (HRF) and allow for the mutual funds to be returned to the Member Organisations in the proportion that they contributed to it. The HI Australia National Board also resolved to wind up the hostel reserve fund in 2013. A deed known as the HRF Deed was prepared and approved by the HI Australia National Board and each of the Member organisations including YHA Ltd on behalf of YHA Victoria and YHA Queensland. The effect of the deed is to return the mutual funds to each member organisation. The group is therefore entitled to 81.95% of these funds (approximately \$2,600,000) and will be sufficient to repay the HBAF loans (the group HBAF loans totalling \$2,550,000). Some of this repayment will be facilitated by taking up small direct loans with YHA South Australia and YHA Western Australia as the YHA Tasmania loan is not expected to be repaid in 2013. The effect of the HRF Deed will reduce the group's interest and principal loan repayments to HI Australia for 2013 and thereafter.

2. Merger with Youth Hostels Association of South Australia Incorporated (YHA SA Inc)

The Board of YHA SA Inc and the Board of YHA Ltd signed a Memorandum of Understanding in December 2012 agreeing to a process and timeline to complete due diligence and subject to Board recommendation propose a vote of the Members of YHA SA Inc with a view to merging at some stage in 2013. This process is underway at the time of this report.

No other matters or circumstances have arisen since 31 December 2012 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.

NOTE 22 - NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

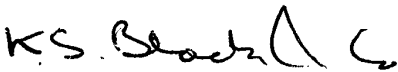
A number of Australian accounting standards have been issued or amended and are applicable to the group but not yet effective. There are none having any material effect requiring disclosure.

Auditor's Independence Declaration

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF YHA LTD.

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2012, there have been:

- a) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.



KS Black & Co
Chartered Accountants
23 February 2013
Level 6
350 Kent Street
Sydney NSW 2000



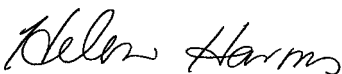
Faizal A Ajmat
Partner

Directors' Declaration

The Directors of YHA Ltd declare that:

1. The financial statements and notes, as set out on pages 31 to 44, are in accordance with the Corporations Act 2001:
 - a. Comply with Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - b. Give a true and fair view of the financial position as at 31 December 2012 and of the performance for the year ended on that date of the group and company.
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.



Helen Harms
Director
23 February 2013



Leonie Thijssen
Director
23 February 2013

Independent Audit Report

To the members of YHA Ltd

ACN 008 387 791

Scope

We have audited the attached financial report of YHA Ltd for the financial year ended 31 December 2012. The financial report comprises the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Notes to the Financial Statements and the Directors' Declaration.

The Directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's and parent entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

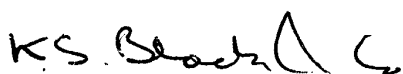
In conducting the audit we followed applicable independence requirements of Australian professional and ethical pronouncements of the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of my knowledge and belief that the auditor's independence declaration included in the financial report on page 45 has not changed as at the date of providing my audit opinion.

Auditor's Opinion

In our opinion, the financial report of YHA Ltd is in accordance with the Corporations Act 2001, including:

- a. giving a true and fair view of the group's and company's financial position as at 31 December 2012 and their performance for the year ended on that date; and
- b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.



KS Black & Co
Chartered Accountants
23 February 2013
Level 6
350 Kent Street
Sydney NSW 2000



Faizal A Ajmat
Partner

YHA Ltd Hostel Locations



This Year in Review is printed on 100% recycled paper using vegetable-based inks and is carbon neutral as our print supplier, Focus Press, has accounted for, reduced and offset its total operational greenhouse gas emissions as well as the carbon emissions embodied in this product.

Designed by Versa



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Whitehead Cooper Williams

Auditors:

K.S. Black & Company

Bankers:

Westpac Banking Corporation

Insurance Brokers:

Insurance Advisernet
Australia Pty Ltd

Top to bottom: Phillip Island YHA
- The Island Accommodation;
A new adventure; Brisbane City YHA;
Port Macquarie YHA - Ozzie Pozzie
Backpackers; Darwin YHA.

