

# **Pelathon Pub Group**

## **Consolidated Annual Financial Report**

Year Ended 30 June 2016

**Pelathon Hotels Limited**  
**ABN 80 117 204 225**  
**Pelathon Pub Fund**  
**ARSN 123 286 304**  
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Neutral Bay NSW 2089  
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# Pelathon Pub Group

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# Pelathon Pub Group

## Directors' Report

The Directors present their report together with the consolidated financial report of the Pelathon Pub Group (Group) for the year ended 30 June 2016. The Group is comprised of:

- (1) A company - Pelathon Hotels Limited and its controlled entities (Company); and
- (2) A trust - Pelathon Pub Fund and its controlled entities (Fund) (an Australian registered scheme for which Pelathon Funds Management Limited (formerly Blackwall Fund Services Limited) (PFML) acts as responsible entity).

Shares in the Company are stapled to units in the Fund. For the purposes of this financial report the Fund is identified as the parent entity of the Group.

The consolidated financial reports of the Group for the year ended 30 June 2016 comprise the consolidated financial reports of the Fund and the Company.

### Principal Activities & Result

The principal activity of the Group is the ownership and operation of hotel and pub businesses. Hotel and pub operations are undertaken by a specialist management company known as Pelathon Management Group Pty Limited (Pelathon) on behalf of PFML.

The net result for the Group was a profit after tax of \$1,661,237 (2015: \$379,938).

For the financial year ended 30 June 2016 the Group generated operating cash flows of \$1,633,787 (2015: \$1,492,574) with after tax earnings from operations excluding property, plant and equipment depreciation and fair value adjustments of \$1,423,152 (2015: \$677,138).

### Significant Changes in Affairs

At a general meeting of the Pelathon Pub Fund on 21 March 2016, a resolution was passed to appoint PFML as Responsible Entity of the Fund. On 21 April 2016 PFML was formally granted an Australian Financial Services Licence by the Australian Securities and Investments Commission and commenced acting as Responsible Entity of the Pelathon Pub Fund.

Other than the above appointment, there were no significant changes to the state of affairs of the Group during the financial year.

### Dividends / Distributions

There were no dividends / distributions paid or declared for the year ended 30 June 2016 (2015: \$nil).

### Likely Developments

Pelathon is continually assessing market opportunities to add new hotel assets to the Fund that will improve the fund's overall performance and level of gearing.

To the best knowledge of Directors, there are no other significant developments expected in respect of the Group. The performance of the Group in the future will be subject to the underlying investment markets over time.

# Pelathon Pub Group

## Directors' Report (continued)

### Events Subsequent to Reporting Date

On 26 July 2016, the Fund issued a Product Disclosure Statement and Prospectus for the issue of new stapled securities relating to a 1 for 3 non-renounceable rights issue to raise funds to reduce the Group's debt under its loan facility with NAB and to fund capital expenditure and ongoing working capital requirements. The Offer closed on 23 September 2016 with the Group raising approximately \$3.1 million. As a result of this rights issue the number of units on issue increased by 45,534,973 to 173,608,478.

The Group's borrowings from NAB have reduced from \$12.742 million at 30 June 2016 to a current value of \$10.42 million through a combination of ongoing amortisation and proceeds from the rights issue. As a result the Group's loan to valuation ratio (LVR) is now at 43.6%.

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the year that have materially affected or may materially affect the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

### Directors

The names of the Directors of the Company and Pelathon Funds Management Limited (who was appointed Responsible Entity from 21 April 2016) at any time during or since the end of the year are set out below. Unless otherwise stated, Directors have been in office since the beginning of the financial year to the date of this financial report.

Darren Baker  
James (Jaz) Mooney  
David Horton

The names of the Directors of BlackWall Fund Services Limited (BlackWall) (who was the Responsible Entity up to 21 April 2016) and have been in office from the beginning of the year up until the date that BlackWall ceased to be the Responsible Entity, are:

Richard Hill  
Joseph (Seph) Glew  
Robin Tedder  
Stuart Brown

### Information on Directors

Particulars of Directors' qualifications, experience and special responsibilities are as follows:

#### **Richard Hill                      Non Executive Director and Chairman (BlackWall Fund Services Limited)**

Richard Hill has extensive investment banking experience and was the founding partner of the corporate advisory firm Hill Young & Associates. Richard has invested in BlackWall's projects since the early 1990s. Prior to forming Hill Young, Richard held a number of Senior Executive positions in Hong Kong and New York with HSBC. He was admitted as an attorney in New York State and was registered by the US Securities & Exchange Commission and the Ontario Securities Commission. He is the Chairman of Sirtex Medical Limited listed on the ASX. In addition Richard is Chairman of the Westmead Millennium Institute for Medical Research.

# Pelathon Pub Group

## Directors' Report (continued)

### Information on Directors (continued)

#### **Joseph (Seph) Glew      Non Executive Director (BlackWall Fund Services Limited)**

Seph has worked in the commercial property industry in New Zealand, the USA and Australia. Seph has driven large scale property development and financial structuring for real estate for over 30 years. In addition, since the early 1990s Seph has run many "turn-around" processes in relation to distressed properties and property structures for both private and institutional property owners.

While working for the Housing Corporation of New Zealand and then AMP, Seph qualified as a registered valuer and holds a Bachelor of Commerce. In the 1980s he served as an Executive Director with New Zealand based property group Chase Corporation and as a Non-Executive director with a number of other listed companies in New Zealand and Australia.

#### **Robin Tedder              Non Executive Director (BlackWall Fund Services Limited)**

Robin has around 40 years' experience in investment and financial markets. He has been an investor in BlackWall's projects since 1997. Robin is the Chairman of Vintage Capital Pty Ltd, an investment company with interests in property, wealth management, logistics and healthcare. He is a former member of the ASX and has served on the boards of several investment banks in Australia and overseas. He is a Director of Probiotec Ltd (a pharmaceutical manufacturing company listed on the ASX). Robin is also a Fellow of the Financial Services Institute of Australasia.

#### **Stuart Brown              Executive Director (BlackWall Fund Services Limited)**

Stuart has been involved in property investment for over 17 years. Stuart has run debt and equity raising in relation to listed and unlisted real estate structures with over a half a billion dollars in value.

In his earlier career, Stuart practised as a solicitor in the areas of real estate, mergers and acquisitions and corporate advisory with Mallesons and Gilbert + Tobin. Stuart is also an independent Director of Coogee Boys' Preparatory School.

#### **Darren Baker              Director and Company Secretary (Pelathon Hotels Limited) Director (Pelathon Funds Management Limited)**

Darren has 25 years' experience owning and operating small businesses and hotels. He was the licensee (approved manager) of the Bald Rock Hotel for the seven years. He is experienced in all facets of hotel operation including cash handling and accounting, gross profit and stock control, gaming, TAB and Keno operations. His primary areas of responsibility are manager liaison, acquisition, due diligence and portfolio operations.

#### **James (Jaz) Mooney      Director (Pelathon Hotels Limited) Director (Pelathon Funds Management Limited)**

Jaz has over thirty years' experience in the industry, building and developing Botanic Inns Limited in the United Kingdom before selling up and moving to Australia in 2006. He specialises in all aspects of the day to day running of hotels/pubs/restaurants with a particular focus on marketing the businesses and renovations without breaking the bank. Jaz has worked closely with businesses in trouble and has provided solutions, leading to a clear plan to go forward, whether corporately or at a single asset level.

# Pelathon Pub Group

## Directors' Report (continued)

### Information on Directors (continued)

**David Horton**                      **Non Executive Director (Pelathon Hotels Limited)**  
**Director and Company Secretary (Pelathon Funds Management Limited)**

David is a Chartered Accountant with more than 20 years of accounting, business and tax experience. David operates his Chartered Accounting practice providing accounting, tax and consulting services to clients across a broad range of industries. In the ten years prior to establishing his practice, David held senior finance and corporate advisory roles in public and large private companies. David has significant experience in asset sales, acquisitions, business integrations, public listings and take-overs, particularly in the media and entertainment space. David has a Bachelor of Business, is a member of the Institute of Chartered Accountants of Australia and a Fellow of the Financial Services Institute of Australasia.

### Meeting Attendances

Attendances at Board meetings held during the financial year are detailed below:

<b>Director</b>	<b>PFML</b>	<b>PHL</b>	<b>BlackWall</b>
Meetings Held	4	4	10
Richard Hill	-	-	10
Seph Glew	-	-	10
Robin Tedder	-	-	10
Stuart Brown	-	-	10
Darren Baker	4	4	-
Jaz Mooney	4	4	-
David Horton	4	4	-

### Proceedings on behalf of the Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the period.

### Environmental Regulation and Performance

The Group's operations are not regulated by any significant environmental law or regulation under either Commonwealth or State legislation other than those that pertain to the ownership and development of real estate. The Directors of the Company and the Responsible Entity believe that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any instances of non-compliance of those environmental requirements as they apply to the Group.

### Indemnities of Officers

During the financial period the Group has paid premiums to insure each of the Directors named in this report along with officers of the Company against all liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company or the Responsible Entity, other than conduct involving a willful breach of duty. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

# Pelathon Pub Group

## Directors' Report (continued)

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor to the Group.

### Non-audit Services

Amounts paid to the auditor for non-audit services during the year are detailed at Note 15 of the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out in these financial statements.

### Auditor

ESV Accounting and Business Advisors continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors.



**Darren Baker**  
Director  
Sydney, 11 October 2016



**David Horton**  
Director  
Sydney, 11 October 2016



**Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001**

**To the directors of Pelathon Pub Group**

As auditor for the audit of Pelathon Pub Group for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Dated at Sydney 10<sup>th</sup> of October 2016

A handwritten signature in black ink, appearing to read 'Tim Valtwies', written over a faint 'ESV' watermark.

**ESV Accounting and Business Advisors**

A large, stylized handwritten signature in black ink, clearly legible as 'Tim Valtwies'.

**Tim Valtwies**  
**Partner**



# Pelathon Pub Group

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2016

	Notes	2016 \$	2015 \$
<b>Revenue</b>			
Hotel Operations Income		18,637,551	17,949,542
Other income		145	434
<b>Total Revenue</b>	3	<b>18,637,696</b>	<b>17,949,976</b>
<b>Expenses</b>			
Cost of sales		(8,341,307)	(8,103,006)
General and administrative expenses		(349,172)	(333,862)
Marketing expenses		(585,352)	(613,303)
Poker machine expenses		(347,568)	(276,190)
Operating expenses		(941,032)	(930,481)
Employment expenses		(4,841,601)	(4,773,865)
Occupancy costs		(777,973)	(828,290)
Other management expenses		(412,539)	(467,540)
Depreciation and amortisation		(262,063)	(281,366)
Finance costs		(618,000)	(957,758)
Fair value adjustment of property, plant & equipment		500,148	(15,834)
Profit/(Loss) on sale of hotels		-	11,457
<b>Profit Before Income Tax</b>		<b>1,661,237</b>	<b>379,938</b>
Income tax expense	4	-	-
<b>Profit After Income Tax for the year</b>		<b>1,661,237</b>	<b>379,938</b>
Other Comprehensive Income/(Loss)		-	-
<b>Total Comprehensive Profit for the year</b>		<b>1,661,237</b>	<b>379,938</b>
<b>Profit for the year is attributable to:</b>			
Pelathon Pub Fund		958,632	538,040
Pelathon Hotels Limited		702,605	(158,102)
		<b>1,661,237</b>	<b>379,938</b>
<b>Total Comprehensive Income for the year is attributable to:</b>			
Pelathon Pub Fund		958,632	538,040
Pelathon Hotels Limited		702,605	(158,102)
		<b>1,661,237</b>	<b>379,938</b>

The accompanying notes form part of these consolidated financial statements.

# Pelathon Pub Group

## Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 \$	2015 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	817,716	1,203,853
Trade and other receivables	6	48,347	92,986
Inventories	7	602,159	574,316
Other assets	8	90,304	63,566
<b>Total Current Assets</b>		<b>1,558,526</b>	<b>1,934,721</b>
<b>Non-Current Assets</b>			
Property plant and equipment	9	23,900,000	23,350,000
<b>Total Non-Current Assets</b>		<b>23,900,000</b>	<b>23,350,000</b>
<b>TOTAL ASSETS</b>		<b>25,458,526</b>	<b>25,284,721</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	1,615,068	1,924,681
Interest bearing liabilities	11	12,742,332	13,179,425
Provisions	12	96,958	124,976
<b>Total Current Liabilities</b>		<b>14,454,358</b>	<b>15,229,082</b>
<b>Non-Current Liabilities</b>			
Interest bearing liabilities	11	-	1,247,915
Provisions	12	90,046	88,230
<b>Total Non-Current Liabilities</b>		<b>90,046</b>	<b>1,336,145</b>
<b>TOTAL LIABILITIES</b>		<b>14,544,404</b>	<b>16,565,227</b>
<b>NET ASSETS</b>		<b>10,914,122</b>	<b>8,719,494</b>
<b>EQUITY</b>			
Contributed equity	13	25,554,455	25,021,064
Accumulated losses		(14,640,333)	(16,301,570)
<b>TOTAL EQUITY</b>		<b>10,914,122</b>	<b>8,719,494</b>
<b>Equity attributable to members of Pelathon Pub Fund (Parent interest)</b>			
Contributed equity		20,397,238	19,970,526
Accumulated losses		(9,960,874)	(10,919,506)
<b>Total Equity attributable to members of Pelathon Pub Fund</b>		<b>10,436,364</b>	<b>9,051,020</b>
<b>Equity attributable to members of Pelathon Hotels Limited</b>			
Contributed equity		5,157,217	5,050,539
Accumulated losses		(4,679,459)	(5,382,063)
<b>Total Equity attributable to members of Pelathon Hotels Limited</b>		<b>477,758</b>	<b>(331,524)</b>

The accompanying notes form part of these consolidated financial statements.

# Pelathon Pub Group

## Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2016

	No. of securities	Contributed equity \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2015</b>	<b>121,647,097</b>	<b>25,021,064</b>	<b>(16,301,570)</b>	<b>8,719,494</b>
Issues of securities	6,426,408	533,391	-	533,391
Profit after income tax for the year	-	-	1,661,237	1,661,237
<b>Balance at 30 June 2016</b>	<b>128,073,505</b>	<b>25,554,455</b>	<b>(14,640,333)</b>	<b>10,914,122</b>
<b>Balance at 1 July 2014</b>	<b>121,647,097</b>	<b>25,021,064</b>	<b>(16,681,508)</b>	<b>8,339,556</b>
Profit after income tax for the year	-	-	379,938	379,938
<b>Balance at 30 June 2015</b>	<b>121,647,097</b>	<b>25,021,064</b>	<b>(16,301,570)</b>	<b>8,719,494</b>

The accompanying notes form part of these consolidated financial statements.

# Pelathon Pub Group

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2016

		2016	2015
		\$	\$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers inclusive of GST		20,545,960	20,109,864
Payments to suppliers and employees inclusive of GST		(18,294,318)	(17,660,565)
Interest paid		(618,000)	(957,758)
Interest received		144	1,033
<b>Net Cash Flows From Operating Activities</b>	17	<b>1,633,787</b>	<b>1,492,574</b>
<b>Cash Flows From Investing Activities</b>			
Payments for plant and equipment		(334,916)	(292,374)
Proceeds from sale of assets		-	3,628,024
<b>Net Cash Flows From Investing Activities</b>		<b>(334,916)</b>	<b>3,335,650</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from issue of securities		-	1,703,400
Repayment of borrowings		(1,685,008)	(6,019,660)
<b>Net Cash Flows Used in Financing Activities</b>		<b>(1,685,008)</b>	<b>(4,316,260)</b>
<b>Net Decrease in Cash Held</b>		<b>(386,137)</b>	<b>(551,965)</b>
Cash and cash equivalents at the beginning of the year		1,203,853	691,889
<b>Cash and Cash Equivalents at End of the Year</b>	5	<b>817,716</b>	<b>1,203,853</b>

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies

The financial statements of Pelathon Pub Group comprise the financial statements of Pelathon Hotels Limited and its subsidiaries (the Company) and Pelathon Pub Fund and its controlled entities (the Fund). Pelathon Hotels Limited is an unlisted public company, incorporated and domiciled in Australia. The Pelathon Pub Fund is a registered management scheme registered under the Corporations Act 2001 in Australia.

Pelathon Funds Management Limited (PFML), the Responsible Entity of the Fund, is incorporated and domiciled in Australia. Australian Executor Trustees Limited is the custodian of the Fund (the Custodian). The relationship of these parties with the Fund is governed by the terms and conditions specified in the Constitution.

The consolidated financial statements for Pelathon Pub Group for the year ended 30 June 2016 were authorised for issue in accordance with the resolution of the directors of the Company and of PFML on 30 September 2016.

#### Basis of Preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

#### Going Concern

This financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The financiers' loans from National Australia Bank are classified as current, as such the Group's ability to continue as a going concern is dependent upon the continued support of its financiers.

The National Australia Bank loans which total \$12.742m at year end have an expiry date of 31 March 2017. Since the end of the financial year a further debt reduction of \$2.32m has been made by the Group reducing the balance of this facility to \$10.42m at the date of this report. The Group is in compliance with all financial and non-financial debt covenants relating to its bank debt facility. Management has also commenced negotiations with the lender to establish a longer loan term facility prior to the expiry of the current facility on 31 March 2017 to ensure that it continues to meet its financial obligations.

For the financial year ended 30 June 2016, the Group recorded a profit after tax and depreciation and amortisation of \$1,661,237 (2015: \$379,938). As at 30 June 2016, the Group has a net current asset deficiency of \$ 12,895,832 (2015: \$13,294,361). The directors believe that through the ability of the Group to generate sufficient future operating cashflows and the likelihood that the existing current borrowings are refinanced, it is appropriate the financial report be prepared on a going concern basis.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 1. Statement of Significant Accounting Policies (continued)

Management regularly monitors the Group's cash position and consider a number of strategic and operational plans and initiatives currently in place to ensure that adequate funding continues to be available to the Group to meet its objectives and financial obligations.

#### Change in Accounting Policies

There were no changes in accounting policies for the Group during the 2016 financial year.

#### Presentation of financial statements

##### Presentation currency

Both the functional and presentation currency of the Group is Australian dollars.

##### Property, plant and equipment

Property, plant and equipment refer to the Group's freehold going concern ownership of hotels, gaming machine entitlements and liquor licences together with any plant and equipment used in operating the hotels. Property, Plant, Equipment and Intangibles have been valued on a composite asset basis as each of the components of property, plant, equipment and intangibles are fundamental to the nature of being able to earn income from the integrated hotel property owning and operating business.

The basis of valuation of the property, plant, equipment and intangibles is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

##### Depreciation

The depreciable amounts of all fixed assets are written off over the estimated life of each asset using either of the straight line/diminishing value methods.

##### Useful life

The estimated useful lives used for each class of depreciable assets are:

Plant and Equipment	over 2 to 40 years
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Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

##### Disposal

An item of plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies (continued)

##### Impairment of 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 asset, 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. In assessing value in use, either the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the income of the asset is capitalised at its relevant capitalisation rate.

An impairment loss is recognised if the carrying value of an asset exceeds its recoverable amount. Impairment losses are expensed to the statement of profit or loss and other comprehensive income.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

##### Principles of Consolidation

##### Controlled entities

The consolidated financial statements comprise the financial statements of Pelathon Pub Fund and its subsidiaries and of Pelathon Hotels Limited and its controlled entities as at 30 June 2016. A list of controlled entities is contained in Note 20 to the financial statements. All controlled entities have a June financial year-end and use consistent accounting policies.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Where controlled entities have entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased. A controlled entity is an entity for which the Group has the ability to control and direct the activities that significantly influence returns.

##### Inter-company balances

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies (continued)

##### Stapled Securities

The Pelathon Pub Group comprise the Pelathon Pub Fund (the Fund) and Pelathon Hotels Limited (the Company). On a consolidated basis, stapled securities are issued by the Group. Each stapled security comprises one fully paid unit in the Fund to the value of 80% of the issue price of a stapled security and one share in the Company to the value of 20% of the issue price of a stapled security. The securities cannot be disposed of or traded independently of each other. The 80/20 percentage apportionment of the value of a stapled security to the Fund and Company respectively can be varied subject to agreement by both the Directors of the Company and the Directors of the Responsible Entity of the Fund. Any change to the 80/20 percentage apportionment would not impact the issue price or value of a stapled security issued to potential investors.

##### Distributions

In accordance with the Fund Constitution, the Fund fully distributes its distributable income to unitholders. Such distributions are determined by reference to the taxable income of the Fund.

Distributable income may include realised capital gains arising from the disposal of investments. Unrealised gains and losses on investments are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against future realised capital gains.

In accordance with the Fund Constitution, the Fund may distribute capital to unitholders.

##### Unit prices

Unit prices are determined in accordance with the Group's Constitution and Product Disclosure Statement and are calculated as net tangible assets attributable to securityholders of the Group, divided by the number of stapled securities on issue. Net tangible assets are arrived at by deducting bank and other borrowings from the fair value of all hotel and pub assets which include land and buildings, plant and equipment, gaming machine entitlements and liquor licences based on the latest valuations.

##### Financial Instruments

###### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.



# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies (continued)

##### Recognition

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flow from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

##### Loans and receivables

Loans and receivables including loans to related entities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### Financial liabilities

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

##### Interest bearing borrowings

Interest bearing borrowings are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost.

##### Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial instrument is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

An impairment loss in respect of a financial instrument measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial instruments are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial instruments measured at amortised cost, the reversal is recognised in profit and loss.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies (continued)

##### Employee benefits

Provision is made in respect of the entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with benefits arising from salaries and annual leave which will be settled after one year have been measured at their nominal amount.

The provision for long service leave has been calculated at the nominal rate for employees with more than five years service with the Group as it is believed that this would not materially understate the provision.

Contributions are made by the Group to an employee superannuation fund and are charged as expenses when incurred. The Group has no legal obligation to provide benefits to employees on retirement.

##### Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

##### Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

##### Inventories

Inventories are measured at the lower of cost or net realisable value.

##### Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. Bad debts are written off when identified as uncollectible.

##### Trade and other payables

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

##### Revenue

Revenue from sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised using the effective interest rate method. Revenue from the rendering of a service is recognised upon delivery of the service to the customers. Gaming revenue is recognised as net funds (cash invested less payments to players) net of government taxes and charges.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies (continued)

##### Income Tax

###### Current income tax expense

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for any non-assessable or disallowed items and for any unused tax losses. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

###### Accounting for deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

###### Deferred tax calculation

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

###### Deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

###### Benefit brought to account

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

###### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of 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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 1. Statement of Significant Accounting Policies (continued)

##### **New, revised or amending Accounting Standards and Interpretations adopted**

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

*AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)*  
The Group does not expect the new standard to have any material effect on the Group's financial statements.

*AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018)*

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group does not expect the new standard to have any material effect on the Group's financial statements.

*IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)*

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The standard also requires enhanced disclosure to be provided by lessors that will improve information disclosed about a lessor's risk exposure particularly to residual risk. The Group does not expect the new standard to have any material effect on the Group's financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

#### 2. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial statements 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.

##### *Key estimates - Impairment*

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. The Directors believed it appropriate to raise no impairment provisions for the year ended 30 June 2016.

##### *Key estimates - Valuation of Hotel and Pub Properties*

Further information relating to key Director estimates for hotel and pub properties is contained in Note 9.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 3. Revenue

	2016	2015
	\$	\$
<b>Revenue from hotel operations:</b>		
- Food and beverage sales	13,635,725	13,262,774
- Gaming revenue	4,322,971	4,018,913
- Rental income	24,761	31,555
- Other income	654,094	635,701
	<u>18,637,551</u>	<u>17,948,943</u>
<b>Other income:</b>		
- Interest income	145	433
<b>Total revenue</b>	<u><b>18,637,696</b></u>	<u><b>17,949,976</b></u>

### 4. Income Tax Expense

	2016	2015
	\$	\$
Current tax	-	-
Deferred tax	-	-
<b>Total income tax expense</b>	<u>-</u>	<u>-</u>
Profit/(loss) before income tax	1,661,237	379,938
Prima facie tax on (profit)/loss from ordinary activities before income tax at 30% (2015: 30%)	(498,371)	(113,981)
Adjustment for prior year losses	138,773	-
Add / (less) tax effect of:		
Tax losses not brought to account	359,598	113,981
<b>Total income tax expense</b>	<u>-</u>	<u>-</u>

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur:

Tax Effect of Tax Losses Carried Forward	1,389,419	1,749,017
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### 5. Current Assets - Cash and Cash Equivalents

	2016	2015
	\$	\$
Cash on hand and at bank	817,716	1,203,853
<b>Total cash and cash equivalents</b>	<u><b>817,716</b></u>	<u><b>1,203,853</b></u>

#### (a) Effective interest rate

Cash at bank earns interest at floating rates based on daily bank deposit rates.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 6. Current Assets - Trade and Other Receivables

	2016	2015
	\$	\$
Trade receivables:		
- Trade debtors	30,873	63,004
- Sundry debtors	17,474	29,982
<b>Total trade and other receivables</b>	<b>48,347</b>	<b>92,986</b>

None of the receivables were impaired as at 30 June 2016 (2015: \$nil).

### 7. Current Assets - Inventories

	2016	2015
	\$	\$
Food supplies and beverages	602,159	574,316
<b>Total inventories</b>	<b>602,159</b>	<b>574,316</b>

### 8. Current Assets - Other Assets

	2016	2015
	\$	\$
Prepaid expenses	84,324	57,586
Security and other deposits	5,980	5,980
<b>Total other assets</b>	<b>90,304</b>	<b>63,566</b>

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 9. Current and Non-Current Assets - Property, plant, equipment and intangibles

Property, plant, equipment and intangibles refers to the Group's freehold going concern ownership of hotels, gaming machine entitlements and liquor licences together with plant and equipment used in operating the hotels.

	2016 \$	2015 \$
<b>Non-Current</b>		
Hotel and pub properties at fair value	23,900,000	23,350,000
<b>Total Property, plant, equipment and intangibles</b>	<b>23,900,000</b>	<b>23,350,000</b>
<b>Reconciliation</b>		
Carrying amount at the beginning of the year	23,350,000	26,950,000
Hotel assets sold during the year	-	(3,600,000)
Additions to existing property	311,915	297,200
Depreciation	(262,063)	(281,366)
Net fair value adjustments	500,148	(15,834)
	<b>23,900,000</b>	<b>23,350,000</b>

The following table shows the cumulative fair value of the hotel and pub properties as at balance date.

Name	Fair value 30 June 2016 \$	Fair value 30 June 2015 \$
Amaroo Tavern, Moree, NSW	5,600,000	5,450,000
Victoria Hotel, Wagga Wagga, NSW	12,000,000	11,200,000
Mary G's Hotel, Lismore, NSW	6,300,000	6,700,000
<b>Total hotel and pub properties</b>	<b>23,900,000</b>	<b>23,350,000</b>

The Group's property, plant, equipment and intangible assets are valued on a composite basis using the revaluation model.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 9. Current and Non-Current Assets - Property, plant, equipment and intangibles (continued)

##### Directors' valuations as at 30 June 2016

Fair value represents the value apportioned to the freehold, gaming entitlements and liquor licences held by the Group as stated in the Directors' valuations.

Valuation information of the aggregate of the freehold interest in the hotel assets on a going concern basis including gaming entitlements, hotel licences held by the Fund, trade furniture, fixtures and fittings, plant and equipment and goodwill, subject to vacant possession but excluding stock in trade as stated in the Directors' valuation is as follows:

Name	Adopted yield	Directors' valuation	Adopted yield	Directors' valuation
	30 June 2016	30 June 2016 \$	30 June 2015	30 June 2015 \$
Amaroo Tavern, Moree, NSW <sup>1</sup>	15.00%	5,600,000	15.10%	5,450,000
Victoria Hotel, Wagga Wagga, NSW <sup>2</sup>	13.00%	12,000,000	13.04%	11,200,000
Mary G's Hotel, Lismore, NSW <sup>3</sup>	14.10%	6,300,000	14.03%	6,700,000
<b>Total hotel and pub properties</b>		<b>23,900,000</b>		<b>23,350,000</b>

##### Valuation of hotel and pub properties

The basis of valuation of hotel and pub properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition.

Valuations were performed by registered independent valuers in October 2015 by reference to recent market sales of similar properties and common valuation methodologies including capitalisation of income projections on a going concern basis. These values have been adjusted where appropriate to reflect market conditions (including consideration of appropriate market evidence where available) at year end and represent the best estimates of fair value at the balance sheet date.

<sup>1</sup> FY2016 - Directors valuation (FY2016 is Directors adopted valuation inputs from independent valuations performed in October 2015).

<sup>2</sup> FY2016 - Directors valuation (FY2016 is Directors adopted valuation inputs from independent valuations performed in October 2015).



# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 9. Current and Non-Current Assets - Property, plant, equipment and intangibles (continued)

#### Ownership

All hotel and pub properties are freehold and 100% owned by the Group and are comprised of land, buildings, fixed improvements, liquor licences and gaming entitlements, trade furniture and fixtures and fittings associated with the hotels.

#### Capital commitments

There were no capital expenditure commitments contracted in relation to the properties as at 30 June 2016.

#### Assets pledged as securities

The value of the Group's property, plant, equipment and intangibles is pledged as security for the Group's bill facilities with its financier.

### 10. Current Liabilities – Trade and Other Payables

	2016 \$	2015 \$
Trade and Other Payables		
- Trade creditors	1,454,526	1,407,286
- Accrued expenses	160,542	517,395
- Sundry payables	-	-
<b>Total trade and other payables</b>	<b>1,615,068</b>	<b>1,924,681</b>

### 11. Current and Non-Current Liabilities – Interest Bearing Liabilities

	2016 \$	2015 \$
<b>Current</b>		
Secured - bank borrowings	12,742,332	13,179,425
<b>Total current borrowings</b>	<b>12,742,332</b>	<b>13,179,425</b>
<b>Non-Current</b>		
Secured - bank borrowings	-	1,247,915
<b>Total current borrowings</b>	<b>-</b>	<b>1,247,915</b>

The loan facilities are comprised of floating rate secured facilities. The interest rate payable on the loans had a weighted average rate of 4.51% per annum (2015: 5.54%).

In April 2016, the Fund refinanced the facilities previously provided by the Bank of South Australia into a new 12 month facility provided by National Australia Bank. This new facility which now covers all borrowings related to the Fund expires on 31 March 2017.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 11. Current and Non-Current Liabilities – Interest Bearing (continued)

The interest bearing liabilities from the National Australia Bank of \$12.742 million are secured against all of the hotel's assets within the Fund. The facility has amortisation requirements which have been complied with throughout the financial year.

Since the end of the financial year the Fund has repaid a further \$2.32 million of this facility reducing the balance to \$10.42 million at the date of this report.

At 30 June 2016, there were no interest rate swap arrangements (2015: Nil).

A registered mortgage debenture over Pelathon Hotels Limited is held by the National Australia Bank as supporting security for the bank bill facility held by Pelathon Pub Fund in the name of Pelathon Funds Management Limited as responsible entity of the Fund.

### 12. Current and Non-Current Liabilities – Provisions

	2016 \$	2015 \$
<b>(a) Current</b>		
Annual leave	96,958	124,976
<b>Total current provisions</b>	<b>96,958</b>	<b>124,976</b>
<b>(b) Non-current</b>		
Long service leave	90,046	88,230
<b>Total non-current provisions</b>	<b>90,046</b>	<b>88,230</b>

### 13. Contributed Equity

#### (a) Summary table

	2016 \$	2015 \$
<b>Ordinary Stapled Securities ("Stapled Securities")</b> 128,073,505 (30 June 2015: 74,330,430)	25,554,455	22,182,064
<b>Preferred Stapled Securities ("Preferred Securities")</b> Nil (30 June 2015: 47,316,667)	-	2,839,000
Total securities: 128,073,505 (30 June 2015: 121,647,097)		
<b>Total contributed equity</b>	<b>25,554,455</b>	<b>25,021,064</b>

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 13. Contributed Equity (continued)

##### (b) Movement in stapled securities on issue

	2016 No.	2015 No.
<b>Stapled Securities</b>		
At the beginning of reporting period	74,330,430	74,330,430
Preferred Securities converted to ordinary stapled securities	47,316,667	
Stapled Securities issued	6,426,408	-
<b>Stapled Securities at reporting date</b>	<b>128,073,505</b>	<b>74,330,430</b>
<b>Preferred Securities</b>		
At the beginning of reporting period	47,316,667	47,316,667
Preferred Securities converted to ordinary stapled securities	(47,316,667)	-
<b>Preferred Securities at reporting date</b>	<b>Nil</b>	<b>47,316,667</b>
<b>Total securities at reporting date</b>	<b>128,073,505</b>	<b>121,647,097</b>

##### Stapled Securities

- Stapled securities participate in dividends and the proceeds on winding up of the Group in proportion to the number of stapled securities held.

##### Preferred Securities

- Preferred Securities comprise a preference B unit in the Fund stapled to a preference B share in the Company.
- All Preferred Securities were converted to ordinary stapled securities during the 2016 financial year and there are no Preferred Securities at year end.

At the securityholders meetings, each stapled security is entitled to one vote when a poll is called, otherwise each securityholder has one vote on a show of hands. In respect of votes attached to Stapled Securities, the voting power of any holder of ordinary Stapled Securities is capped at 10% of the total votes attached to all issued ordinary Stapled Securities, even if that member holds more than 10% of the issued Stapled Securities.

#### 14. Dividends / Distributions

There were no dividends / distributions paid or declared for the year ended 30 June 2016 (2015: \$nil).

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 15. Auditors' Remuneration

	2016	2015
	\$	\$
Remuneration of the auditor of the Group for:		
- Auditing of the financial statements	40,000	37,000
- Other services	-	-
	<u>40,000</u>	<u>37,000</u>

The Company is responsible for payment of the auditors' remuneration for the Pelathon Pub Group.

#### 16. Commitments

No operating or capital lease commitments were in existence as at 30 June 2016 (2015: Nil).

#### 17. Reconciliation of Profit After Income Tax to Operating Cash Flows

	2016	2015
	\$	\$
Profit/(Loss) for the year	1,661,237	379,938
Non-cash flows included in profit/(loss):		
Depreciation and amortisation	262,063	281,366
Fair value adjustments – property, plant and equipment	(500,148)	15,834
Profit/(Loss) on sale of assets	-	(11,457)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	44,639	344,428
(Increase)/decrease in inventories	(27,843)	4,511
(Increase)/decrease in other assets	13,964	33,687
Increase/(decrease) in trade payables and accruals	(243,212)	263,953
Increase/(decrease) in other liabilities	(37,136)	185,280
Increase/(decrease) in provisions	(26,201)	(4,966)
<b>Net cash flows from operating activities</b>	<u><b>1,633,787</b></u>	<u><b>1,492,574</b></u>

#### 18. Contingent Assets and Contingent Liabilities

The Group had no contingent assets or contingent liabilities as at 30 June 2016 (2015: Nil).

#### 19. Subsequent Events

See commentary under the heading Subsequent Events in the Director's report attached to this financial report.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 20. Controlled Entities

Name of subsidiary	Country of incorporation	Percentage owned (%)	
		2016	2015
<b>Pelathon Hotels Limited:</b>			
Hotel Business Trust	Australia	100	100
Victoria Business Trust	Australia	100	100
Bridge Business Trust	Australia	100	100
Gilhooleys Business Trust	Australia	100	100
<b>Pelathon Pub Fund:</b>			
No 1 Trust	Australia	100	100
No 2 Trust	Australia	100	100
No 3 Trust	Australia	100	100
No 4 Trust	Australia	100	100
No 5 Trust	Australia	100	100
No 6 Trust	Australia	100	100
Hotel Property Trust	Australia	100	100
Victoria Realty Trust	Australia	100	100
Bridge Realty Trust	Australia	100	100
Gilhooleys Realty Trust	Australia	100	100
Victoria Property Trust	Australia	100	100
Bridge Property Trust	Australia	100	100
Gilhooleys Property Trust	Australia	100	100
Victoria Land Trust	Australia	100	100
Bridge Land Trust	Australia	100	100
Gilhooleys Land Trust	Australia	100	100

### 21. Related Party Transactions

#### (a) Related Entities and Managed Funds

The Group owns and operates hotel and pub businesses.

#### *Fees and Transactions*

Under the terms of the Fund Constitution, the Responsible Entity is entitled to an asset management fee of 1.5% per annum of the value of gross assets of the Group, payable monthly in arrears. For the year ended 30 June 2016 asset management fees amounted to \$239,688 (2015: \$247,773). Of these Asset management fees relating to the 2016 financial year, \$52,685 (2015: \$25,000) were paid, \$109,995 were converted to equity (2015: Nil) and the balance of \$77,008 were outstanding at 30 June 2016.

In addition to the 2016 asset management fees detailed above, \$423,396 of unpaid asset management fees relating to the 2014 and 2015 financial years were converted to equity during the 2016 financial year.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 21. Related Party Transactions (continued)

##### (a) Related Entities and Managed Funds (continued)

Property management fees are paid to Pelathon Management Group Pty Ltd.

Accounting and tax return preparation fees are paid to Horton & Associates Pty Ltd, a related entity of David Horton.

##### (b) Transactions with Related Parties

The following represents the transactions that occurred during the financial year and the balances outstanding at year end between the Group and its related entities.

	2016 \$	2015 \$
<b>Expenses:</b>		
- Asset Management fees		
BlackWall Fund Services Limited	39,583	50,000
Pelathon Management Group Pty Ltd	200,105	197,773
- Property Management fees		
Pelathon Management Group Pty Ltd	272,560	240,920
- Accounting and tax services fees		
Horton & Associates Pty Ltd	32,772	33,398

##### (c) Interests Held By Related Parties

Transactions & holdings in equity instruments of the Group by directors or related entities:

Related party	Holdings at June 2015	Securities issued or purchased/ (sold)	Holdings at June 2016
BlackWall Fund Services Limited <sup>(i)</sup>	18,811,439	(18,811,439)	-
Darren Baker Pty Ltd <sup>(ii)</sup>	192,591	-	192,591
BlackWall Fund Services Limited as RE for BlackWall Property Trust <sup>(i)</sup>	39,973,973	(39,973,973)	-
Pelorus Private Equity Ltd <sup>(i)</sup>	40,037,934	(39,864,246)	173,688
Pelathon Management Group Pty Ltd <sup>(iii)</sup>	13,866,667	(13,866,667)	-
Pelathon Funds Management Limited <sup>(iii)</sup>	-	20,412,974	20,412,974
Mooney Family Pty Ltd <sup>(iv)</sup>	-	3,000,000	3,000,000
	<u>112,882,604</u>	<u>(89,103,351)</u>	<u>23,779,253</u>

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 21. Related Party Transactions (continued)

##### (c) Interests Held By Related Parties (continued)

- (i) BlackWall Fund Services Limited, Blackwall Fund Services Limited as RE for Blackwall Property Trust and Pelorus Private Equity Ltd and the Responsible Entity up until 21 April 2016 have common directors.
- (ii) Darren Baker, a director of the Company and the Responsible Entity is the sole director of Darren Baker Pty Ltd.
- (iii) Pelathon Management Group Pty Ltd and the Company and Responsible Entity have common directors.
- (iv) Jaz Mooney, a director of the Company and the Responsible Entity, is a director of Mooney Family Pty Limited

#### 22. Directors and Key Management Personnel Disclosures

Key management personnel include the Directors of the Company and the Responsible Entity (refer Directors' Report). The Group does not provide any short term or post-employment benefits to its key management personnel.

#### 23. Financial Risk Management

##### (a) Financial risk management

The main risks the Group are exposed to through its financial instruments are market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's principal financial instruments are cash and loans. Additionally, the Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies, and processes for measuring and managing risk, and the management of capital.

Capital management is carried out at a Group basis for the Pelathon Pub Group. The Manager monitors the return on capital which the Manager defines as net operating income divided by total members' equity as well as net tangible assets per security and distribution levels to ensure the value provided to members is maintained. There were no changes to the Group's approach to capital management during the year. Neither the Fund nor the Company are subject to externally imposed capital requirements.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 23. Financial Risk Management (continued)

#### (b) Financial risk management (continued)

The Group holds the following financial instruments:

	2016 \$	2015 \$
<b>Financial assets</b>		
Cash and cash equivalents	817,716	1,203,853
Trade and other receivables	48,347	92,986
	<b>866,063</b>	<b>1,296,839</b>
<b>Financial liabilities</b>		
Trade and other payables	1,615,068	1,924,679
Interest bearing liabilities	12,742,332	14,427,340
	<b>14,357,400</b>	<b>16,352,019</b>

#### (c) Market risk

##### (i) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	30 June 2016		30 June 2015	
	Weighted average effective interest rate %	Balance \$	Weighted average effective interest rate %	Balance \$
Cash and cash equivalents	0.65	545,732	0.85	995,233
Financial assets				
Bank borrowings	4.30	(12,742,332)	4.49	(14,427,340)
Net exposure to cash flow interest rate risk		<b>12,196,600</b>		<b>13,432,107</b>

The Group has no interest bearing financial assets other than cash and cash equivalents and does not hold large cash balances. As such, any increase or decrease in variable interest rates of up to 2% would not have a significant impact on the Group's net results or securityholders' equity.

The Group has bank borrowings. Average interest rate payable on the facilities at 30 June 2016 was 4.30% (2015: 4.49%). The Group does not have current interest rate swap contracts to hedge its exposure to increasing variable interest rates from bank borrowings.



# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 23. Financial Risk Management (continued)

#### (ii) Interest rate risk (continued)

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in the profit or securityholders' equity while a positive amount reflects a potential net increase. The analysis is performed on the same basis for 30 June 2015.

Movement in interest rates	Net Profit Higher / (Lower)	
	2016 \$	2015 \$
+ 2.0%	(254,847)	(288,547)
- 2.0%	254,847	288,547

#### (c) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, equitable securities, as well as credit exposures to customers, including outstanding receivables. For banks, only independently rated parties with a minimum rating of 'A' are accepted. For receivables, the credit quality of customers is individually assessed, taking into account its financial position, past experience and other factors. The majority of sales are settled in cash that mitigate the credit risk.

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

	2016 \$	2015 \$
Cash and cash equivalents	545,732	995,233
Trade and other receivables	48,347	92,986
	<u>594,079</u>	<u>1,088,219</u>

#### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and funding through credit facilities to meet obligations when due. The Group's liquidity management policy involves monitoring balance sheet liquidity against internal cash flow projections, and maintaining debt financing plans.

At the end of the reporting period, the Group held the following financial arrangements that are expected to readily generate cash inflows and outflows for managing liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows. Financial liabilities due within 12 months equal their carrying balances as the impact of discounting is not significant.

# Pelathon Pub Group

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 23. Financial Risk Management (continued)

##### (d) Liquidity risk (continued)

	Maturing within 1 year \$	Maturing 1 - 5 years \$	Total \$
<b>At 30 June 2016</b>			
<b>Financial assets</b>			
Cash and cash equivalents	545,732	-	545,732
Trade and other receivables	48,347	-	48,347
	<b>594,079</b>		<b>594,079</b>
<b>Financial liabilities</b>			
Trade and other payables	1,615,068	-	1,615,068
Interest bearing liabilities	12,742,332	-	12,742,332
	<b>14,357,400</b>	-	<b>14,357,400</b>
<b>At 30 June 2015</b>			
<b>Financial assets</b>			
Cash and cash equivalents	1,203,853	-	1,203,853
Trade and other receivables	92,986	-	92,986
	<b>1,296,839</b>		<b>1,296,839</b>
<b>Financial liabilities</b>			
Trade and other payables	1,924,681	-	1,924,681
Interest bearing liabilities	13,179,425	1,247,915	14,427,340
	<b>15,104,106</b>	<b>1,247,915</b>	<b>16,352,021</b>

#### 24. Segment Reporting

The Group currently operates in one business segment being operation of hotel and pub businesses in Australia.

# Pelathon Pub Group

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 25. Parent Financial Information

Summary financial information about the Parent is:

	Pelathon Pub Fund	
	2016	2015
	\$	\$
Current assets	70,617	64,556
Non-current assets	21,852,494	21,371,185
<b>Total assets</b>	<b>21,923,111</b>	<b>21,435,741</b>
Current liabilities	10,295,536	10,796,257
Non-current liabilities	1,191,213	1,588,465
<b>Total liabilities</b>	<b>11,486,749</b>	<b>12,384,722</b>
<b>Unitholders' equity</b>		
Issued units	20,397,239	19,970,526
Accumulated losses	(9,960,877)	(10,919,507)
<b>Total unitholders' equity</b>	<b>10,436,362</b>	<b>9,051,020</b>
Net profit/(loss) attributable to unitholders of the Parent	958,629	538,040
Total revenue	1,333,004	1,453,563

### 26. Company Details

#### Principal place of business

The principal place of business of the Group is:  
Pelathon Pub Fund  
Suite 1, 207 Ben Boyd Road  
Neutral Bay, NSW, 2089

# Pelathon Pub Group

## Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 35 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



**Darren Baker**

Director

Sydney, 11 October 2016



**David Horton**

Director

Sydney, 11 October 2016



## Independent Audit Report to the Unitholders of Pelathon Pub Group

### Report on the Financial Report

We have audited the accompanying financial report of Pelathon Pub Group (“the Group”), which comprises the consolidated statement of financial position as at 30 June 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration.

#### *Directors’ Responsibility for the Financial Report*

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

In the notes to the financial report the directors also state, in accordance with Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group’s preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor’s report.



## Independent Audit Report to the Unitholders of Pelathon Pub Group

### Opinion

In our opinion

- (a) the financial report of Pelathon Pub Group is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the group as at 30 June 2016 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial report.

Dated at Sydney the 11<sup>th</sup> of October 2016

**ESV Accounting and Business Advisors**

**Tim Valtwies**  
**Partner**