

Waratah Hotel Group

Consolidated Annual Financial Report

Year Ended 30 June 2019

Waratah Hotels Limited
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Waratah Hotels No 2 Limited
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Waratah Hotel Fund
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Waratah Hotel Group

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Waratah Hotel Group

Directors' Report

The Directors present their report together with the consolidated financial report of the Waratah Hotel Group (formerly Pelathon Pub Group) ('Group') for the year ended 30 June 2019. The Group is comprised of:

- (1) Two companies – Waratah Hotels Limited (formerly Pelathon Hotels Limited) ('WHL') and its controlled entities and Waratah Hotels No 2 Limited (formerly Pelathon Hotels No 2 Limited) ('WHL 2') and its controlled entities (together referred to as the 'Companies'); and
- (2) A trust – Waratah Hotel Fund (formerly Pelathon Pub Fund) and its controlled entities (Fund) (an Australian registered scheme for which Waratah Funds Management Limited (formerly Pelathon Funds Management Limited) ('WFML') acts as responsible entity).

Shares in both of the Companies are stapled to each other and to the 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 2019 comprise the consolidated financial reports of the Fund and the Companies.

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 Waratah Hotel Management Pty Ltd (formerly Pelathon Management Group Pty Limited) ('Waratah') on behalf of WFML.

The net result for the Group was a profit after tax of \$1,936,000 (2018: \$272,003). The result includes the following non-trading items:

- A fair value adjustment of \$6,143 (2018: (\$3,182));
- A capital loss on the sale of the Queens Hotel Motel of \$49,573 (2018: a gain of \$413,870) during the 2019 financial year; and
- Transaction costs of Nil. (2018: \$1,005,224) relating to the acquisition of hotel assets during the 2019 financial year.

For the financial year ended 30 June 2019 the Group generated operating cash flows of \$2,492,980 (2018: \$1,433,806). The operating cashflow in the 2019 financial year does not include any transaction costs (2018: \$1,005,224) relating to the purchase of hotel assets.

Significant Changes in Affairs

On 11 September 2018 the Group completed the settlement of the sale of the freehold going concern interest of the Queens Hotel Motel, Gladstone QLD. A capital loss of \$49,573 was recorded in the 2019 financial year relating to transaction costs associated with the sale of this asset.

During the 2019 financial year the Group issued a further 903,651 units in the Fund raising \$949,743. These funds were primarily used to fund capital expenditure and reduce bank debt.

On 24 June 2019 the Group completed the entity name changes and rebranding of Pelathon Pub Group to Waratah Hotel Group.

Waratah Hotel Group

Directors' Report (continued)

Other than the completion of the sale of the Queens Hotel Motel, the issuing of additional units in the fund and the rebranding from Pelathon Pub Group to Waratah Hotel Group, there were no significant changes to the state of affairs of the Group during the financial year.

Dividends / Distributions

Distributions of \$2,058,918 (2018: \$1,792,451) were paid or declared during the 2019 financial year. The distributions to unitholders included a component that was a return of capital. No dividends were paid by the Companies for the year ended 30 June 2019 (2018: \$nil).

Likely Developments

Waratah 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.

Events Subsequent to Reporting Date

On 8 August 2019, the Group secured an additional \$1.5m of borrowings under its existing National Australia Bank facility. The purpose of the additional borrowing was to assist in funding the repayment of a second ranking debt initially provided by the vendors of the Diplomat Motel when the asset was acquired in September 2017.

On 21 August 2019 the Group utilised this additional \$1.5m National Australia Bank facility together with existing cash reserves to fully repay its \$1.675m second ranking debt which had been paying interest at a rate of 9%.

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 Companies and Waratah Funds Management Limited 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
David Horton
James (Jaz) Mooney – retired 5 November 2018
Lucy Partridge – appointed 5 November 2018

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Directors' Report (continued)

Information on Directors

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

Darren Baker **Director and Company Secretary (Waratah Hotels Limited)**
Director and Company Secretary (Waratah Hotels No 2 Limited)
Director (Waratah 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.

David Horton **Director (Waratah Hotels Limited)**
Director (Waratah Hotels No 2 Limited)
Director and Company Secretary (Waratah Funds Management Limited)

David is a Chartered Accountant with 25 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.

James (Jaz) Mooney **Director (Waratah Hotels Limited) – resigned 5 November 2018**
Director (Waratah Hotels No 2 Limited) – resigned 5 November 2018
Director (Waratah Funds Management Limited) – resigned 5 November 2018

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.

Lucy Partridge **Director (Waratah Hotels Limited) – appointed 5 November 2018**
Director (Waratah Hotels No 2 Limited) – appointed 5 November 2018
Director (Waratah Funds Management Limited) – appointed 5 November 2018

Lucy has over 18 years' corporate advisory and funds management experience, including 10 years with BDO in Brisbane and Sydney, advising a variety of clients in all facets of corporate finance, audit and superannuation. Prior to joining Waratah, Lucy was Head of Funds Management for Blackwall Limited (ASX: BWF). She oversees the execution of daily funds management operations and, together with the Board, drives the strategic direction of funds under management. Lucy holds a Bachelor of Science (Honours) in Mathematics from University of Queensland and a Bachelor of Commerce from Bond University.

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Directors' Report (continued)

Meeting Attendances

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

Director	WFML	WHL	WHL2
Meetings Held	4	11	11
Darren Baker	4	11	11
David Horton	4	11	11
Jaz Mooney	3	4	4
Lucy Partridge	3	6	6

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.

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 18 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.

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Directors' Report (continued)

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, 27 September 2019



David Horton
Director
Sydney, 27 September 2019



AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF WARATAH HOTEL GROUP

In accordance with the requirements of section 307C of the Corporations Act, as auditor for the Waratah Hotel Group as at 30 June 2019, 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 review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

Dated at Sydney 27 September 2019

A handwritten signature in black ink that reads 'ESV'.

ESV Accounting and Business Advisors

A handwritten signature in black ink that reads 'Tim Valtwies'.

Tim Valtwies
Partner

Waratah Hotel Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2019

	Notes	2019 \$	2018 \$
Revenue			
Hotel Operations Income		37,799,329	31,710,414
Profit/(loss) on sale of hotel		(49,573)	413,870
Other income		5,426	5,868
Total Revenue	3	37,755,182	32,130,152
Expenses			
Cost of sales		(16,612,785)	(13,598,643)
General and administrative expenses		(669,776)	(575,155)
Marketing expenses		(1,559,840)	(1,252,474)
Poker machine expenses		(665,860)	(660,450)
Operating expenses		(2,421,777)	(1,928,671)
Employment expenses		(9,068,013)	(8,430,768)
Occupancy costs		(2,185,049)	(1,951,990)
Other management expenses		(1,013,358)	(897,763)
Depreciation and amortisation		(737,221)	(500,600)
Finance costs		(1,114,908)	(1,053,229)
Transaction costs relating to hotel acquisitions		-	(1,005,224)
Fair value adjustment of property, plant & equipment		6,143	(3,182)
Profit Before Income Tax		1,712,738	272,003
Income tax expense	4	223,262	-
Profit After Income Tax for the year		1,936,000	272,003
Other Comprehensive Income		-	-
Total Comprehensive Profit for the year		1,936,000	272,003
Profit for the year is attributable to:			
Waratah Hotel Fund		91,588	(471,608)
Waratah Hotels Limited		1,704,918	847,461
Waratah Hotels No 2 Limited		139,494	(103,850)
		1,936,000	272,003
Total Comprehensive Income for the year is attributable to:			
Waratah Hotel Fund		91,588	(471,608)
Waratah Hotels Limited		1,704,918	847,461
Waratah Hotels No 2 Limited		139,494	(103,850)
		1,936,000	272,003

The accompanying notes form part of these consolidated financial statements.

Waratah Hotel Group

Consolidated Statement of Financial Position As at 30 June 2019

	Note	2019 \$	2018 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,825,359	1,935,460
Trade and other receivables	6	133,970	2,999,244
Inventories	7	850,894	805,032
Deferred tax assets	8	275,202	-
Other assets	9	499,547	527,062
Total Current Assets		3,584,972	6,266,798
Non-Current Assets			
Property plant and equipment	10	46,800,000	46,800,000
Other Assets	11	93,593	-
Total Non-Current Assets		46,893,593	46,800,000
TOTAL ASSETS		50,478,565	53,066,798
LIABILITIES			
Current Liabilities			
Trade and other payables	12	3,552,171	3,661,945
Interest bearing liabilities	13	1,675,000	4,050,000
Provisions	14	305,167	259,938
Total Current Liabilities		5,532,338	7,971,883
Non-Current Liabilities			
Interest bearing liabilities	13	19,339,303	20,330,000
Provisions	14	195,869	180,685
Total Non-Current Liabilities		19,535,172	20,510,685
TOTAL LIABILITIES		25,067,510	28,482,568
NET ASSETS		25,411,055	24,584,230
EQUITY			
Contributed equity	15	30,257,257	31,280,987
Accumulated losses		(4,846,202)	(6,696,757)
TOTAL EQUITY		25,411,055	24,584,230
Equity attributable to members of Waratah Hotel Fund (Parent interest)			
Contributed equity		23,341,617	24,555,209
Accumulated losses		(3,631,986)	(3,638,129)
Total Equity attributable to members of Waratah Hotel Fund		19,709,631	20,917,080
Equity attributable to members of Waratah Hotels Limited			
Contributed equity		6,915,639	6,725,777
Accumulated losses		(1,243,017)	(2,947,935)
Total Equity attributable to members of Waratah Hotels Limited		5,672,622	3,777,842
Equity attributable to members of Waratah Hotels No 2 Limited			
Contributed equity		1	1
Accumulated profits/(losses)		28,801	(110,693)
Total Equity attributable to members of Waratah Hotels No 2 Limited		28,802	(110,692)

The accompanying notes form part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2019

	No. of securities	Contributed equity \$	Accumulated losses \$	Total \$
Balance at 1 July 2018	22,555,805	31,280,987	(6,696,757)	24,584,230
Issues of securities	903,651	949,743	-	949,743
Distributions Paid	-	(1,973,473)	(85,445)	(2,058,918)
Profit after income tax for the year	-	-	1,936,000	1,936,000
Balance at 30 June 2019	23,459,456	30,257,257	(4,846,202)	25,411,055
Balance at 1 July 2017	17,542,988	27,876,102	(6,397,902)	21,478,200
Issues of securities	5,012,817	4,626,479	-	4,626,479
Distributions Paid	-	(1,221,594)	(570,858)	(1,792,452)
Profit after income tax for the year	-	-	272,003	272,003
Balance at 30 June 2018	22,555,805	31,280,987	(6,696,757)	24,584,230

The accompanying notes form part of these consolidated financial statements.

Waratah Hotel Group

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2019

		2019	2018
		\$	\$
Cash Flows From Operating Activities			
Receipts from customers inclusive of GST		41,695,078	34,697,887
Payments to suppliers and employees inclusive of GST		(38,092,616)	(32,216,720)
Interest paid		(1,114,908)	(1,053,229)
Interest received		5,426	5,868
Net Cash Flows From Operating Activities	20	<u>2,492,980</u>	<u>1,433,806</u>
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(824,671)	(1,402,540)
Payment for acquisition of new hotel assets		-	(13,294,892)
Proceeds from sale of hotel assets		2,700,427	-
Net Cash Flows From/(Used in) Investing Activities		<u>1,875,756</u>	<u>(14,697,432)</u>
Cash Flows From Financing Activities			
Proceeds from issue of securities		949,355	3,976,480
Payment of distributions		(2,062,495)	(1,565,375)
Proceeds from borrowings		97,272	13,021,000
Repayment of borrowings		(3,462,969)	(1,175,000)
Net Cash Flows From/(Used in) Financing Activities		<u>(4,478,837)</u>	<u>14,257,105</u>
Net Increase/(Decrease) in Cash Held		(110,101)	993,479
Cash and cash equivalents at the beginning of the year		1,935,460	941,981
Cash and Cash Equivalents at End of the Year	5	<u>1,825,359</u>	<u>1,935,460</u>

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Statement of Significant Accounting Policies

The financial statements of Waratah Hotel Group comprise the financial statements of Waratah Hotels Limited and its subsidiaries, Waratah Hotels No 2 Limited and its subsidiaries and Waratah Hotel Fund and its controlled entities (the Fund). Waratah Hotels Limited and Waratah Hotels No 2 Limited are unlisted public companies, incorporated and domiciled in Australia. The Waratah Hotel Fund is a registered management scheme registered under the Corporations Act 2001 in Australia.

Waratah Funds Management Limited (WFML), 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 Waratah Hotel Group for the year ended 30 June 2019 were authorised for issue in accordance with the resolution of the directors of the Company and of WFML on 27 September 2019.

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 Group's current liabilities are \$1,947,366 greater than its current assets at 30 June 2019. The key reason for the net current liability is that current liabilities includes a \$1.675 million secured loan. This loan was refinanced in August 2019 utilising a \$1.5 million facility from National Australia Bank with an expiry date of September 2020. The hotel assets within the Group are expected to continue to generate sufficient cashflow to allow the Group to settle all liabilities in the ordinary course of business.

Change in Accounting Policies

The Group has adopted the new Accounting Standards issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current period. These standards did not have a material impact on the operations of the Group. There were no further changes in the accounting policies for the Group during the 2019 financial year.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

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 Waratah Hotel Fund and its subsidiaries, Waratah Hotels Limited and its controlled entities and Waratah Hotels No 2 Limited and its controlled entities as at 30 June 2019. A list of controlled entities is contained in Note 23 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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Statement of Significant Accounting Policies (continued)

Stapled Securities

The Waratah Hotel Group comprise the Waratah Hotel Fund, Waratah Hotels Limited and Waratah Hotels No 2 Limited. 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, one share in Waratah Hotels Limited to the value of 20% of the issue price of a stapled security and one share in Waratah Hotels No 2 Limited which was issued to investors in the Fund for no consideration. The securities cannot be disposed of or traded independently of each other. The percentage apportionment of the value of a stapled security to the Fund can be varied subject to agreement by both the Directors of the Companies and the Directors of the Responsible Entity of the Fund. Any change to the 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.

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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Statement of Significant Accounting Policies (continued)

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.

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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Statement of Significant Accounting Policies (continued)

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.

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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Statement of Significant Accounting Policies (continued)

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.

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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Statement of Significant Accounting Policies (continued)

AASB 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. When adopted, it will result in a right to use asset and corresponding lease liability being recorded in the Balance Sheet. The Group has not yet quantified the impact that the adoption of the new standard will have on the Group's financial statements.

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 2019.

Key estimates – Valuation of Hotel and Pub Properties

Further information relating to key Director estimates for hotel and pub properties is contained in Note 10.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

3. Revenue

	2019	2018
	\$	\$
Revenue from hotel operations:		
- Food and beverage sales	25,678,631	21,355,583
- Gaming revenue	7,850,281	6,997,592
- Accommodation income	2,683,356	2,078,441
- Other income	1,587,061	1,278,798
	<u>37,799,329</u>	<u>31,710,414</u>
Other income:		
- Profit/(loss) on sale of hotel	(49,573)	413,870
- Interest income	5,426	5,868
	<u>(44,147)</u>	<u>419,738</u>
Total revenue	<u>37,755,182</u>	<u>32,130,152</u>

4. Income Tax Expense

	2019	2018
	\$	\$
Current tax	(223,262)	-
Deferred tax	-	-
Total income tax expense	<u>(223,262)</u>	<u>-</u>
Profit before income tax	1,712,738	272,003
Prima facie tax on profit from ordinary activities before income tax at 27.5% (2018: 30%)	471,003	81,601
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Waratah Hotel Fund Trust income	(22,549)	(171,257)
- Transaction costs relating to hotel acquisitions	-	301,567
- Fair value adjustment of property, plant & equipment	(1,689)	955
- Other non-deductible expenses	51,650	7,123
Add / (less) tax effect of:		
Utilisation of prior year tax losses	(446,475)	(219,989)
Recognition of carried forward tax losses	(275,202)	-
Total income tax expense	<u>(223,262)</u>	<u>-</u>
Tax Effect of Tax Losses Carried Forward	311,489	826,869

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

5. Current Assets - Cash and Cash Equivalents

	2019	2018
	\$	\$
Cash on hand and at bank	1,825,359	1,935,460
Total cash and cash equivalents	1,825,359	1,935,460

(a) Effective interest rate

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

6. Current Assets - Trade and Other Receivables

	2019	2018
	\$	\$
Trade receivables:		
- Trade debtors	45,204	34,424
- Queens Hotel Motel settlement	-	2,750,000
- Sundry debtors	88,766	214,820
Total trade and other receivables	133,970	2,999,244

None of the receivables were impaired as at 30 June 2019 (2018: \$nil).

7. Current Assets - Inventories

	2019	2018
	\$	\$
Food supplies and beverages	850,894	805,032
Total inventories	850,894	805,032

8. Current Assets - Tax

	2019	2018
	\$	\$
Deferred Tax Assets	275,202	-
Total current assets - tax	275,202	-

9. Current Assets - Other Assets

	2019	2018
	\$	\$
Prepaid expenses	192,193	214,708
Security and other deposits	307,354	312,354
Total other assets	499,547	527,062

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

10. 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.

	2019 \$	2018 \$
Non-Current		
Hotel and pub properties at fair value	46,800,000	46,800,000
Total Property, plant, equipment and intangibles	46,800,000	46,800,000
Reconciliation		
Carrying amount at the beginning of the year	46,800,000	31,800,000
Hotel assets purchased/(sold) during the year	-	14,094,878
Additions to existing property	731,078	1,408,904
Depreciation	(737,221)	(500,600)
Net fair value adjustments	6,143	(3,182)
	46,800,000	46,800,000

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

Name	Fair value 30 June 2019	Fair value 30 June 2018
	\$	\$
Amaroo Tavern, Moree, NSW	5,000,000	5,000,000
Victoria Hotel, Wagga Wagga, NSW	17,900,000	17,900,000
Mary G's Hotel, Lismore, NSW	10,300,000	10,300,000
Diplomat Motel, Alice Springs, NT	9,600,000	9,600,000
Tandara Hotel Motel, Sarina, QLD	3,500,000	3,500,000
Que, Wagga Wagga, NSW (leasehold)	500,000	500,000
Total hotel and pub properties	46,800,000	46,800,000

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

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

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

Directors' valuations as at 30 June 2019

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 2019	30 June 2019	30 June 2018	30 June 2018
		\$		\$
Amaroo Tavern, Moree NSW	14.01%	5,000,000	14.01%	5,000,000
Victoria Hotel, Wagga Wagga NSW	12.52%	17,900,000	12.52%	17,900,000
Mary G's Hotel, Lismore NSW	12.25%	10,300,000	12.25%	10,300,000
Diplomat Motel, Alice Springs NT	10.83%	9,600,000	10.83%	9,600,000
Tandara Hotel Motel, Sarina QLD	17.60%	3,500,000	17.60%	3,500,000
Que, Wagga Wagga NSW (leasehold)	-	500,000	-	500,000
Total hotel and pub properties		46,800,000		46,800,000

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 of the Amaroo Tavern, Victoria Hotel, Diplomat Motel and Tandara Hotel Motel were performed by registered independent valuers during the period from March to May 2017. A valuation of Mary G's Hotel was performed by a registered independent valuer in April 2018. The valuations were undertaken using 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.

The Que leasehold interest was acquired in October 2017 and the Director's value remains in line with the price paid to acquire this asset.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

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

Ownership

All hotel and pub properties other than the Que are freehold assets. All hotel and pub properties are 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 2019.

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.

11. Other Assets - Non-Current

	2019	2018
	\$	\$
Leased Motor Vehicle	102,873	-
Accumulated depreciation	(9,280)	-
Total other assets-non-current	93,593	-

12. Current Liabilities - Trade and Other Payables

	2019	2018
	\$	\$
Trade and Other Payables		
- Trade creditors	2,878,501	2,791,086
- Accrued expenses	149,110	342,722
- Distribution payable	524,560	528,137
Total trade and other payables	3,552,171	3,661,945

13. Current and Non-Current Liabilities - Interest Bearing Liabilities

	2019	2018
	\$	\$
Current		
Secured - bank borrowings	-	4,050,000
Secured - other borrowings	1,675,000	-
Total current borrowings	1,675,000	4,050,000

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

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

	2019	2018
	\$	\$
Non-Current		
Secured – bank borrowings	19,255,000	18,655,000
Secured – motor vehicle loan	84,303	-
Secured – other borrowings	-	1,675,000
Total non-current borrowings	19,339,303	20,330,000

In August 2018, the Fund entered into an Amendment and Restatement Deed with National Australia Bank that required the Fund to repay \$2.45 million of bank debt from the proceeds from the sale of the Queens Hotel Motel, Gladstone. Settlement of the Queens Hotel Motel, Gladstone occurred on 11 September 2018 and the Group repaid \$2.45 million of bank debt out of proceeds from this sale at that time.

In December 2018, the Fund entered into a new Amendment and Restatement Deed with National Australia Bank. The only change to the previous facility was an adjustment to the amortization repayment dates and the amount required to be amortised. Under the new facility total amortisation requirements reduced from \$1.6 million down to \$1.0 million.

The interest bearing liabilities from the National Australia Bank of \$19.255 million are secured against all of the hotel's assets within the Fund and the facility has amortisation requirements which have been complied with throughout the financial year. The National Australia Bank facility comprises a \$9.119 million fixed component at a rate of 4.73% per annum, a \$9.0 million fixed component at a rate of 4.69% per annum and a variable component of \$1.136 million.

At the end of the financial year, the Fund also had a \$1.675 million secured loan that was provided by the vendors of the Diplomat Motel when the asset was acquired in September 2017. This loan was a fixed interest loan paying interest at a rate of 9% per annum with a maturity date of 13 September 2019.

A registered mortgage debenture over Waratah Hotels Limited and Waratah Hotels No 2 Limited is held by the National Australia Bank as supporting security for the bank bill facility held by Waratah Hotel Fund in the name of Waratah Funds Management Limited as responsible entity of the Fund.

Since the end of the financial year the Fund has entered into an Amendment and Restatement Deed with National Australia Bank that secured an additional \$1.5 million of borrowings. The purpose of the additional borrowing was to assist in funding the repayment of the second ranking debt initially provided by the vendors of the Diplomat Motel. This facility requires amortisation of \$75,000 per quarter with the first reduction to occur on 31 December 2019.

On 21 August 2019 the Group utilised this additional \$1.5 million National Australia Bank facility together with existing cash reserves to fully repay the \$1.675 million second ranking debt.

Other than the facility increase of \$1.5 million and the amortisation requirements as outlined above, all other terms of this Amendment and Restatement Deed are consistent with the National Australia Bank facility that the Group entered into in December 2018. The facility continues to have an expiry date of 30 September 2020. The total borrowings under this facility as at the date of this report are \$20.755 million.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

14. Current and Non-Current Liabilities – Provisions

	2019	2018
	\$	\$
(a) Current		
Annual leave	305,167	259,938
Total current provisions	305,167	259,938
(b) Non-current		
Long service leave	195,869	180,685
Total non-current provisions	195,869	180,685

15. Contributed Equity

(a) Summary table

	2019	2018
	\$	\$
Ordinary Stapled Securities (“Stapled Securities”) 23,459,456 (30 June 2018: 22,555,805)	30,257,257	31,280,987
Total contributed equity	30,257,257	31,280,987

(b) Movement in stapled securities on issue

	2019	2018
	No.	No.
Stapled Securities		
At the beginning of reporting period	22,555,805	17,542,988
Stapled Securities issued	903,651	5,012,817
Stapled Securities at reporting date	23,459,456	22,555,805

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.

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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

16. Business Combinations

The Fund did not acquire any hotel assets in the 2019 financial year. In the prior year, the Fund acquired four hotel assets, those being:

- Diplomat Motel, Alice Springs NT
- Queens Hotel Motel, Gladstone QLD
- Tandara Hotel Motel, Sarina QLD
- Que, Wagga Wagga NSW

A description of the assets acquired in the prior year and the values identified in relation to those acquisitions, are detailed below.

Diplomat Motel, Alice Springs NT

On 13 September 2017, the Group acquired the land and building relating to the Diplomat Motel and 100% of the units of Diplomat (Aust) Trading Unit Trust for total consideration of \$9.65m. This entity carries on the trading activities of the Diplomat Motel located in Alice Springs. The acquired business contributed revenues of \$4,308,340 and profit after tax of \$757,147 to the consolidated entity for the period from 13 September 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Diplomat Motel are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	77,148
Trade Receivables	86,380
Prepayments	19,939
Stock	41,795
Land and Buildings	7,250,000
Plant & Equipment	1,964,707
Trade Payables	(204,146)
Employee Benefits	<u>(48,804)</u>
Net Assets Acquired	9,187,019
Goodwill	<u>523,512</u>
Acquisition-date fair value of the total consideration transferred	<u>9,710,531</u>
Representing:	
Cash Paid or Payable to Vendor	7,060,531
Vendor Loan	2,000,000
Issued Units	<u>650,000</u>
	9,710,531
Acquisition costs expensed to the Profit or Loss	(536,986)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	7,060,531
Less: Cash and Cash equivalents	<u>(77,148)</u>
Net cash used	<u>6,983,383</u>

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

16. Business Combinations (continued)

Queens Hotel Motel, Gladstone QLD

On 6 November 2017, the Group acquired the land, building and business relating to the Queens Hotel Motel in Gladstone Qld for total consideration of \$2.0m. The acquired business contributed revenues of \$1,761,105 and a loss after tax of \$66,446 to the consolidated entity for the period from 6 November 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Queens Hotel Motel are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	65,000
Prepayments	43,358
Stock	61,263
Land and Buildings	1,800,000
Gaming Entitlements	200,000
Trade Payables	(49,772)
Employee Benefits	<u>(29,464)</u>
Net Assets Acquired	2,090,385
Goodwill	<u>-</u>
Acquisition-date fair value of the total consideration transferred	<u>2,090,385</u>
Representing:	
Cash Paid or Payable to Vendor	<u>2,090,385</u>
Acquisition costs expensed to the Profit or Loss	(159,138)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	2,090,385
Less: Cash and Cash equivalents	<u>(65,000)</u>
Net cash used	<u>2,025,385</u>

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

16. Business Combinations (continued)

Tandara Hotel Motel, Sarina QLD

On 13 November 2017, the Group acquired the land, building and business relating to the Tandara Hotel Motel in Sarina Qld for total consideration of \$4.0m. The acquired business contributed revenues of \$5,035,755 and profit after tax of \$374,991 to the consolidated entity for the period from 13 November 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Tandara Hotel Motel are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	43,400
Prepayments	35,429
Stock	308,633
Land and Buildings	3,200,000
Gaming Entitlements	800,000
Trade Payables	(16,340)
Employee Benefits	<u>(17,452)</u>
Net Assets Acquired	4,353,670
Goodwill	<u>-</u>
Acquisition-date fair value of the total consideration transferred	<u>4,353,670</u>
Representing:	
Cash Paid or Payable to Vendor	<u>4,353,670</u>
Acquisition costs expensed to the Profit or Loss	(283,919)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	4,353,670
Less: Cash and Cash equivalents	<u>(43,400)</u>
Net cash used	<u>4,310,270</u>

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

16. Business Combinations (continued)

Que, Wagga Wagga NSW

On 20 October 2017, the Group acquired the leasehold going concern interests of an entertainment asset in Wagga Wagga NSW for total consideration of \$444,878. The venue has been renamed as Que. The acquired business contributed revenues of \$1,739,220 and a loss after tax of \$261,515 to the consolidated entity for the period from 20 October 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Que are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	10,000
Prepayments	12,954
Stock	25,643
Plant and Equipment	396,234
Trade Payables	(1,200)
Employee Benefits	<u>(13,131)</u>
Net Assets Acquired	430,500
Goodwill	<u>48,644</u>
Acquisition-date fair value of the total consideration transferred	<u>479,144</u>
Representing:	
Cash Paid or Payable to Vendor	<u>479,144</u>
Acquisition costs expensed to the Profit or Loss	(25,181)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	479,144
Less: Cash and Cash equivalents	<u>(10,000)</u>
Net cash used	<u>469,144</u>

17. Dividends / Distributions

Distributions of \$2,058,918 were declared for the year ended 30 June 2019 (2018: \$1,792,451). The distributions included a return of capital component of \$1,973,473 (2018: \$1,221,594).

There were no dividends paid or declared for the year ended 30 June 2019 (2018: Nil).

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

18. Auditors' Remuneration

	2019	2018
	\$	\$
Remuneration of the auditor of the Group for:		
- Auditing of the financial statements	55,679	52,954
- Other services	-	-
	<u>55,679</u>	<u>52,954</u>

The Company is responsible for payment of the auditors' remuneration for the Waratah Hotel Group.

19. Commitments

	2019	2018
	\$	\$
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	633,978	711,727
One to five years	1,342,659	1,569,170
Greater than 5 years	-	121,746
	<u>1,976,637</u>	<u>2,402,643</u>

Operating lease commitments include:

- rent payable under the property leases relating to the Que Wagga, and the Sarina Cellars Bottleshop.
- contracted amounts for gaming machine software and hardware under non-cancellable operating leases expiring within three years.

20. Reconciliation of Profit After Income Tax to Operating Cash Flows

	2019	2018
	\$	\$
Profit for the year	1,936,000	272,003
Non-cash flows included in profit:		
Depreciation and amortisation	737,221	553,099
Fair value adjustments – property, plant and equipment	(6,143)	3,182
Profit/(loss) on sale of hotel asset	49,573	(413,870)
Changes in assets and liabilities:		
(Increase) in trade and other receivables	115,274	(184,155)
(Increase)/decrease in inventories	(45,861)	(343,224)
(Increase) in other assets	27,515	(382,064)
(Increase)/decrease in deferred tax assets	(275,202)	-
Increase in trade payables and accruals	(210,728)	1,480,440
Increase/(decrease) in other liabilities	104,918	223,547
Increase in provisions	60,413	224,848
Net cash flows from operating activities	<u>2,492,980</u>	<u>1,433,806</u>

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

21. Contingent Assets and Contingent Liabilities

The Group had no contingent assets or contingent liabilities as at 30 June 2019 (2018: Nil).

22. Subsequent Events

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

23. Controlled Entities

Name of subsidiary	Country of incorporation	Percentage owned (%)	
		2019	2018
Waratah Hotels Limited:			
Hotel Business Trust	Australia	100	100
Victoria Business Trust	Australia	100	100
Bridge Business Trust	Australia	100	100
Gilhooleys Business Trust	Australia	100	100
Waratah Hotel Fund:			
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
Waratah Hotels No 2 Limited:			
Diplomat Trading (Aust) Pty Ltd	Australia	100	100
The Diplomat Trading (Aust) Unit Trust	Australia	100	100

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

24. 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 a fund 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 2019 fund management fees amounted to \$650,331 (2018: \$602,087). The Responsible Entity is also entitled to a 2.0% sale fee relating to the profitable sale of hotel assets. No hotel assets were sold during the 2019 financial year (2018: \$55,000) relating to the sale of the Queens Hotel Motel. Of these fund management fees relating to the 2019 financial year, \$613,265 (2018: \$420,530) were paid, none were converted to equity (2018: Nil) and the balance of \$37,066 (2018: \$181,557) was outstanding at 30 June 2019. There were no outstanding sale fees as at 30 June 2019 (2018: \$55,000).

Asset management fees are paid to Waratah Hotel Management Pty Ltd.

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

(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.

	2019	2018
	\$	\$
Expenses:		
- Fund Management fees		
Waratah Funds Management Limited	650,331	602,087
- Sale fees		
Waratah Funds Management Limited	-	55,000
- Asset Management fees		
Waratah Hotel Management Pty Ltd	539,226	386,417
- Accounting and tax services fees		
Horton & Associates Pty Ltd	58,650	57,250

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

24. Related Party Transactions (continued)

(c) Interests Held By Related Parties

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

Related party	Holdings at June 2018	Securities issued or purchased/(sold)	Holdings at June 2019
Waratah Funds Management Limited ⁽ⁱ⁾	15,696	-	15,696
J & K Mooney Investments Pty Ltd ⁽ⁱⁱ⁾	409,483	(409,483)	-
Mooney Super Pty Ltd ⁽ⁱⁱⁱ⁾	97,516	(97,516)	-
Middle Head Ventures Holdings Pty Ltd ^(iv)	3,740,054	(3,740,054)	-
Jodaho Pty Ltd ^(v) (Formerly Horton & Associates Pty Ltd)	1,236,404	821,429	2,057,833
Hirondelle Investments Pty Ltd ^(vi)	615,000	182,571	797,571
Darren Baker Pty Ltd ^(vii)	1,394	1,870,518	1,871,912
Lucy Fitzgerald	16,120	110,548	126,668
	6,131,667	(1,261,987)	4,869,680

⁽ⁱ⁾ Waratah Funds Management Limited, the Companies and the Responsible Entity have common directors.

⁽ⁱⁱ⁾ Jaz Mooney, a former director of the Companies and the Responsible Entity is a Director of J & K Mooney Investments Pty Ltd.

⁽ⁱⁱⁱ⁾ Jaz Mooney, a former director of the Companies and the Responsible Entity is a Director of Mooney Super Pty Ltd.

^(iv) Jaz Mooney and Darren Baker, directors of the Companies and the Responsible Entity are directors of Middle Head Ventures Holdings Pty Ltd.

^(v) David Horton, a director of the Companies and the Responsible Entity is a director of Jodaho Pty Ltd (Formerly Horton & Associates Pty Ltd).

^(vi) David Horton, a director of the Companies and the Responsible Entity is a director of Hirondelle Investments Pty Ltd.

^(vii) Darren Baker, director of the Companies and the Responsible Entity is a director of Darren Baker Pty Ltd

25. Directors and Key Management Personnel Disclosures

Key management personnel include the Directors and former 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.

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

26. Financial Risk Management

(a) Financial risk management

The main risks the Group are exposed to through its financial instruments are market risk (including 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 Waratah Hotel 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.

The Group holds the following financial instruments:

	2019 \$	2018 \$
Financial assets		
Cash and cash equivalents	1,825,359	1,935,460
Trade and other receivables	133,970	2,999,244
	1,959,329	4,934,704
Financial liabilities		
Trade and other payables	3,552,171	3,661,945
Interest bearing liabilities	21,014,303	24,380,000
	24,566,474	28,041,945

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

26. Financial Risk Management (continued)

(b) 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 2019		30 June 2018	
	Weighted average effective interest rate %	Balance \$	Weighted average effective interest rate %	Balance \$
Cash and cash equivalents	0.50	1,116,339	1.00	1,175,788
Interest bearing borrowings	5.22	<u>(21,014,303)</u>	5.00	<u>(24,380,000)</u>
Net exposure to cash flow interest rate risk		<u>(19,897,964)</u>		<u>(23,204,212)</u>

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 borrowings from the bank and other external parties. The average interest rate payable on the total borrowings at 30 June 2019 was 5.22% (2018: 5.00%). The Group has entered into a fixed interest rate facility for \$19.794m (2018: \$19.794m) of its debt which significantly limits its exposure to increasing variable interest rates from bank and other borrowings.

(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 2017.

Movement in interest rates	Net Profit Higher / (Lower)	
	2019 \$	2018 \$
+ 2.0%	(22,720)	(91,720)
- 2.0%	22,720	91,720

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

26. Financial Risk Management (continued)

(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:

	2019	2018
	\$	\$
Cash and cash equivalents	1,116,339	1,175,788
Trade and other receivables	133,970	2,999,244
	<u>1,250,309</u>	<u>4,175,032</u>

(d) Liquidity risk

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

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

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

26. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	2019	2018
	\$	\$
Bank loans	-	-

Financial arrangements at the reporting date:

	Maturing within 1 year \$	Maturing 1 - 5 years \$	Total \$
At 30 June 2019			
Financial assets			
Cash and cash equivalents	1,116,339	-	1,116,339
Trade and other receivables	133,970	-	133,970
	1,250,309		1,250,309
Financial liabilities			
Trade and other payables	3,552,171	-	3,552,171
Interest bearing liabilities	1,675,000	19,339,303	21,014,303
	5,227,171	19,339,303	24,566,474
At 30 June 2018			
Financial assets			
Cash and cash equivalents	1,175,788	-	1,175,788
Trade and other receivables	2,999,244	-	2,999,244
	4,175,032	-	4,175,032
Financial liabilities			
Trade and other payables	3,661,945	-	3,661,945
Interest bearing liabilities	4,050,000	20,330,000	24,380,000
	7,711,945	20,330,000	28,041,945

27. Segment Reporting

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

Waratah Hotel Group

Notes to the Financial Statements

For the Year Ended 30 June 2019

28. Parent Financial Information

Summary financial information about the Parent is:

	Waratah Hotel Fund	
	2019	2018
	\$	\$
Current assets	34,624	3,154,293
Non-current assets	36,526,171	40,329,690
Total assets	36,560,795	43,483,983
Current liabilities	968,463	5,005,990
Non-current liabilities	15,882,701	17,560,912
Total liabilities	16,851,164	22,566,902
Unitholders' equity		
Issued units	23,341,617	24,555,209
Accumulated losses	(3,631,986)	(3,638,129)
Total unitholders' equity	19,709,631	20,917,080
Net profit/(loss) attributable to unitholders of the Parent	91,588	471,608
Total revenue	1,909,589	2,221,087

29. Company Details

Principal place of business

The principal place of business of the Group is:

Waratah Hotel Fund
Suite 1, 207 Ben Boyd Road
Neutral Bay, NSW, 2089

Waratah Hotel Group

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 40 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 2019 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, 27 September 2019



David Horton
Director
Sydney, 27 September 2019



Independent Audit Report to the Unitholders of Waratah Hotel Group

Opinion

We have audited the financial report of Waratah Hotel Group (the “Group”), which comprises the consolidated statement of financial position as at 30 June 2019, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors’ declaration.

In our opinion, the accompanying financial report of Waratah Hotel Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group’s financial position as at 30 June 2019 and of its performance for the year then ended; and
- complying with Australian Accounting Standards to the extent described in Note 1, and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibilities of the directors for the financial report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors’ responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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



Independent Audit Report to the Unitholders of Waratah Hotel Group

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Dated at Sydney on the 27 September 2019

ESV Accounting and Business Advisors

Tim Valtwies
Partner