# WARATAH HOTEL GROUP[1]

# MARCH 2021

## OVERVIEW

The Australian Securities and Investments Commission issued Regulatory Guide 46: "*Unlisted property schemes: Improving disclosure for retail investors*" ('**RG 46**') in March 2012. RG 46 sets out six benchmarks and eight disclosure principles for improved disclosure to retail investors to help them compare risks and returns across investments in the unlisted property sector.

The RG 46 regime, specifies that responsible entities of unlisted property schemes offered to retail investors and in which retail investors have invested should disclose against these benchmarks on an 'if not, why not' basis.

The information below follows the RG 46 guidelines and is based on the most recent financial statements adjusted for any material changes since those statements.

We are committed to providing investors with timely and balanced disclosure of all material matters concerning the Group in accordance with its continuous disclosure obligations, including RG 46. Key information and any material changes will be updated by us and made available on our website at www.waratahmanagement.com.au

## GEARING RATIO

### *Disclosure Principle 1*

The Group's gearing ratio indicates the extent to which its assets are funded by external liabilities.

$$\textit{Gearing ratio} = \frac{\textit{Total interest bearing liabilities}}{\textit{Total assets}}$$

### *Application of Disclosure Principle 1*

| GROUP | GEARING RATIO |
|---|---|
| Waratah Hotel Group | 45.0% |

[1] *Waratah Hotel Group comprises Waratah Hotel Fund, Waratah Hotels Limited and Waratah Hotels No. 2 Limited. Waratah Hotel Group is also referred to as the 'Group'.*

The gearing ratio is calculated using the assets and liabilities published in the most recent financial statements adjusted for any material changes since those statements. The Responsible Entity will continually monitor the Group's debt requirements and may seek to refinance or hedge the borrowings when conditions are favourable. Borrowing (or gearing) can be an important investment tool because, through borrowing, larger amounts become available to generate returns. But whilst this can enhance any gains, conversely it can magnify any losses. Returns from geared investments are also more volatile than returns from the same investments that are not geared. Accordingly, a geared fund will be regarded as having a higher risk profile than a comparable ungeared fund. The greater the level of gearing, the greater the potential for both significant capital gain and loss.

***Benchmark 1: Gearing Ratio***

The Responsible Entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.

The Group's gearing policy is to maintain or reduce current gearing levels based on the existing assets within the Fund to ensure compliance with existing facilities. The finance agreement relating to the CBA facilities contains a Loan to Value Ratio covenant which is similar to the gearing ratio described above, and with which the Group is compliant.

## INTEREST COVER

***Disclosure Principle 2***

Interest cover indicates the Group's ability to meet interest payments from earnings.

$$\textit{Interest cover} = \frac{\textit{EBITDA}^{2} - \textit{unrealised gains} + \textit{unrealised losses}}{\textit{Interest expense}}$$

***Application of Disclosure Principle 2***

| GROUP | INTEREST COVER |
|---|---|
| Waratah Hotel Group | 7.07 |

The interest cover ratio of the Group is 7.07. This implies that the realised earnings before interest and taxes are 7.07 times greater than its interest expenses.

Interest cover is a key indicator of the financial health of the Group. The lower the interest cover, the higher the risk that the Group will not be able to meet its interest payments. A Group with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments.

*[2] EBITDA is defined as earnings before interest, tax, depreciation and amortisation. EBITDA in our calculation is based on the quarter ended 31 March 2021.*

**_Benchmark 2: Interest cover policy_**

The Responsible Entity does not maintain a written policy that governs the level of interest cover at an individual credit facility level, as there are no interest cover covenants within its CBA facility.

## BORROWINGS

**_Disclosure Principle 3_**

This principle requires information on the Group's borrowing maturity and credit facility expiry and any associated risks. It is also important that investors are kept informed and updated with information they would reasonably require on breaches of loan covenants.

The Group's debt portfolio profile at 31 March 2021 is summarised below. All amounts are in Australian dollars.

| FACILITY | FACILITY LIMIT | AMOUNT DRAWN | MATURITY | HEDGING |
|---|---|---|---|---|
| CBA loan facility 1 | $5.86 m | $5.86 m | 27/10/2023 | Nil |
| CBA loan facility 2 | $1.67 m | $1.67 m | 27/10/2023 | Nil |
| CBA loan facility 3 | $2.21 m | $2.21 m | 27/10/2023 | Nil |
| CBA loan facility 4 | $17.74 m | $17.74 m | 27/10/2023 | Nil |
| CBA loan facility 5 | $2.80 m | $2.80 m | 27/10/2023 | Nil |
| Total debt | $30.28 m[3] | $30.28 m | | |

The Constitution of the Fund allows the Responsible Entity to borrow on behalf of the Group.

All debt facilities arranged for the Group will limit the security of a financier to the assets of the Group. Therefore, the financier will have no recourse against any investor personally or against other assets of any investor. No investor will be responsible to a financier for the obligations of any other investor.

Investors should be aware that the amount owing to the financier and other creditors of the Group rank before an investor's interest in the Group.

**_Benchmark 3: Interest capitalisation_**

The interest expense of the Group is not capitalised. Capitalised interest is where the fund is not paying interest but the lender is accruing interest for payment at a later time.

*3 Amortisation schedule comprises quarterly repayments of $200,000 commencing in October 2021.*

## PORTFOLIO DIVERSIFICATION

***Disclosure Principle 4***

This information addresses the Group's investment practices and portfolio risk.

The Group invests in hotel and leisure assets located in areas with stable or growing populations and a strong demographic profile, with strong income returns and the potential to improve trade either through better management or refurbishment. The Group owns the following hotel and leisure assets in locations across New South Wales, Queensland and the Northern Territory:

Amaroo Tavern
*Amaroo Dr, Moree NSW*

Mary G's
*110 Woodlark St, Lismore NSW*

The Victoria Hotel
*57 Baylis St, Wagga Wagga NSW*

Royal on Ninety-Nine
*99 McDowall St, Roma QLD*

The Diplomat Motel
*20 Gregory Tce, Alice Springs NT*

Tandara Hotel Motel
*17-25 Broad Street, Sarina Qld*

Wagga Wagga Commercial Property
*47 Bayliss Street, Wagga Wagga NSW*

Que Bar (leasehold)
*109 Baylis St, Wagga Wagga NSW*

The Group is not invested in property development.

***Benchmark 4: Valuation policy***

***The Responsible Entity is required to maintain and comply with a written property valuation policy that requires***:

*(a) a Valuer to:*
  - *a. be registered or licensed in the relevant State, Territory or overseas jurisdiction in which the property is located, or otherwise be a member of an appropriate professional body in that jurisdiction; and*
  - *b. be independent*

*(b) procedures to be followed for dealing with any conflict of interest;*

*(c) rotation and diversity of valuers;*

*(d) valuations to be obtained in accordance with a set timetable;*

*(e) for each property, an independent valuation to be obtained:*
  - *a. before the property is purchased:*
  - *b. for a development property, on an 'as is' and 'as if complete' basis; and*
  - *c. for all other property, on an 'as is' basis; and*
  - *d. within two months after the directors form a view that there is a likelihood that there has been a material change in the value of the property."*

The Group does not meet the benchmark because valuations are not obtained in accordance with a set timetable, instead, independent valuations are to be obtained before the property is purchased and then at such time as the Responsible Entity deems appropriate for the nature of the asset or upon instruction by the senior lender.

The risks associated with this approach is that if a valuation is not required to be obtained upon instruction by the senior lender and the Responsible Entity decides not to obtain a valuation for several years, the most recent valuation may not reflect the current value of the asset.

The Responsible Entity maintains and complies with a written property valuation policy that can be provided on demand from the Responsible Entity.

## RELATED PARTY TRANSACTIONS

***Disclosure Principle 5: Related Party transactions*** - Investors need to be able to assess the Group's approach to related party transactions.

***The Group maintains and complies with a written policy on related party transactions, including the assessment and approval process for such transactions and arrangements to manage conflicts of interest***.

The board of the Responsible Entity may review transactions and prior approvals at any time and, if necessary, revoke its approval. All related party transactions must either be on arm's length commercial terms or approved by investors by ordinary resolution. The Company Secretary monitors all related party transactions to ensure that they are approved in the required manner.

Details of all related party transactions are reported annually as part of the Group's audited annual accounts. The latest annual audited accounts of the Group can be found on our website at www.waratahmanagement.com.au

***Benchmark 5: Related party transactions***

The Group has a Related Party Policy and Procedures and meets this benchmark.

Key elements of this policy are as follows:

- The Group adopts and requires an environment where senior management must always act in the interests of its investors in funds and in regard to related party transactions will act with those interests paramount.
- The obligation to act in the best interests of investors means that the Group is required to ensure that principal and agent transactions with a related party are conducted at arm's length and on commercial terms or better.
- The Group will ensure that it keeps records showing what it has done in terms of this policy including maintaining a Related Party Register.

Compliance with this policy is monitored by the Responsible Entity by review at the meetings of the compliance committee and the board of directors. A copy of the related party transactions policy is available for inspection by Investors upon request. The Group currently complies with the Related Party Policy and Procedures.

## DISTRIBUTION PRACTICES

***Disclosure Principle 6***

This discloses whether distributions to investors have been made solely from realised income or from a combination of realised income and a return of capital funded by borrowings. Information on the Group's distribution practices helps investors assess the sources of the distributions and be informed about the sustainability of distributions from sources other than realised income.

***Benchmark 6: Distribution practices***

***The scheme is required to only pay distributions from its cash from operations (excluding borrowings) available for distribution.***

The Group does not meet the benchmark because the board of directors has reserved its right to from time to time determine the appropriate levels of distributions considering all factors including the revenue and expenses of the Group's operations, the Group's asset values and gearing capacity.

We ensure that any material issues related to the Group's distribution practices are notified to investors through ongoing disclosure, which includes disclosing the changes on our website at www.waratahmanagement.com.au

The Group has paid quarterly distributions consistently since 31 December 2016 with the only exception being the March and June 2020 quarters when distributions were not paid due to the impact of COVID-19.

## WITHDRAWAL ARRANGEMENTS

***Disclosure Principle 7***

Unlisted property trusts are illiquid investments. As such, investors in the Fund have no rights to withdraw their investment during the term of the Fund.

Investors may transfer units in the Fund in accordance with the Fund's Constitution.

## FUND NET TANGIBLE ASSETS

***Disclosure Principle 8***

Responsible Entities of closed-end schemes should clearly disclose the value of the net tangible assets (NTA) of the scheme on a per unit basis in pre-tax dollars using the following formula:

$$\text{NTA} = \frac{\text{Net assets-intangible assets+/-any other adjustments}}{\text{Number of units in the scheme on issue}}$$

The Fund NTA is $0.91 per stapled security.

It is important to note however that the Group's hotel assets are recorded in the financial statements separately as land and buildings, property, plant and equipment and intangible assets. Whilst the value of land and buildings is recorded at fair value, the value of intangible assets including the Group's hotel business operations are valued at the lower of cost and realisable value.

The value of the Group's hotel assets on a composite asset basis using a fair value model at 31 March 2021 is $65.10m. Calculating the Group's assets at this fair value, the net asset backing per security as at 31 March 2021 is $1.41.