



SJH HOTEL FUND

ABN 11 399 469 227

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2021

SJH HOTEL FUND
TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2021

Vasco Trustees Limited as Trustee of the SJH Hotel Fund executed a Deed of Retirement and Appointment on 23 August 2021 with Vasco Custodians Pty Ltd. The Directors of the Trustee, Vasco Custodians Pty Ltd, present their report on the SJH Hotel Fund ('the Fund') for the year ended 30 June 2021.

1. Directors of Vasco Trustees Limited for the period 1 July 2020 to 30 June 2021

The names of Directors of the Trustee in office at any time during the financial year are:

Craig Mathew Dunstan

Fiona Jean Dunstan (retired on 31 December 2020)

Jonathan William Martin

Reginald Bancroft

On 23 August 2021, Vasco Trustees Limited retired as Trustee and Vasco Custodians Pty Ltd was appointed Trustee. The Directors of Vasco Custodians Pty Ltd are:

Craig Mathew Dunstan

Fiona Jean Dunstan

2. Principal Activities

The Fund was established by Trust Deed on 21 July 2016 which was replaced by a Trust Deed dated 19 July 2018.

The objective of the Fund is to generate income returns and capital growth for unitholders by investing via sub-funds in hotel real estate and businesses that operate hotels and related hospitality businesses in Australia.

The sub-funds are controlled and operated by related parties of the Investment Manager. Each sub-fund will own or take a lease in the land on which the respective hotels are situated as well as own all the shares of a separate company that owns the individual hotel business. The trustee of each sub-fund will be a company owned by the Fund and controlled by related parties of the Investment Manager.

3. Operating Results

The operating profit of the Fund for the financial year ending 30 June 2021 was \$1,855,791 (2020: \$4,580,768).

4. Review of Performance

Unit Class	2021 % p.a.	2020 % p.a.
Ordinary units	51.40	(16.87)
Preference units	19.55	12.00

The performance figures take into account distributions declared during the financial year.

SJH HOTEL FUND
TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2021

5. Review of Operations

During the period since inception the Fund has issued 15,378,964 (2020: 13,715,937) ordinary units and 1,478,543 (2020: 1,478,543) preference units. A total of 428,707 ordinary units have been redeemed.

During the financial year 1,234,320 (2020: 6,777,578) units have been issued of which 1,137,564 (2020: 170,905) have resulted from the reinvestment of distributions.

The Fund currently owns 100% of the issued units in four sub-funds, each of which owns or has a lease in the land on which the relevant hotel sits and the business which operates each hotel. The Fund also owns 100% of the issued share capital of the sub-fund Trustees.

The Fund experienced a significant increase in profits due to the performance of the underlying hotels it invests in due to the easing of government restrictions in FY2021.

The tables below provide the information for the investments of the Fund as at 30 June 2021.

Equity investments in sub-funds	\$
Units in Duke of Wellington Unit Trust	7,261,070
Units in Kent Hotel Unit Trust	12,051,748
Units in Sea Breeze Hotel Unit Trust	6,769,072
Units in Imperial Hotel Unit Trust	3,300
Shares in sub-funds trustees	1,500
Total	26,086,690

Debt investments in sub-funds	\$
Loan to Duke of Wellington Unit Trust	6,885,200
Loan to Kent Hotel Unit Trust	12,902,051
Total	19,787,251

As at 30 June 2021 the Fund's assets were comprised of the following:

Asset allocation of the Fund as at the end of the reporting period		
Description	Value	Weight in %
Cash	\$377,118	0.81%
Sundry debtor and prepayments	\$22,457	0.06%
Intangibles	\$352,849	0.76%
Equity in sub-funds	\$26,086,690	55.94%
Loans to sub-funds	\$19,787,251	42.43%
	\$46,626,365	100%

6. Distributions Paid or Recommended

In accordance with the Information Memorandum of the Fund issued on 7 April 2021 and the Unit Pricing and Distributions Policy of the Fund, distributions for ordinary units are ordinarily expected to be paid quarterly calculated at the rate of 7.50% p.a. on a cents per unit day basis with a surplus distribution calculated for the quarter ended 30 June 2021 for any remainder income beyond the distributions paid during the financial year.

SJH HOTEL FUND
TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2021

6. Distributions Paid or Recommended (continued)

The Fund has paid the following distributions to ordinary unit holders during FY2021 based on a cents per unit day basis:

Distribution period	Cents per unit per day	\$
1 July 2020 to 30 September 2020	0.0000000000	-
1 October 2020 to 31 December 2020	0.0002958904	399,930
1 January 2021 to 31 March 2021	0.0002054795	273,783
Total		673,713

In addition to the distributions paid, the Fund declared a distribution of \$215,000 as at 30 June 2021 for the remainder of income beyond the distributions in the table above, payable to ordinary unitholders on a rolled-up basis.

The Fund has paid the following distributions during FY2021 based on a 12.00% p.a. return to preference units in accordance with the preference units term sheet:

Distribution period	\$
1 July 2020 to 31 December 2020 (prepaid during FY20)	123,000
1 January 2021 to 31 March 2021	60,658
Total	183,658

In addition to the distributions paid, the Fund declared a distribution of \$61,332 as at 30 June 2021, payable to the preference unit holders, in accordance with the preference units term sheet.

The total distributions declared by the Fund for the financial year were \$1,133,703 (2020: \$1,810,071).

7. Unit Redemption Prices

Unit redemption prices (quoted ex-distribution and exclusive of exit fees) are shown as follows:

Ordinary units

	2021	2020
At 30 June	1.4919	1.0251
High during year	1.4919	1.3865
Low during year	1.0998	1.0251

Preference units

	2021	2020
At 30 June	1.4919	1.3865
High during year	1.4919	1.3865
Low during year	1.3865	1.3865

The availability and timing of redemptions is subject to the terms of the Fund's Constitution.

SJH HOTEL FUND
TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2021

8. Applications Held

As at 30 June 2021, the value of pending unit allocations was nil.

9. Redemption Arrangements

As detailed in the Fund's Constitution the Trustee is not under any obligation to buy back, purchase or redeem units from unitholders. Consequently, no units were redeemed by the Trustee during the reporting period.

10. Preference Units

The Fund undertook a capital raise during the 2020 financial year and issued redeemable, convertible preference units for \$2.05m at the issue price of \$1.3865. In accordance with the preference units term sheet, preference unitholders are entitled to an accelerated distribution for the period 1 January 2020 to 31 December 2020 which was paid prior to 31 December 2020. Preference unitholders have the right to convert their units to ordinary units on a 1:1 basis, or where the Fund values an ordinary unit at less than the issue price, at the higher resulting conversion ratio.

11. Options

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options outstanding at the date of this report. The Directors and executives of the Trustee hold no options over interests in the Fund.

12. Proceedings on Behalf of the Fund

During the period, an investor in the Fund lodged a complaint with the Australian Financial Complaints Authority. The complaint was subsequently withdrawn in August 2021.

No person has applied to the court for leave to bring proceedings on behalf of the Fund, or to intervene in any proceedings to which the Fund is a party, for the purpose of taking responsibility on behalf of the Fund for all or any part of their proceedings.

13. Value of Scheme Assets

The Gross Asset Value of the Fund's assets at the end of the reporting period was \$46,626,365 (2020: \$39,451,427). The Net Asset Value at the end of the reporting period was \$25,273,123 (2020: \$16,547,136).

14. Significant Changes in State of Affairs

Apart from those matters referred to in the previous sections of this Report, there have been no other significant changes to the state of affairs of the Fund during the financial year.

15. After Balance Date Events

Vasco Trustees Limited as Trustee of the SJH Hotel Fund executed a Deed of Retirement and Appointment on 23 August 2021 with Vasco Custodians Pty Ltd.

SJH HOTEL FUND
TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2021

15. After Balance Date Events (continued)

The loan facility with Westpac Bank was renegotiated in August 2021 to assist with the facilitation of acquiring the Imperial Hotel. The Imperial Hotel was acquired for \$7.25m on 26 of August 2021.

The Bank Bill Facility which was classified as current as at 30 June 2021 now has an expiry date of 18 December 2022.

Westpac have agreed that by 19 November 2021 the debt held at the Fund level will move to the sub funds.

The Investment Manager has entered into a contract to purchase the Harrington Hotel for \$14.75m, with settlement anticipated to be on 15 November 2021.

An offer of \$16m was received to sell the Duke of Wellington Hotel, with contracts exchanged on 13 October 2021. Settlement is due on 15 November 2021 with simultaneous settlement of the Duke of Wellington Hotel and the Harrington Hotel, on the same day.

There are no future developments to report on which are not otherwise disclosed in this report.

16. Indemnifying Officers or Auditor

During or since the end of the financial year, the Trustee has paid insurance premiums to insure each of the aforementioned Directors as well as officers of the Trustee against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Trustee, other than conduct involving a willful breach of duty in relation to the Trustee.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Trustee has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Trustee or of any related body corporate against a liability incurred as such an officer or auditor.

17. Units held by the Trustee, Investment Manager or Related Parties

As at 30 June 2021, the Investment Manager and their related parties held 6,121,226 units in the Fund.

18. Fees, Commissions or Other Charges by the Trustee, Investment Manager or Related Parties

The Trustee, Vasco Trustees Limited, is entitled to a fee of 0.1% pa of the Fund's gross asset value subject to a minimum annual fee of \$25,000 (plus GST).

The Trustee agreed to discount its fee by 40% for the period from 1 March 2020 to 31 December 2020 to assist the financial position of the Fund.

The Administration Manager, Vasco Fund Services Pty Limited, is entitled to a minimum fee of \$20,000 (plus GST) per annum and an additional annual fee of \$5,000 (plus GST) for each additional unit class. Administration fees are subject to an annual increase of 5% on 1 January each year.

The Investment Manager, SJH Hospitality Fund Pty Ltd, is entitled to a Management Fee of 0.50% per annum of the Fund's gross asset value, subject to a minimum annual fee of \$150,000.

SJH HOTEL FUND
TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2021

19. Interests in the Fund

The movement of units on issue in the Fund during the year is set out in Note 14 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 1 to the financial statements.

20. Rounding of Amounts

The Fund is of a kind referred to in the *Australian Securities and Investments Commission's Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191*. Consequently, amounts in the financial statements have been rounded to the nearest dollar in accordance with that legislative instrument, or in certain cases, the nearest thousand dollars.

21. Environmental Issues

The operations of the Fund are not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

Signed in accordance with a resolution of the Board of Directors of Vasco Custodians Pty Ltd by:

Craig Dunstan

Craig Dunstan

Director

Date: 29 October 2021

Auditor's Independence Declaration

To the Unitholders of the SJH Hotel Fund

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of the SJH Hotel Fund the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



D M Scammell
Partner – Audit & Assurance

Melbourne, 29 October 2021

SJH HOTEL FUND

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021**

	Notes	2021 \$	2020 \$
Revenue and other income			
Bank interest	2 (a)	351	2,868
Distribution income	2 (b)	2,794,327	5,535,280
Total revenue and other income		2,794,678	5,538,148
Expenses			
Management fees	3	172,587	129,521
Trustee fees	4	33,050	21,757
Administration fees	4	26,906	23,340
Financial audit fees		23,000	23,000
Interest expense	5	369,880	459,056
Other expenses	6	313,464	300,706
Total expenses		938,887	957,380
Net profit attributed to unitholders		1,855,791	4,580,768
Other comprehensive income			
Fair value profit or (loss) on investments	7	6,656,308	(5,453,203)
Total other comprehensive income		6,656,308	(5,453,203)
Finance costs attributable to unitholders			
Distribution expense		1,133,703	1,810,071
Total comprehensive income for the year attributable to unitholders net of distributions		7,378,396	(2,682,506)

The accompanying notes form part of these financial statements

SJH HOTEL FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021**

	Notes	2021 \$	2020 \$
Current assets			
Cash and cash equivalents	8 (a)	377,118	13,833
Sundry debtor	8 (b)	22,457	39,916
Prepayments	8 (c)	-	123,000
Total current assets		399,575	176,749
Non-current assets			
Investment assets	9	45,873,941	38,786,772
Intangible assets		352,849	487,906
Total non-current assets		46,226,790	39,274,678
Total assets		46,626,365	39,451,427
Current liabilities			
Fees payable	10	36,550	41,642
Financial audit fee payable		23,000	23,000
Other expenses payable	11	4,168	45,027
Distribution payable		276,332	1,031,127
Loans from hotel trusts and related party loans	12	463,940	344,711
Bank facilities	13 (a)	798,870	761,836
Total current liabilities		1,602,860	2,247,343
Non-current liabilities			
Westpac bank facilities	13 (b)	19,750,382	20,656,948
Total non-current liabilities		19,750,382	20,656,948
Total liabilities (excluding net assets attributable to unitholders)		21,353,242	22,904,291
Net assets		25,273,123	16,547,136
Represented by:			
Units issued	14 (a)	17,892,733	16,545,142
Undistributed profit attributable to unitholders	14 (b)	7,380,390	1,994
Net assets attributable to unitholders		25,273,123	16,547,136

The accompanying notes form part of these financial statements

SJH HOTEL FUND

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021**

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or the end of the financial year.

SJH HOTEL FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021	2020
		\$	\$
Cash flows from operating activities			
Interest income		351	2,868
Investment income		2,794,327	654,714
Payments to suppliers		(462,442)	(245,270)
Net cash provided by operating activities		2,332,236	412,312
Cash flows from investing activities			
Proceeds from loan investments		172,770	-
Payment for investment assets		(603,631)	(14,075,251)
Payment for intangible assets		-	(417,029)
Net cash used in investing activities		(430,861)	(14,492,280)
Cash flows from financing activities			
Proceeds from the issue of units		1,347,591	7,609,263
Distributions paid		(1,765,498)	(867,864)
Loan financing		(750,303)	7,538,990
Interest expense		(369,880)	(459,057)
Net cash provided by/ (used in) financing activities		(1,538,090)	13,821,332
Net increase/ (decrease) in cash and cash equivalents		363,285	(258,636)
Cash and cash equivalents at the beginning of year		13,833	272,469
Cash and cash equivalents at the end of year	8 (a)	377,118	13,833

The accompanying notes form part of these financial statements

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial report is for the SJH Hotel Fund ('the Fund'). The Fund is an unregistered managed investment scheme established and domiciled in Australia. The Trustee of the Fund during the financial year ended 30 June 2021 was Vasco Trustees Limited, and SJH Hospitality Fund Pty Ltd is appointed as the Investment Manager of the Fund. Vasco Trustees Limited as Trustee of the SJH Hotel Fund executed a Deed of Retirement and Appointment on 23 August 2021 with Vasco Custodians Pty Ltd.

Basis of Preparation

(a) Statement of compliance

The Fund has elected to adopt the Australian Accounting Standards – Reduced Disclosure Requirements (established by AASB 1053 *Application of Tiers of Australian Accounting Standards*).

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001*. SJH Hotel Fund is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved by the Board of Directors of the Trustee on 29 October 2021.

(b) Basis of measurement

The financial report is prepared on the historical cost basis except for the following material items in the statement of financial position:

Investment assets are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires the Directors of the Responsible Entity to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Fair value measurement

When an asset is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset assuming they act in their economic best interests.

The fair value of assets in an inactive or unquoted market are determined by the use of valuation techniques which require significant judgement.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Significant Accounting Policies

(a) Financial instruments

Financial assets are recognised on the Fund's Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

(i) Measurement

The Fund's financial assets comprise of:

Units in Sub-funds

Equity investments that the Fund intends to hold for the foreseeable future and has irrevocably elected to classify them as held at fair value through other comprehensive income upon initial recognition.

Under this approach, financial assets are measured initially at fair value including any transaction costs that are directly attributable to acquisition.

Subsequent to initial recognition, financial assets are measured at fair value with changes in their fair value recognised in other comprehensive income.

Fair Value Hierarchy

AASB 7 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability

Fair value in an active market

The fair value of financial assets traded in active markets are based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices on the reporting date, while financial liabilities are priced at current offer prices.

Fair value in an inactive or unquoted market

The fair values of financial assets that are not traded in an active market are determined through the valuation policy identified in the Information Memorandum for the Fund.

Loans to Sub-Funds

Loans receivable which are held in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These are measured at amortised cost.

(ii) De-recognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition in accordance with AASB 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(b) Cash and cash equivalents

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

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

(c) Trade Receivables

Trade receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(d) Impairment

Financial assets that are stated at cost or amortised cost are reviewed each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decreases can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

(e) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the Fund that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(f) 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 expense. Receivables and payables in the statement of financial position are shown inclusive of GST, and accruals are shown exclusive of GST.

(g) Provisions

Provisions are recognised when the Fund 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. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(h) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the instrument.

(i) Income tax

Under current legislation, the Fund is not liable for income tax provided its taxable income is fully distributed to unitholders.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

(j) Critical judgements and significant accounting estimates

The preparation of financial statements requires the Directors of the Responsible Entity to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(k) New accounting standards and interpretations

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

(l) Coronavirus (COVID-19) impact

In preparing its financial statements the Trustee has considered the current and ongoing impact the COVID-19 pandemic has had on its business operations. In assessing such impacts the Trustee has relied upon certain key estimates from the Investment Manager to evaluate current and future business operations. Inherent in any estimate is a level of uncertainty. In particular, due to COVID-19, estimation uncertainty is heightened this year. Estimation uncertainty is associated with:

- The extent and duration of the disruption to the business of the hotels arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- The extent and duration of the expected economic downturn, including:
 - The disruption to capital markets;
 - Deteriorating credit and liquidity concerns;
 - Increasing unemployment and declines in consumer discretionary spending; and
 - Percentage of population vaccinated and effectiveness of vaccines which the Trustee will continue to monitor and adapt as new information is available;
- The effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn; and
- Judgements in property valuations.

COVID-19 mandated temporary trading restrictions and closures over the period impacted revenue. Once COVID-19 trading restrictions were eased sales improved through the hotels to levels in line or higher than those pre COVID-19. Despite periods of restricted trade, sales continue to remain strong.

The impact of COVID-19 has been considered on both our independent and director's valuations. In response to increased estimation uncertainty the Trustee has assessed the carrying values of its assets and liabilities in light of COVID-19.

There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Trustee. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected and the effect of those differences may significantly impact accounting estimates in this report.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 2: REVENUE

The Funds revenue may be analysed under the following categories:

(a) Bank interest

	2021	2020
	\$	\$
Bank interest	351	2,868
	<u>351</u>	<u>2,868</u>

Cash on deposit is held in a Macquarie Bank cash management account (AUD). The interest rate paid by Macquarie is 0.12% p.a.

(b) Distribution income

	2021	2020
	\$	\$
Duke of Wellington Unit Trust	690,302	481,872
Kent Hotel Unit Trust	1,016,832	536,649
Lakeside Tavern Unit Trust	-	4,001,735
Rutherford Hotel Unit Trust	-	427
Seabreeze Hotel Unit Trust	1,087,193	514,597
Total distribution income	<u>2,794,327</u>	<u>5,535,280</u>

NOTE 3: MANAGEMENT FEES

	2021	2020
	\$	\$
Management fees	172,587	129,521
	<u>172,587</u>	<u>129,521</u>

Management fees

In accordance with the Information Memorandum of the Fund, the Investment Manager is entitled to a Management Fee of 0.50% per annum of the Fund's gross asset value, subject to a minimum annual fee of \$150,000. The management fee is paid monthly in arrears. The Investment Manager waived the fee for December 2020 and charged the minimum fee from 1 July 2020 to 30 November 2020 to assist the financial position of the Fund. From 1 January 2021 to 30 June 2021 the management fee was calculated based on 0.50% p.a. of the Fund's gross asset value.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 4: TRUSTEE AND ADMINISTRATION FEES

	2021	2020
	\$	\$
Trustee fees	33,050	21,757
Administration fees	26,906	23,340
	59,956	45,097

In accordance with the Information Memorandum of the Fund, the Trustee is entitled to a fee of 0.10% (plus GST) per annum of the Fund's total asset value subject to a minimum annual fee of \$25,000 (plus GST). This fee is calculated and accrued monthly, payable to the Trustee in arrears. The Trustee agreed to discount its fee by 40% for the period from 1 March 2020 to 31 December 2020 to assist the financial position of the Fund.

In accordance with the Information Memorandum of the Fund, the Administration Manager is entitled to receive an administration fee of \$15,000 (plus GST) per annum where the total asset value of the Fund is less than \$25m and there are less than 25 investors; \$25,000 (plus GST) per annum where the total asset value of the Fund is greater than \$50m or where there are more than 50 investors; plus \$5,000 (plus GST) per annum for each additional unit class established by the Trustee. The administration fee is subject to an annual increase of 5% on 1 January of each year.

NOTE 5: INTEREST EXPENSE

	2021	2020
	\$	\$
Interest expense	369,880	459,056
	369,880	459,056

NOTE 6: OTHER EXPENSES

	2021	2020
	\$	\$
Administration expenses	5,576	4,367
GST expense (non-claimable)	7,945	3,582
Tax return fees	2,900	2,500
Bank fees	5,050	9,415
Bank facility line fees	165,449	146,405
Amortisation: borrowing expenses	21,095	15,872
Amortisation: establishment fees	7,499	7,093
Amortisation: structuring costs	61,246	49,631
Amortisation: capital raising costs	43,930	27,785
Consulting and accounting fees	(9,267)	32,050
Filing fees	-	1,047
Legal fees	2,041	959
	313,464	300,706

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 7: OTHER COMPREHENSIVE INCOME

As at 30 June 2021 the Fund's other comprehensive income comprised of the following:

Items that will not be reclassified subsequently to profit or loss

	2021	2020
	\$	\$
Revaluation of investments in Hotel Trusts	6,656,308	(5,453,203)
	<u>6,656,308</u>	<u>(5,453,203)</u>

NOTE 8: CURRENT ASSETS

(a) Cash at bank

	2021	2020
	\$	\$
Cash and cash equivalents	377,118	13,833
	<u>377,118</u>	<u>13,833</u>

(b) Sundry debtors

	2021	2020
	\$	\$
Accounts receivable	898	12,109
Loan to SJH Hospitality Pty Ltd	21,559	27,807
	<u>22,457</u>	<u>39,916</u>

The balance of accounts receivable as at 30 June 2021 corresponds to a distribution owed by an investor in the Fund as a result of an overpayment and the RITC receivable as at the end of the period.

(c) Prepayments

These are the prepaid distributions for the period 1 January 2020 to 31 December 2020 paid to preference unitholders in advance as per the preference units term sheet. These have been fully expensed as at 30 June 2021.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 9: INVESTMENTS

Investment assets

As at 30 June 2021 the Fund's investments comprised of:

	2021	2020
	\$	\$
Units in sub-funds		
Duke of Wellington Unit Trust	7,261,070	3,165,962
Kent Hotel Unit Trust	12,051,748	11,527,994
Lakeside Tavern Unit Trust	-	300
Seabreeze Hotel Unit Trust	6,769,072	4,731,625
Imperial Hotel Unit Trust	3,300	-
Loans to sub-funds		
Duke of Wellington Unit Trust	6,885,200	7,042,578
Kent Hotel Unit Trust	12,902,051	12,298,420
Lakeside Tavern Unit Trust	-	14,461
Rutherford Hotel Unit Trust	-	3,932
Shares in Corporate Trustees		
Duke of Wellington Unit Trust Pty Ltd	300	300
Lakeside Village Tavern Unit Trust Pty Ltd	300	300
Seabreeze Unit Trust Pty Ltd	300	300
SJH Hospitality Pty Ltd	300	300
Kent Hotel Unit Trust Pty Ltd	300	300
	45,873,941	38,786,772

The Fund's units in sub-funds and shares in corporate trustees are a level 2 in the fair value hierarchy. Level 2 fair values utilise inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly.

Valuation inputs for Level 2 investments

The fair value of the units and share shares held in sub-funds and corporate trustees have been valued based on the Net Asset Value of the sub-funds and corporate trustees.

Loans to sub-funds are measured at amortised cost.

NOTE 10: FEES PAYABLE

	2021	2020
	\$	\$
Investment manager fees payable	32,703	37,500
Trustee fees payable	3,847	1,955
Administration fees payable	-	2,187
	36,550	41,642

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 11: OTHER EXPENSES PAYABLE

	2021	2020
	\$	\$
Accounts payable	-	34,837
Provision for tax return fee	2,500	2,500
Administration expenses payable	-	887
Other accrued expenses	6,205	6,803
	8,705	45,027
	8,705	45,027

NOTE 12: LOANS FROM SUB-FUNDS AND RELATED PARTY LOANS

	2021	2020
	\$	\$
Seabreeze Hotel Unit Trust	463,940	344,711
	463,940	344,711
	463,940	344,711

NOTE 13: BANK FACILITIES

(a) Current

	2021	2020
	\$	\$
Facility B: Bank Bill Business Loan with Redraw (current)	774,600	605,600
Facility C: Business Overdraft	24,270	156,236
	798,870	761,836
	798,870	761,836

Facility B was refinanced in August 2021 on an interest only basis with an expiry date of 18 December 2022 and hence from August 2021 the Facility is classified as non-current.

(b) Non-current

	2021	2020
	\$	\$
Facility A: Bank Bill Business Loan	19,430,000	19,430,000
Facility B: Bank Bill Business Loan with Redraw (non-current)	100,382	1,006,948
Rental Bond Facility	220,000	220,000
	19,750,382	20,656,948
	19,750,382	20,656,948

The facilities A and B were fully drawn as at 30 June 2021.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 14: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

(a) Issued units

	2021 Units	2021 \$	2020 Units	2020 \$
Opening balance	15,194,480	16,545,142	8,416,902	8,592,386
Units issued	1,234,320	1,347,591	6,777,578	7,952,756
Units redeemed	-	-	-	-
Transfers in	-	-	91,523	126,897
Transfers out	-	-	(91,523)	(126,897)
Closing balance	16,428,800	17,892,733	15,194,480	16,545,142

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund.

(b) Undistributed profit/(loss) attributable to unitholders

	2021 \$	2020 \$
Opening balance	1,994	2,684,500
Net operating profit/(loss) attributable to unitholders	1,855,791	4,580,768
Fair value profit/(loss) on investment	6,656,308	(5,453,203)
Distributions	(1,133,703)	(1,810,071)
Closing balance	7,380,390	1,994

Total distributions declared during the financial year were \$1,133,703 (2020: \$1,810,071).

(c) Capital management

The Fund regards total equity as capital. The objective of the Fund is to provide unitholders with income distributions and capital growth over the longer term. The Fund aims to achieve this objective mainly through investment via Hotel Trusts in hotel real estate and businesses that operate hotels and related hospitality businesses in Australia.

The Fund aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments, including unitholder redemptions. The Investment Manager regularly reviews the performance of the Fund, including asset allocation strategies, investment and risk management.

NOTE 15: RELATED PARTY TRANSACTIONS

The Fund's related parties include those described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

(a) Trustee

The Trustee of the SJH Hotel Fund during the financial year ending 30 June 2021 was Vasco Trustees Limited. Fees of \$33,050 (plus GST) were accrued and paid by the Fund to Vasco Trustees Limited for its role as Trustee for the period (2020: \$27,757 plus GST).

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 15: RELATED PARTY TRANSACTIONS (continued)

(b) Investment Manager and related parties

The Investment Manager of the SJH Hotel Fund is SJH Hospitality Fund Pty Ltd.

Fees of \$172,587 (plus GST) were accrued and paid by the Fund to SJH Hospitality Fund Pty Ltd for its role as Investment Manager for the period (2020: \$129,521 plus GST).

The Investment Manager and their related parties held 6,121,226 units in the Fund (2020: 5,627,888).

(c) Administration Manager

The Administration Manager of the SJH Hotel Fund is Vasco Fund Services Pty Limited.

Fees of \$26,906 (plus GST) were accrued and paid by the Fund to Vasco Fund Services Pty Limited for its role as Administration Manager for the period (2020: \$23,340 plus GST).

The Administration Manager is a related party of the Trustee.

(d) Key management personnel

The Fund does not employ personnel in its own right. However, during the financial year, it has an incorporated Trustee, Vasco Trustees Limited, and an Investment Manager, SJH Hospitality Fund Pty Ltd, to manage the activities of the Fund. The Directors of the Trustee and Investment Manager are key management personnel of those corporate entities. No compensation is paid directly by the Fund to Directors or to any of the key management personnel of the Trustee or Investment Manager. Payments made by the Fund to the Trustee and Investment Manager do not specifically include any amounts attributable to the compensation of key management personnel.

NOTE 16: CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the period (2020: nil).

NOTE 17: EVENTS SUBSEQUENT TO REPORTING DATE

Vasco Trustees Limited as Trustee of the SJH Hotel Fund executed a Deed of Retirement and Appointment on 23 August 2021 with Vasco Custodians Pty Ltd.

The loan facility with Westpac Bank was renegotiated in August 2021 to assist with the facilitation of acquiring the Imperial Hotel. The Imperial Hotel was acquired for \$7.25m on 26 of August 2021.

The Bank Bill Facility which was classified as current as at 30 June 2021 now has an expiry date of 18 December 2022.

Westpac have agreed that by 19 November 2021 the debt held by the Fund level will move to the sub funds.

The Investment Manager has entered into a contract to purchase the Harrington Hotel for \$14.75m, with settlement anticipated to be on 15 November 2021.

An offer of \$16m was received to sell the Duke of Wellington Hotel, with contracts exchanged on 13 October 2021. Settlement is due on 15 November 2021 with simultaneous settlement of the Duke of Wellington Hotel and the Harrington Hotel, on the same day.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years other than as disclosed in this report.

SJH HOTEL FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

NOTE 18: FINANCIAL RISK MANAGEMENT

(a) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund holds investments in hotel trusts, which are not considered to be assets that are readily realisable.

In order to address this risk, the Trustee retains broad discretion to restrict distributions, withdrawals and/or redemptions.

(b) Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Fund. The Fund is exposed to this risk for various financial instruments, for example, placing money at financial institutions or interest revenue that is paid in arrears. The Fund's maximum exposure to credit risk is limited to the carrying amount of financial and loan assets recognized at the reporting date.

The Investment Manager manages the exposure to credit risk on an ongoing basis.

(c) Market Risk

Investments in the hotel and hospitality industry are naturally susceptible to movements and trends in the tourism markets of the respective regions hotels are located. Demand may fluctuate unfavourably and this will affect the rate of return on an investment and the value of the investment.

The success of the Fund will be predicated on the demand for and supply of other establishments in the region. Although the Hunter Valley continues to attract tourists interested in its vineyards and other natural splendours, there is no guarantee that it will continue to do so. Any similar hotel business in the locality of the hotels is likely to have an effect on the success of the Fund.

Hotel assets form a significant part of the Fund's assets through the Hotel Trusts the Fund invests. Hotel assets are carried at the lower of cost and net realisable value within the accounts. The property market is closely monitored by the Board.

There are a number of uncertainties regarding the outlook for the Australian economy over the next few years. This includes the reluctance of business to commit to major new investments until sustained increase in demand are seen. Certain property sectors are experiencing all-time highs in market prices. Should conditions deteriorate, decline in property values may result in losses.

The Fund is also exposed to market risk through its use of financial instruments and specifically to interest rate risk and property value risk, which results from both its operating and investing activities. Market risk is the risk that changes in market prices which will affect the Fund's income. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Market risk is monitored by the Investment Manager.

NOTE 19: TRUSTEE DETAILS

The registered office and the principal place of business of the Trustee are:

Vasco Custodians Pty Ltd

Level 4

99 William Street

Melbourne Victoria 3000

SJH HOTEL FUND

DIRECTORS' DECLARATION

In the opinion of the Directors of Vasco Custodians Pty Ltd:

- (a) The financial statements and notes of SJH Hotel Fund are in accordance with the *Corporations Act 2001*, including
 - (i) Giving a true and fair view of its financial position as at 30 June 2021 and its performance for this financial year ended on that date; and
 - (ii) Complying with Australian Standards – Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe that SJH Hotel Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Craig Dunstan

Craig Dunstan

Director

29 October 2021

Independent Auditor's Report

To the Members of Unitholders of the SJH Hotel Fund

Report on the audit of the financial report

Opinion

We have audited the financial report of the SJH Hotel Fund (the Fund), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 the Fund is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with 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 (including Independence Standards)* (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.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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.aasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.



Grant Thornton Audit Pty Ltd
Chartered Accountants



D M Scammell
Partner – Audit & Assurance

Melbourne, 29 October 2021