

# Chairman's message

I am pleased to report to shareholders a statutory net profit of \$1,464,000 for the 2017 financial year. Excluding net gains on fair value adjustment of investment properties, the Group's net profit after tax increased by 2% to \$1,408,000 compared with \$1,382,000 in the previous corresponding period.

Total comprehensive income for the year of \$5,203,000 was up 48% on the prior period, predominantly due to the revaluation of the Company's land and buildings in the first half of the financial year. The net tangible asset backing per share as at 30 June 2017 of 97.2 cents was up from 88.6 cents on an adjusted basis in the prior year.

The operational highlight of the 2017 financial year was undoubtedly the strong performance of the Group's hotel operations at both the Ashmore Tavern and the Aspley Central Tavern.

Ashmore Tavern gaming revenues were 6% above the prior period. Ongoing investment in gaming fleet upgrades, combined with our emphasis on customer service, ensured the venue remained one of the best on the Gold Coast. The venue also benefited from the investments made by the Company in the major upgrade of audio visual systems and landscaping works.

Bar sales at Ashmore Tavern improved by 8% during the year with increased focus on live entertainment and sporting events. These efforts have been reflected in strong Sunday trading performance. Bistro sales at the Tavern remained steady in the face of high competition in the surrounding area.



We appointed an experienced retail liquor manager in February 2017 to improve operations and deliver an appropriate return on investment. Retail liquor sales from the Ashmore Tavern had continued to decline in the first half of the year, but pleasingly improved in the second half. While retail liquor sales for the full year finished 2% below the prior year, a stronger margin attributable to improved product mix and buying strategy resulted in a 1% increase in gross profit. We will continue to monitor the viability of this aspect of our business.





The board is pleased to report that the Ashmore Tavern continues to trade well despite increased competition from a nearby major sporting club which recently secured extended gaming hours seven nights per week. An ongoing works programme will continue at the tavern, ensuring the high standard of presentation at the venue is maintained leading into the Commonwealth Games on the Gold Coast in April 2018.

Aspley Central Tavern revenues continued to grow in the 2017 financial year. Gaming revenues increased by 20%, with continued upgrades to the venue's gaming fleet. Bar and Bistro sales increased by 10% with a slight reduction in margins.

Retail liquor sales increased by 38% over the prior period, primarily due to the closure of a nearby competitor in February 2016. In addition, the Aspley Central retail liquor store was relocated into smaller premises in March 2017. The high standard of the new fitout has achieved a desired shift in sales mix, with greater turnover of premium products and higher margin than in prior periods. The new location is contiguous to the tavern, and therefore permits us to extend retail trading hours. The ability to open another three retail liquor stores within a 10 kilometre radius of the venue also exists, should appropriate locations be identified.



In contrast to the strong performance of the Company's hotel operations, the board is disappointed with the results from the investment properties (Aspley Arcade Shopping Village and Aspley Central Shopping Centre), particularly in the second half of the financial year. Returns were down significantly following the loss of several large tenants. Due to the age of the buildings, a number of repairs were also necessary to increase the utility and longevity of the assets pending potential future redevelopment.

Retail leasing has proved very challenging with strong competition from the upgraded and expanded Aspley Hypermarket across the road, and from Westfield Chermside just a short drive away, which recently underwent a massive transformation.

The board initiated a number of measures to address these leasing issues. This included the reconfiguration of the substantial former newsagent tenancy late in the year to create smaller, more marketable premises. National food tenant Zambrero is currently undertaking fitout works in one of these tenancies and is due to commence trade in late September.

Leasing agents were engaged to develop and implement a leasing strategy and to recommend and undertake an upgrade programme to improve leasing outcomes. Leases with QScan, Amcal and Miss India were renewed during the 2017 year. Since July 2017, our bakery tenant renewed its lease for a further five years and a 10 year lease with a newsagent tobacconist has been secured.

In the short term, trading conditions for the Aspley operations remain difficult. Vacancy rates are unacceptably high and, although overall sales across the Aspley Central Tavern increased during the year, tavern trading was also affected during the last quarter as a result of the vacancies and reconfiguration works.

Nonetheless, our Aspley properties remain quality assets, benefiting from substantial passing traffic in a highly visible and accessible location with excellent on-grade parking. In 2018 we will finalise and commence planned refurbishment to deliver improved leasing outcomes, stronger tenants and reliable cash flows for the centres.

The refurbishment programme, together with new tenancies such as Zambrero, will bring a fresh and modern look to the centres and create a more positive environment for longer term sales growth.

The Group's cash flows remain strong, with cash flow from operations in the 2017 financial year of \$1,723,000. Net debt was further reduced from \$7,222,000 as at 30 June 2016 to \$6,927,000 at balance date, representing a gearing ratio (net debt to total equity) of only 19%.

The board actively continues to identify and assess investment opportunities as presented within the prevailing market. The Company maintains its strong financial capacity to take advantage of suitable opportunities should they arise.

Shareholders received fully franked dividends of 5.55 cents per share during the year on an adjusted basis - a fully franked final 2016 dividend of 3.3 cents per share on an adjusted basis and a fully franked interim 2017 dividend of 2.25 cents per share – an increase from the fully franked total of 5.2 cents per share on an adjusted basis paid during the 2016 financial year.

The Dividend Reinvestment Plan (DRP) was used for the final 2016 dividend with high levels of shareholder participation. Given the strong financial position of the Company, the board



suspended the operation of the DRP in February 2017, and the interim dividend was paid in cash.

A fully franked final dividend of 3.25 cents per share has been declared in respect of the 2017 financial year and it will also be paid to shareholders in cash, on 15 September 2017.

In summary, the Group's hotel operations performed well, operating cash flows remained strong, debt was further reduced and net tangible assets per share continued to grow. The result for the second half of the financial year was particularly disappointing due to the unsatisfactory performance of the Group's investment properties. While the Group's results will continue to be affected in the short term, the initiatives implemented by the board should result in improved leasing outcomes. The board remains focused on improving the performance of the Aspley centres and achieving their substantial long term potential.

The Board would like to thank all involved, as the team achieved the results. They include all working for the company in their various roles with special mention and thanks to our CEO Suzanne Jacobi-Lee, to our Company secretary Leni Stanley, our auditors, Pitcher Partners, the Ashmore staff and management led by Kim Devine and Jason Weier and his team at Aspley. Last but not least, our very supportive shareholders.

A handwritten signature in black ink, appearing to read 'JM Ganim'. The signature is stylized and somewhat abstract, with a long horizontal stroke extending to the right.

JM Ganim  
Chairman

