Good Spirits Hospitality Limited

Unaudited Results Announcement

For the year ended 30 June 2021

	Note	Unaudited 2021 $	Audited 2020 $
Revenue	4	23,335,719	23,493,763
Other Income		942,820	1,365,567
Interest income		3,226	5,521
Changes in inventories of finished goods		(4,839,770)	(5,309,117)
Employee benefits expense (Wage & salaries)		(8,050,331)	(7,896,895)
Employee benefits expense (Kiwi saver contributions)		(130,732)	(112,364)
Depreciation expense	11	(824,100)	(841,061)
Depreciation of right-of-use assets		(1,359,122)	(1,425,489)
Interest expense – financial liabilities at amortised cost		(2,675,983)	(3,415,495)
Bank Fees		(15,702)	(23,058)
Interest on leases		(1,232,128)	(1,299,133)
Other expenses		(5,489,943)	(5,197,760)
Significant items:			
Restructuring and advisory costs		(164,595)	(626,022)
Modification of loan		552,762	-
Financial guarantee liability expense	8	(241,011)	-
Right-of-use assets impairment	14	(408,926)	-
Property, plant and equipment impairment	11	-	(59,578)
Goodwill impairment		-	(4,855,744)
Operating profit / (loss) before income tax		**(597,816)**	**(6,196,865)**
Income tax (expense) / benefit		(72,005)	363,484
Loss for the year attributable to owners of the Parent Company		**(669,821)**	**(5,833,381)**
Total comprehensive loss for the year attributable to owners		**(669,821)**	**(5,833,381)**

	Note	2021 $	2020 $
Earnings per share / losses from continuing operations attributable to equity holders of the Parent Company during the period:			
Basic EPS from profit / (loss) for the period	12	(1.18)	(11.56)
Diluted EPS from profit / (loss) for the period	12	(1.18)	(11.56)

Duncan Makeig
Chairman

Matt Adams
Chair Audit & Risk Committee

30 August 2021

For and on behalf of the Board of Directors

	Note	Unaudited 2021 $	Audited 2020 $
ASSETS			
Cash and cash equivalents		2,578,837	2,796,583
Restricted cash		266,249	266,249
Trade and other receivables		254,401	118,850
Prepayments		264,324	320,716
Inventories		455,067	384,979
Current tax asset		3,769	104
Total current assets		**3,822,647**	**3,887,481**
Property, plant and equipment	11	5,072,115	5,167,299
Right-of-use assets		12,520,621	13,484,874
Deferred tax asset		960,701	1,032,706
Intangible assets		28,893,109	28,893,109
Total non-current assets		**47,446,546**	**48,577,988**
TOTAL ASSETS		**51,269,193**	**52,465,469**
LIABILITIES			
Trade and other payables		2,192,564	3,031,280
Employee Entitlements		388,230	49,257
GST Payable		264,199	439,580
Lease liabilities		930,735	1,960,567
Financial guarantee liability	8	110,120	-
Borrowings - current	10	950,741	715,187
Total current liabilities		**4,836,589**	**6,195,872**
Provisions for make-good obligations		600,000	600,000
Employee entitlements		377,300	589,003
Lease liabilities		13,080,131	12,072,774
Financial guarantee liability	8	22,757	-
Borrowings - non-current	10	25,910,277	26,171,018
Total non-current liabilities		**39,990,465**	**39,432,795**
TOTAL LIABILITIES		**44,827,054**	**45,628,667**
NET ASSETS		**6,442,139**	**6,836,802**
EQUITY			
Share Capital	5.1	35,179,408	34,904,250
Accumulated Losses		(28,737,269)	(28,067,448)
TOTAL EQUITY		**6,442,139**	**6,836,802**

	Note	Share Capital	Share Capital Reserve	Accumulated Losses	Total Equity
		$	$	$	$
Balance at 1 July 2019		34,136,660	780,033	(22,234,067)	12,682,626
Profit for the year		-	-	(5,833,381)	(5,833,381)
Total comprehensive profit for the year		-	-	(5,833,381)	(5,833,381)
Transactions with owners:					
Issue of shares from exercise of warrants after costs	5.1	767,590	(780,033)	-	(12,443)
Total contributions by / (distributions) to owners		767,590	(780,033)	-	(12,443)
Balance at 30 June 2020 (audited)		34,904,250	-	(28,067,448)	6,836,802
Profit for the year		-	-	(669,821)	(669,821)
Total comprehensive profit for the year		-	-	(669,821)	(669,821)
Transactions with owners:					
Share-based payment	2.4	275,158	-	-	275,158
Total contributions by / (distributions) to owners		275,158	-	-	275,158
Balance at 30 June 2021 (unaudited)		35,179,408	-	(28,737,269)	6,442,139

	Note	Unaudited 2021 $	Audited 2020 $
Receipts from customers		23,200,168	23,434,775
Other Income		942,820	1,365,567
Interest received		3,226	5,521
Payments to suppliers and employees		(19,139,248)	(18,008,193)
Interest expenses		(2,072,423)	(1,384,447)
Bank fees		(15,702)	(23,058)
Cash flows from continuing operations prior to significant items		**2,918,841**	**5,390,165**
Cash outflows from restructuring and advisory costs		(164,595)	(626,022)
Financial guarantee liability	8	(108,135)	-
Net cash inflows/(outflows) from operating activities	13	**2,646,111**	**4,764,143**
Purchase of property, plant and equipment		(731,150)	(2,527,801)
Net cash inflows/(outflows) from investing activities		**(731,150)**	**(2,527,801)**
Repayment of borrowings		-	(833,333)
Cash outflows from refinancing costs		(156,071)	(144,275)
Interest paid on lease liabilities		(1,232,128)	(1,299,133)
Principal paid on lease liabilities		(744,508)	(515,056)
Bank borrowings drawn down		-	2,050,000
Net cash inflows/(outflows) from financing activities		**(2,132,707)**	**(741,797)**
Net (decrease) / increase in cash and cash equivalents		**(217,746)**	**1,494,545**
Cash and cash equivalents at beginning of the year		2,796,583	1,302,038
Cash and cash equivalents at end of the year		**2,578,837**	**2,796,583**

1 CHANGES IN ACCOUNTING POLICIES

1.1 Changes in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the interim financial statements for the six months ended 31 December 2020 and in the audited financial statements for the year ended 30 June 2021. Please refer to the accounting policies contained within the audited financial statements for the year ended 30 June 2020. Note 1.2 is an additional policy for the year ended 30 June 2021.

1.2 Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees issued by the Group are initially measured at their fair value and are included in 'Financial guarantee liability'.

2 CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

In application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant of these of relevance to the reported results for the 2021 year include:

2.1 Carrying value of goodwill

Impairment tests are performed by the Group to assess the carrying value of goodwill. These tests include making assumptions in relation to the future performance and growth as well as determining the period of expected benefits and appropriate discount rates in the value in use models.

The carrying value of the Group's assets principally rely on the operating performance and an expectation of continued growth in bar sales. If those growth expectations change, or the expected profitability of the Group otherwise changes, there may be impairments of the Group and / or Group's assets in future periods.

Management and the board allocate head-office costs which are believed to be directly attributable to the running of the bars and ought to be included in the assessment of the Cash Generating Unit's carrying amount. Head office costs which are not deemed to relate to the respective bars, are not allocated to Cash Generating Units as part of impairment tests.

The goodwill impairment tests assume continuity in leases which are due to expire within the forecast period upon which Discount Cash Flow calculations are prepared.

The impact of COVID-19 has been estimated by management and incorporated into the forecast revenues which form part of the value in use models used for goodwill impairment testing. The recent resurgence of the COVID-19 pandemic has resulted in the New Zealand Government placing Auckland at Alert Level 4 from mid-August 2021, which means all non-essential businesses and organisations are not allowed operate.

At the time of signing these unaudited financial statements, the assessment of each CGU has not currently resulted in any impairment on intangible assets, however this will need to be monitored throughout the lockdown until GSH's audit is completed and this may result in some level of impairment.

2.2 Interest bearing liabilities

The Directors have disclosed in note 10 the capitalisation of financing costs against borrowings, which will be amortised to interest expense over the three-year life of the facility.

2.3 NZ IFRS 16 Leases

In applying NZ IFRS 16, a number of judgements and estimates have been made. The Group has assumed that virtually all extension options on leases will be exercised which is consistent with the business model and past practice as the Group has consistently exercised rights of renewal.

2.4 Loan modification

As a result of the Group amending its loan facilities during the year, GSH issued 3,668,768 ordinary shares of GSH on the 29th September 2020 to Pacific Dawn as consideration for the amendments to the facility as an equity settled share-based payment transaction. The value of the shares issued ($275,158 - see note 5.1) has been determined by the quantity of shares issued multiplied by the share price on the date of issue, as fair value of the services could not be readily determined.

Part of the accounting treatment for the amendment to the loan facility requires GSH to determine whether the loan modification is 'substantial' or 'non-substantial' in nature. GSH applied a quantitative assessment, a comparison of the net present value of the cash flows under the new terms discounted at the original effective interest rate was made with the carrying amount of the original debt. A difference of greater than 10% would be classified as a substantial modification. GSH's assessment resulted in a difference of under 10%, hence the loan modification has been accounted for as 'non-substantial' in nature. This results in the share-based payment ($275,158 – see note 5.1) incurred being amortised over the remaining term of the facility.

3 NEW STANDARDS, AMENDMENTS AND INTERPRETATION

3.1 Standards, amendments and interpretations

3.1.1 New standards, interpretations and amendments

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 30 June 2021, and which have given rise to changes in the Group's accounting policies, but have not had a significant effect on the Group are:

- NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative – definition of Material); and
- Going Concern Disclosures Amendments to FRS-44; and
- Revisions to the Conceptual Framework for Financial reporting

3.1.2 New standards, interpretations and amendments

There are a number of standards, amendments to standards, and interpretations which have been issued by the NZ IASB that are effective for the period beginning 1 January 2021:

- IBOR Reform and its Effects on Financial Reporting – Phase 2
- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. These amendments complement those made in 2019 ('IBOR – phase 1') and focus on the effects on entities when an existing interest rate benchmark is replaced with a new benchmark rate as a result of the reform.

In May 2020, the IASB issued an amendment to IFRS 16 COVID-19 Related Rent Concessions. This amendment provided a practical expedient in accounting for reduction in lease payments on account of COVID-19. The 2020 practical expedient was available for reductions in lease payments affecting only payments originally due on or before 30 June 2021. On 31 March 2021, the IASB issued the amendment 'COVID 19-Related Rent Concessions beyond 30 June 2021', which extended the eligibility period for the practical expedient from 30 June 2021 to 30 June 2022. This amendment is effective for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue at 31 March 2021.

Good Spirits Hospitality Limited is currently assessing the impact of these new accounting standards and amendments. GSH does not believe that the amendments will have a significant effect on the Group.

4 REVENUE

	2021	2020
Revenue of bars	$	$
Auckland	21,164,862	21,797,360
Hamilton	2,170,857	1,696,403
	23,335,719	**23,493,763**

5 SHARE CAPITAL AND SHARE CAPITAL RESERVE

5.1 Issued and paid-up capital - ordinary shares

		2021		2020	
	Note	Shares	$	Shares	$
Balance at beginning of the year		54,065,690	34,904,250	43,306,618	34,136,660
Shares issued for warrants exercised		-	-	10,759,072	767,590
Share-based payment transaction	2.4	3,668,768	275,158	-	-
Balance at end of year		**57,734,458**	**35,179,408**	**54,065,690**	**34,904,250**

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. They do not have a par value.

6 DIVIDEND PAID OR AUTHORISED

There were $nil dividends paid or authorised during the year (2020: $nil).

7 COMMITMENTS

- The Group has capital commitments of $101,954 as at 30 June 2021 which relate to refurbishment costs at one of GSH's venues (2020: $nil).

8 FINANCIAL GUARANTEE LIABILITY

In October 2020, the Group received a demand for outstanding rent of $108,135 from a prior landlord relating to the Lynfield venue that GSH previously operated. The Group sold the Lynfield venue on 15 May 2019 and under the terms of this sale the Group had to provide a guarantee which meant it would be liable for the rent and outgoings if the tenant could not pay the rent. At 30 June 2020, the Directors assessed that there was no need for a provision expected given the existence of government support during COVID-19 lockdown periods and return to trade after lockdown were lifted. After COVID-19 the tenant ran into financial difficulty and could no longer fund the business and consequently, demand was made in April 2021, which GSH paid.

On 30 April 2021, the landlord leased the venue to a new tenant, the lease agreement requires GSH to pay a top up rent of $2,916 per month until 4 August 2022. The 2021 financial statements record the payment of the outstanding rent and the top rent until August 2022. In addition, GSH has estimated a potential liability of $94,557.

	2021
	$
Outstanding rent paid	108,135
Financial guarantee liability	132,876
	241,011
Financial guarantee liability categorised as:	
Current	110,120
Non-current	22,757
	132,877

9 SEGMENT REPORTING

The Group is organised into the following business segments, predominantly reflecting trading divisions in the Group:

9.1 Good Spirits Hospitality No.1 Limited (GSH No.1)

This segment includes the business activities of Good Spirits Hospitality No.1 Limited which operates a chain of eight bars based in Auckland and one based in Hamilton. During the year, the subsidiary, "The Better Bar Company Limited" changed its name to "Good Spirits Hospitality No.1 Limited" (GSH No.1).

9.2 Other

Includes the activities of the Parent Company.

The Board of Directors ("The Board") continues to be the Chief Operating Decision Maker for the Group as it is responsible for allocating resources and assessing performance across the Group. For each of the entities the Board reviews management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table below. Performance is measured based on segment EBITDA before significant items as included in the management reports that are reviewed by the Board. Segment EBITDA before significant items is used to measure performance as the Board believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

	2021			2020		
	$	$	$	$	$	$
	Revenue	EBITDA	EBITDA before significant items	Revenue	EBITDA	EBITDA before significant items
GSH No.1 Ltd	23,335,719	3,331,834	4,931,967	23,493,763	(1,123,408)	5,217,404
Other	-	(1,305,435)	(1,140,840)	-	(1,544,669)	(918,647)
Group	**23,335,719**	**2,026,399**	**3,791,127**	**23,493,763**	**(2,668,077)**	**4,298,757**
Significant and other items						
Restructuring and advisory costs		-	(164,595)		-	(626,022)
Depreciation of right-of-use assets		-	(1,359,122)		-	(1,425,489)
Interest on leases		(1,232,128)	(1,232,128)		(1,299,133)	(1,299,133)
IFRS 16 adjustments		1,976,636	1,976,636		2,044,437	2,044,437
Financial guarantee liability (note 8)		-	(241,011)		-	-
Loan modification adjustment		552,762	552,762		-	-
Property, plant and equipment impairment		-	-		-	(59,578)
Goodwill impairment		-	-		-	(4,855,744)
Right-of-use assets impairment (note 14)		(408,926)	(408,926)			
Depreciation and amortisation		(824,100)	(824,100)		(841,061)	(841,061)
Finance expense (net of income)		(2,688,459)	(2,688,459)		(3,433,032)	(3,433,032)
Profit / (loss) before income tax		**(597,816)**	**(597,816)**		**(6,196,865)**	**(6,196,865)**

Certain IFRS 16 adjustments from prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to reduced EBITDA before significant items under GSH No.1 Ltd by $2,044,437 and to include this amount under 'Significant and other items" for the year ended 30 June 2020.

Statement of Financial Position

	2021	2021	2020	2020
	$	$	$	$
	Segment Assets	Segment Liabilities	Segment Assets	Segment Liabilities
GSH No.1 Ltd	50,160,496	41,131,061	51,317,556	43,547,106
Other	1,108,697	3,695,993	1,147,913	2,081,553
Group	**51,269,193**	**44,827,054**	**52,465,469**	**45,628,667**

9.3 Geographical

GSH and its subsidiaries operate within New Zealand and derived no revenue from foreign countries for the year ended 30 June 2021 (2020: nil).

9.4 Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2021 (2020: nil).

9.5 Capital expenditure (including software)

	Note	2021 $	2020 $
GSH No.1 Ltd	11	731,150	2,527,797
		731,150	**2,527,797**

10 BORROWINGS - SECURED

	2021 $	2020 $
Bank drawn down	29,249,633	29,249,633
Capitalised interest	1,088,052	1,088,052
Bank repayments	(2,500,000)	(2,500,000)
Amount owed to Pacific Dawn	**27,837,685**	**27,837,685**
Loan modification adjustment	(552,762)	-
Capitalised financing cost against borrowings	(807,748)	(951,480)
Share based payment remaining amortisation	(162,594)	-
Exit fee payable	546,437	-
Closing balance	**26,861,018**	**26,886,205**
Categorised as:		
Current	950,741	715,187
Non-current	25,910,277	26,171,018
	26,861,018	**26,886,205**

The legal fees associated with issuing shares as part of the refinancing during the reporting period amounted to $156,071.

10.1 Bank borrowings

As a result of the Group amending its loan facilities during the year, GSH issued 3,668,768 ordinary shares of GSH to Pacific Dawn as consideration for the amendments to the facility (see note 2.4). The amendments include new financial covenants, which include a Minimum EBITDA amount and a Free Cash Flow Sweep. In addition, the facility has been extended to 31 July 2022.

There have been no breaches of covenants or Events of Review for the current or prior year under the facility arrangement. Under the General Security Agreement (GSA) there are a number of circumstances that would give rise to an Event of Default.

The borrowing in the year had an effective interest rate of 11.7% (2020: 11.6%) which includes amortisation associated with capitalised costs . Bank borrowings at 30 June 2021 mature in July 2022. They are secured by the GSA over all of the assets of the Group. Items classified as current at June 2021 include loans maturing within 12 months.

11 PROPERTY, PLANT AND EQUIPMENT

	Work in progress (WIP)	Fixture, Plant, Office equipment	Computer equipment	Lease Improvements	Total
	$	$	$	$	$
Year ended 30 June 2021					
Opening balance net book value	34,000	1,889,393	32,319	3,211,587	**5,167,299**
Additions	90,534	435,594	43,154	161,868	**731,150**
WIP transferred to relevant class	(34,000)	19,000	-	15,000	-
Disposals	-	-	(2,234)	-	**(2,234)**
Depreciation charge	-	(406,076)	(69,846)	(348,178)	**(824,100)**
Closing net book value	**90,534**	**1,937,911**	**3,393**	**3,040,277**	**5,072,115**
At 30 June 2021					
Cost	90,534	3,739,390	114,875	4,748,577	**8,693,376**
Accumulated depreciation & impairment	-	(1,801,479)	(111,482)	(1,708,300)	**(3,621,261)**
Net book value	**90,534**	**1,937,911**	**3,393**	**3,040,277**	**5,072,115**
Year ended 30 June 2020					
Opening balance net book value	499,579	1,497,040	26,105	1,609,386	**3,632,110**
Impairment- property, plant & equipment	-	(59,553)	(24)	-	**(59,578)**
Additions	34,000	866,092	27,139	1,600,566	**2,527,797**
WIP transferred to relevant class	(499,579)	114,400	-	385,179	-
Disposals	-	(91,601)	(357)	(12)	**(91,970)**
Depreciation charge	-	(436,985)	(20,544)	(383,532)	**(841,061)**
Closing net book value	**34,000**	**1,889,393**	**32,319**	**3,211,587**	**5,167,299**
At 30 June 2020					
Cost	34,000	3,284,795	75,659	4,571,709	**7,966,163**
Accumulated depreciation & impairment	-	(1,395,403)	(43,340)	(1,360,122)	**(2,798,864)**
Net book value	**34,000**	**1,889,392**	**32,319**	**3,211,587**	**5,167,299**

12 EARNINGS PER SHARE (EPS)

	2021	2020
	$	$
Loss for the year from continuing operations	(669,821)	(5,833,381)
Issued Ordinary Shares	57,734,458	54,065,690
Weighted average number of shares	56,817,266	50,479,333
Diluted Ordinary Shares	57,734,458	54,065,690
	cents	cents
Basic EPS	(1.18)	(11.56)
Diluted EPS	(1.18)	(11.56)

13 NOTES SUPPORTING STATEMENTS OF CASH FLOWS

Reconciliation to operating activities in the cashflow:

	Note	2021 $	2020 $
Profit for the year		**(669,821)**	**(5,833,381)**
Adjusted for:			
Depreciation and amortisation		824,100	841,061
Depreciation of right-of-use assets		1,359,122	1,425,489
Interest on leases		1,232,128	1,299,133
Financial guarantee liability	8	132,877	-
Property, plant and equipment impairment	11	-	59,578
Goodwill impairment		-	4,855,744
Disposal of property, plant and equipment		2,234	91,970
Non-cash interest charges		603,560	2,031,048
Loan modification adjustment		(552,762)	-
IFRS16 modification adjustment		(81,761)	-
Right-of-use assets impairment		408,926	-
Changes in assets and liabilities			
Decrease / (increase) in receivables and prepayments		(79,159)	(58,988)
Decrease / (increase) in inventories		(70,088)	(19,410)
Increase / (decrease) in trade payables and accruals		(531,585)	435,383
Increase / (decrease) in income tax		68,340	(363,484)
Net cash inflows from operating activities		**2,646,111**	**4,764,143**

14 IMPAIRMENT OF RIGHT-OF-USE ASSET

As part of the annual impairment test across the Group's assets, GSH identified that one of its venue's, DB Newmarket indicated possible impairment across its right-of-use asset. The ongoing effects of COVID-19 and increased competition in the area has resulted in revenue reduction at this venue. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

The impairment tests showed that the recoverable amount was less than carrying value of the right-of-use asset by $408,926. Therefore, the directors resolved to impair $408,926 against the right-of-use asset at DB Newmarket in FY2021.

The key assumptions used for the value in use calculations for DB Newmarket are as follows:

Pre-tax discount rate	18.3%
Cash flow forecast period	3 Years
Terminal growth rate	2.0%
Annual sales growth rate	0% - 1%

15 EVENTS AFTER REPORTING DATE

15.1 COVID resurgence

In mid-August 2021, community transmission of COVID-19 was detected in Auckland. As a result, the New Zealand Government implemented a level 4 lockdown, with non-essential businesses not allowed to open their premises to customers. At the time of signing these financial statements, The Group, which has business premises in Auckland and Hamilton remain closed. GSH continues to monitor this situation closely and respond as required. The current working assumption is that trading will resume for the Group in October 2021.