



STRATEGY : ASSETS : MANAGEMENT

REDCAPE PROPERTY TRUST

2012 ANNUAL REPORT

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Redcape Property Trust Directors' Report The Trust Company (RE Services) Limited as Responsible Entity for Redcape Property Trust

The directors of The Trust Company (RE Services) Limited (the "Responsible Entity") for the Redcape Property Trust (the "Trust") present their report together with the financial report for the year ended 30 June 2012 and the auditor's report thereon.

The Trust Company (RE Services) Limited, the Responsible Entity for Redcape Property Trust, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 15, 20 Bond Street, Sydney, NSW 2000.

1. Directors and officers

The Responsible Entity entered into a service agreement with Redcape Services Pty Limited (the "Manager") to provide all investment, asset management and general administrative services to the Trust (other than certain compliance and supervisory services which are provided by the Responsible Entity). The Manager is also responsible for pursuing all acquisitions and any divestments.

The Responsible Entity reviews the Manager's advice for compliance with the law, the Trust Deed, the Trust's investment criteria, the services agreements and the interests of the unit holders. Assuming compliance, the Responsible Entity must follow the Manager's advice.

The following persons were directors of the Responsible Entity during the year ended 30 June 2012 and to the date of this report. Unless otherwise stated the directors have held their position for the whole of this period:

John Atkin	
David Grbin	
Michael Britton	Resigned on 23 December 2011
Andrew Cannane	
Rupert Smoker	Alternate Director for John Atkin, David Grbin and Andrew Cannane with effect from 20 February 2012.

2. Principal activities

The principal activity of the Trust consists of investment in the pub freehold sector. There has been no significant change in the nature of these activities during the financial year.

3. Significant changes in state of affairs

On 30 April 2012 the units of Redcape Property Trust were de-stapled from the shares of Redcape Property Fund Limited. Following the destapling, a consortium of investors purchased all the units of Redcape Property Trust, acquired additional equity in Redcape, and refinanced the loans of Redcape Property Trust.

As of 10 May 2012 the Trust was de-listed from the Australian Securities Exchange.

At 30 June 2012 the Trust's outstanding borrowings were \$404 million (2011: \$663 million), representing a reduction of \$259 million during the year.

4. Events subsequent to reporting date

On 9 July 2012 an additional \$75m in interest rate collars were purchased which will take the total collars purchased to \$390m, as prescribed in the loan agreements.

The Westcourt Tavern was held for sale at 30 June 2012. On 15 August 2012 the Trust entered into an agreement to sell this property for an amount substantially consistent with its carrying value at reporting date.

The Responsible Entity has been provided consent by the banking syndicate for the de-registration of Redcape Property Trust as a Managed Investment Scheme. The application was lodged with ASIC on 31 July 2012.

Otherwise, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Responsible Entity, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

5. Likely developments

The Trust will continue its business as a pub landlord, managing its freehold pub assets, collecting rent from its tenants, paying interest on its bank loans, and endeavouring to ensure it continues to meet the obligations under its loan facility agreements.

In accordance with the lease agreements for its investment properties, the Trust will continue to receive fixed rate rent increases from its tenants.

6. Operating and financial review

Throughout the year ended 30 June 2012 the Trust continued its usual business of collecting rent from its tenants, and paying interest on its bank loans.

The Trust was recapitalised on 30 April 2012, including the injection of equity capital and the refinancing of bank loans. The loan facilities saw loans reduced significantly, and interest margin payments due on the new loans also significantly reduced for the final two months of the year. The refinancing of bank loans saw an amount of \$122.8 million of loan debt forgiven.

For the year ended 30 June 2012, the Trust's net profit amounted to \$82.1m.

Redcape Property Trust Directors' Report The Trust Company (RE Services) Limited as Responsible Entity for Redcape Property Trust

7. Interests of the Responsible Entity

The Responsible Entity held no securities or options in the Redcape Property Trust during or since the end of the financial year.

Trustee's fees

The Responsible Entity is entitled under the Trust Constitution to a management fee of 2% per annum of the value of the Trust's property for so long as it is the Responsible Entity of the Trust. While certain service agreements remain in place, the Responsible Entity accepts \$420,000 per annum (2011: \$405,436), including CPI indexation to occur annually on 1 July. The Responsible Entity is also entitled to seek recovery for activities outside the services agreement, with those activities as at 30 June 2012 totalling \$246,092.

Fees paid to the Responsible Entity are shown as other expenses in the consolidated statement of comprehensive income.

8. Environmental regulation

The Trust's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

9. Indemnities and Insurance premiums for officers or auditors

Indemnification

Under the Trust's Constitution the Responsible Entity, including its officers and employees, is indemnified out of the Trust's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Trust.

Under the services agreements the Trust indemnifies the Manager for any liabilities, direct losses and other amounts suffered or incurred by the Manager, its related bodies corporate or any of their respective officers, employees or agents or any other person engaged or appointed by the Manager in exercising the Manager's powers or performing the Manager's duties under the services agreements.

The auditors are in no way indemnified out of the Trust's assets.

Insurance premiums

No insurance premiums are paid out of the Trust's assets in relation to insurance cover for the Responsible Entity, its officers and employees or auditors of the Trust.

10. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 5, and forms part of the directors' report for the year ended 30 June 2012.

11. Rounding of amounts

The Trust is of a kind referred to in ASIC Class Order 98/100, dated 10 July 1998 and in accordance with that Class Order, amounts in the directors' report and financial report have been rounded off to the nearest thousand unless otherwise stated.

This report is made in accordance with a resolution of the directors of The Trust Company (RE Services) Limited.

Rupert Smoker

Alternate Director (The Trust Company (RE Services) Limited)

Dated this the 25th day of September 2012

Sydney



LEAD AUDITOR'S INDEPENDENCE DECLARATION

Under section 307C of the Corporations Act 2001 to the directors of The Trust Company (RE Services) Limited, the Responsible Entity for the Redcape Property Trust

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Graham Coonan
Partner

Cairns
25 September 2012

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Redcape Property Trust
STATEMENT OF COMPREHENSIVE INCOME
 For The Year Ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
REVENUE			
Rent from investment properties		62,560	64,113
Revenue from investment properties straight – line lease adjustment		10,601	15,125
Revenue from outgoings recovered		6,013	5,712
Distributions	2	1,902	1,715
Interest from cash deposits		378	666
Sundry income		18	112
Total revenue from operating activities		81,472	87,443
OPERATING EXPENSES			
Investment property outgoings and expenses		8,957	8,698
Finance costs	3	73,657	85,518
Other expenses	4	11,254	4,696
Total expenses from operating activities		93,868	98,912
Profit/(loss) from operating activities		(12,396)	(11,469)
Non operating income / (expense)			
Debt forgiveness	5	122,818	-
Fair value write-down of investment properties	10	(1,033)	(2,893)
Impact of straight-line lease adjustment on fair value of investment properties		(10,601)	(15,125)
Change in fair value of derivative financial instruments	15	(16,694)	6,390
Loss on sale of investment properties	6	-	(1,157)
Total non operating income / (expenses)		94,490	(12,785)
Profit / (loss) before tax		82,094	(24,254)
Tax benefit / (expense)		-	-
Profit / (loss) for the period		82,094	(24,254)
Other comprehensive income		-	-
Total comprehensive income		82,094	(24,254)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Redcape Property Trust
STATEMENT OF FINANCIAL POSITION
 As at 30 June 2012

	Note	2012 \$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	13,418	7,843
Trade and other receivables	8	16,023	18,136
Other current assets		615	-
Assets held for sale	9	3,850	6,750
Total current assets		33,906	32,729
Non-current assets			
Property, plant and equipment		3	5
Investment property	10	643,365	646,296
Other non-current assets	11	73,092	65,261
Other investments	12	2,000	2,000
Total non-current assets		718,460	713,562
TOTAL ASSETS		752,366	746,291
LIABILITIES			
Current liabilities			
Trade and other payables	13	12,361	3,769
Loans and borrowings	14	855	654,307
Derivative financial instruments	15	-	53,736
Total current liabilities		13,216	711,812
Non-current liabilities			
Loans and borrowings	14	391,703	-
Derivative financial instruments	15	874	-
Total non-current liabilities		392,577	-
TOTAL LIABILITIES		405,793	711,812
NET ASSETS		346,573	34,479
EQUITY			
Contributed equity	16	691,513	461,513
Accumulated losses		(345,002)	(427,096)
Reserves	17	62	62
TOTAL EQUITY		346,573	34,479

The above statement of financial position should be read in conjunction with the accompanying notes.

Redcape Property Trust

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 30 June 2012

	Note	Contributed Equity \$'000	Accumulated Losses \$'000	Reserves \$'000	Total \$'000
Balance at 1 July 2011		461,513	(427,096)	62	34,479
Total comprehensive income for the year					
Profit for the year		-	82,094	-	82,094
Total other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	82,094	-	82,094
Transaction with owners in their capacity as owners recognised directly in equity	16	230,000	-	-	230,000
Balance at 30 June 2012		691,513	(345,002)	62	346,573
Balance at 1 July 2010		461,513	(402,842)	62	58,733
Total comprehensive income for the year					
Loss for the year		-	(24,254)	-	(24,254)
Total other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	(24,254)	-	(24,254)
Balance at 30 June 2011		461,513	(427,096)	62	34,479

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Redcape Property Trust
STATEMENT OF CASH FLOWS
 For The Year Ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Rent and outgoings from investment properties (GST inclusive)		77,602	74,722
Payments to suppliers		(27,757)	(7,890)
Interest receipts - bank deposits		378	666
Interest paid		(34,971)	(41,269)
(Paid) / receipts from interest rate swaps		(3,469)	(13,635)
Net cash from operating activities	19	11,783	12,594
Cash flows from investing activities			
Proceeds from disposal of investment properties		-	62,662
Payment for additions to investment property, plant and equipment		(667)	(501)
Net cash from investing activities		(667)	62,161
Cash flows from financing activities			
Proceeds from issue of units		3,402	-
Repayment of borrowings		-	(76,737)
Payment of transaction costs related to loans and borrowings		(8,943)	-
Net cash from financing activities		(5,541)	(76,737)
Net increase/(decrease) in cash held		5,575	(1,982)
Cash and cash equivalents at the beginning of the year		7,843	9,825
Cash and cash equivalents at the end of the year	7	13,418	7,843

The above statement of cash flows should be read in conjunction with the accompanying notes.

Redcape Property Trust
NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended 30 June 2012

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Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

Note 1 Summary of significant accounting policies

(a) Reporting entity

Redcape Property Trust (the "Trust") is a registered managed investment scheme under the *Corporations Act 2001*. The responsible entity of the Trust is The Trust Company (RE Services) Limited (the "Responsible Entity").

The Trust is an entity domiciled in Australia and a wholly owned subsidiary of The Regatta No.2 Trust.

The Trust is a limited life trust which terminates on 31 December 2061 unless it has been terminated prior to that date by the trustee under the provisions contained in the trust deed.

The Trust is a for-profit entity and primarily involved in investing in the pub freehold sector.

On 30 April 2012 the units of the Trust were de-stapled from the shares of Redcape Property Fund Limited. Following the de-stapling, a consortium of investors purchased all of the Trust's issued units, acquired additional equity and refinanced the Trust's loans.

As of 10 May 2012 the Trust was de-listed from the Australian Securities Exchange.

In the opinion of the directors of the Responsible Entity, the Trust is not a reporting entity. The financial report of the Trust has been drawn up as a special purpose financial report for distribution to the unitholder and for the purpose of fulfilling the requirements of the *Corporations Act 2001*.

(b) Statement of compliance

The financial report is a special purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, and the recognition and measurement aspects of all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB). The financial statements do not comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements do not include the disclosure requirements of all AASBs except for the following minimum requirements:

AASB 101 Presentation of Financial Statements

AASB 107 Statement of Cash Flows

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

AASB 1031 Materiality

AASB 1048 Interpretations of Standards

The financial statements were approved by the directors of the Responsible Entity on 25 September 2012.

(c) Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following:

- derivative financial instruments are measured at fair value
- investment property, including investment property held for sale at reporting date, is measured at fair value

The methods used to measure fair values are discussed further within the relevant notes.

(ii) Functional and presentation currency

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

(iii) Rounding of amounts

The Trust is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 10 - investment property.

Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

Note 1 Summary of significant accounting policies (continued)

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income from operating leases is recognised on a straight line basis over the lease term. Fixed rental increases which do not represent direct compensation for underlying cost increases or capital expenditure are recognised on a straight line basis over the term of the lease or over the period until the next market review date. An asset is recognised to represent the portion of operating lease revenue in a reporting period relating to fixed increases in operating lease rentals in future periods. Although the receivable is considered to be a component part of the relevant property investment carrying value, it is disclosed separately.

Interest revenue

Interest revenue is recognised on an effective interest rate method in relation to the outstanding financial asset.

Distributions

Income distributions from private equity investments are recognised in the statement of comprehensive income as income when declared.

Outgoings and other revenue

Outgoings recoverable from tenants and other revenue is recognised when the right to receive the revenue has been established.

(e) Tax

Under current Australian income tax legislation, the Trust is not liable to income tax, provided unit holders are presently entitled to all the Trust's income at 30 June each year.

(f) Financial instruments

(i) Non-derivative financial assets

The Trust initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Trust becomes a party to the contractual provisions of the instrument.

The Trust derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Trust has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Trust has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Trust becomes a party to the contractual provisions of the instrument. The Trust derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when the Trust has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Trust has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Issued units

Issued units in the Trust are classified as equity. Incremental costs directly attributable to the issue of units are recognised as a deduction from equity, net of any tax effects.

Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

Note 1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(iv) Derivative financial instruments

The Trust uses derivative financial instruments, such as interest rate collars, to hedge its exposure to interest rate risks arising from financing and investment activities. The Trust does not hold or issue derivative financial instruments for trading purposes. When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in fair value are recognised immediately in profit or loss.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Since the Trust's derivative financial instruments have not been designated in hedge relationships that qualify for hedge accounting, the gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate collars is based on broker quotes. These quotes are tested for reasonableness by discounted estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date and represent the estimated amount that the Group would receive or pay to terminate the collars at the reporting date.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Trust, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain the Trust will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- plant and equipment 5 - 12 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

Note 1 Summary of significant accounting policies (continued)

(h) Investment property

Investment property is property held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for using the fair value model. Under the fair value model, investment properties are measured initially at cost. Transaction costs are included in the initial measurement. Subsequent to initial recognition, investment properties are stated at fair value, which is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and reflects market conditions at the reporting date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss in the period in which they arise.

Independent valuations of investment properties which the Trust intends to hold continuously are obtained from suitably qualified valuers as discussed in note 10 and appropriately reflected in the financial statements.

If an independent valuation has not been obtained at reporting date for an investment property the investment property is stated at the value of the last valuation plus any capital additions made to the investment property since the date of the last valuation. Notwithstanding this, the carrying value of each investment property at each reporting date is assessed by management to ensure that its carrying value does not significantly differ from its fair value at reporting date. Where management is of the opinion that the carrying value differs significantly from fair value, that asset is adjusted to its fair value.

(i) Investment in subsidiary

The Trust holds 100% of the issued units in its controlled entity, The C.H. Trust. The Trust's interest in The C.H. Trust has not been consolidated in these special purpose financial statements and is shown at cost.

(j) Impairment

Non derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due on terms that the Trust would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through the profit or loss.

Non-financial assets

The carrying amounts of the Trust's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

Note 1 Summary of significant accounting policies (continued)

(k) Non current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Trust's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

(l) Finance income and finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

(m) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). 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 are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning 1 July 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Trust, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Trust's 2016 financial statements and could change the classification and measurement of financial assets. The Trust does not plan to adopt this standard early and the extent of the impact has not been determined.

Redcape Property Trust
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 30 June 2012

	2012	2011
	\$'000	\$'000
Note 2 Distributions received or receivable		
Distributions from The C.H. Trust	1,902	1,715

Note 3 Finance costs

(a) Finance costs — cash

Syndicated Facility Agreement ("SFA") interest expense	(i)	4,671	-
Senior Syndicated Facility Agreement ("SSFA") interest expense	(ii)	34,823	41,269
Other interest expense		148	100
Net payments from interest rate swaps	(iii)	3,469	13,635
		<u>43,111</u>	<u>55,004</u>

(b) Finance costs — non-cash/deferred

Junior Syndicated Facility Agreement ("JSFA") interest expense	(iv)	8,583	9,205
Senior Syndicated Facility Agreement ("SSFA") interest expense	(ii)	13,015	15,116
Amortised costs – SSFA and JSFA	(v)	8,257	6,193
Amortised costs – SFA	(vi)	691	-
		<u>30,546</u>	<u>30,514</u>
		<u>73,657</u>	<u>85,518</u>

Total finance costs

- (i) The SFA interest rate was the average monthly BBSY (Bank Bill Swap Bid Rate) plus a margin as determined on the last working day of the month.
- (ii) The SSFA interest rate was the monthly BBSY (Bank Bill Swap Bid Rate) plus a 2.0% margin (2011: BBSY plus 2% margin). Deferred interest was charged monthly under the SSFA at a rate of 2.5% per annum on the outstanding principal amount.
- (iii) The Trust's interest rate exposures from SSFA and JSFA borrowings were on average 90% hedged by fixed interest rate swaps during the year. As the fixed rates payable under the swap agreements were greater than the floating rate throughout the year monthly cash payments were made.
- (iv) The JSFA interest rate was the monthly BBSY (Bank Bill Swap Bid Rate) plus 8.4% (2011: BBSY plus 8.4%), all deferred.
- (v) Costs of establishing the SSFA and JSFA were capitalised and were being amortised over the term of the facilities.
- (vi) Costs of establishing the SFA were capitalised and are being amortised over the term of the facilities.

The change in fair value of derivative financial instruments, which is also a finance cost, is shown separately in the statement of comprehensive income as non-operating expense.

	2012	2011
	\$'000	\$'000
Note 4 Other expenses		
Auditor's remuneration	123	191
Legal costs	2,531	830
Investment Committee fees	1,988	990
Manager's fees	2,708	2,206
Consultancy fees	2,812	25
Responsible Entity fees	666	405
All other expenses	426	49
	<u>11,254</u>	<u>4,696</u>

Redcape Property Trust
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 30 June 2012

	2012	2011
	\$	\$
Note 4 Other expenses (continued)		
Auditor's remuneration		
KPMG		
- Audit and review of financial reports	106,120	174,557
- Other assurance services	13,000	13,000
- Non audit services	3,876	3,876
	122,996	191,433

Note 5 Debt forgiveness

On 23 December 2011 Redcape Property Trust entered into an implementation agreement which included the acquisition of the Trust's existing securities, its senior and junior debt as well as a contribution of capital into the Trust. A large part of this transaction was the forgiveness of the senior and junior debt owed by the Trust to the consortium of bankers, which included as part of a previous arrangement the Consortium of Goldman Sachs, Varde Partners and York Capital. The amount of the Trust's borrowings that was forgiven was \$122.8 million.

	2012	2011
	\$'000	\$'000
Note 6 Loss on disposal of investment properties		
Wattle Grove	-	138
Kincumber	-	328
Mountain Creek	-	119
Yorkeys Knob	-	3
Ocean Shores	-	73
Port Macquarie Hotel & Town Green Inn ¹	-	256
Kirra Beach	-	240
	-	1,157

¹ Two separate hotels sold in single transaction

Note 7 Cash and cash equivalents

Cash at bank and on hand	13,418	2,843
Interest reserve account	-	5,000
	13,418	7,843

Redcape Property Trust
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Note 8 Trade and other receivables			
Trade receivables		1,241	3,456
Less: Allowance for impairment		(11)	(23)
Net trade receivables		1,230	3,433
Proceeds receivable from insurance claims	10	3,534	5,900
Due from related parties		10,859	8,645
Other receivables		400	158
		<u>16,023</u>	<u>18,136</u>
Note 9 Assets held for sale			
Investment properties held for sale		3,850	6,750
		<u>3,850</u>	<u>6,750</u>
Movements			
Carrying amount at the beginning of the year		6,750	100,600
Transfer to investment property	10	(6,750)	(58,750)
Disposals		-	(41,850)
Transfer from investment property	10	3,850	6,750
Carrying amount at the end of the year		<u>3,850</u>	<u>6,750</u>

At 30 June 2012, one property, The Westcourt Tavern was held for sale.

Redcape Property Trust
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Note 10 Investment property			
Investment property		723,840	724,207
Properties held for sale	9	(3,850)	(6,750)
Proceeds receivable from insurance claims	8	(3,534)	(5,900)
Straight-line lease adjustment	11	(73,092)	(65,261)
		<u>643,365</u>	<u>646,296</u>
<i>Movements</i>			
Carrying amount at the beginning of the year		646,296	636,029
Transfer from non-current assets held for sale	9	6,750	58,750
Transfer to non-current assets held for sale	9	(3,850)	(6,750)
Capital additions on investment properties		667	501
Disposals		-	(20,900)
Fair value adjustments		(1,033)	(2,893)
Proceeds receivable from insurance claims	8	2,366	(5,900)
Straight line lease adjustment		(7,831)	(12,541)
Carrying amount at the end of the year		<u>643,365</u>	<u>646,296</u>

The fair value write down of investment properties charged against profit or loss has been determined as follows:

Write down of properties due to fire or water damage	3,534	5,900
Insurance proceeds receivable regarding the above two properties	(3,534)	(5,900)
Net write down of remaining properties	<u>1,033</u>	<u>2,893</u>
	1,033	2,893

An impairment of \$3.5 million was recorded relating to fire and flood damage at the Waterloo Hotel and the Regatta Hotel respectively. This remaining balance is offset by a corresponding Insurance Proceeds receivable amount shown in Note 8.

Analysis by portfolio

	No of Properties 2012	No of Properties 2011	Valuation 2012 \$'000	Valuation 2011 \$'000
Geographical				
Qld	56	56	406,540	409,057
NSW	21	21	255,500	254,150
SA	5	5	45,850	45,300
Vic	1	1	15,950	15,700
	<u>83</u>	<u>83</u>	<u>723,840</u>	<u>724,207</u>
Tenant				
Coles	55	55	420,166	419,351
NLG	21	21	259,500	259,550
Other	7	7	44,174	45,306
	<u>83</u>	<u>83</u>	<u>723,840</u>	<u>724,207</u>

The analysis by portfolio includes 1 property held for sale at 30 June 2012 (2011: 1 property)

Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

Note 10 Investment property (continued)

Investment property

All investment properties are freehold and 100% owned by Redcape Property Services Pty Limited as sub-custodian of the Trust and are comprised of land, buildings, fixed improvements and liquor and gaming licences. Plant and equipment is held by the tenant.

Leasing arrangements

The investment properties are each leased inclusive of liquor and gaming licences attached to these properties to a single tenant under long-term operating leases with rentals payable monthly in advance, other than leases to Coles which are payable on the 15th of each month for that month. The Trust has incurred no lease incentive costs to date.

Remaining lease terms for all properties are on average 11.9 years, excluding options for lease extensions upon completion of the lease term.

Valuation of properties

The valuations of individual properties are prepared inclusive of liquor and gaming licences. The basis of valuation of properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Valuations for properties are determined by reference to the net rent for each property, and an applicable capitalisation ("cap") rate. Selection of an appropriate cap rate is based on multiple criteria, including risk associated with achieving the net rent cashflows into the future, and observed market based cap rates for similar properties where they are available. Valuations reflect the creditworthiness of the tenant including market perceptions of the tenant's creditworthiness, the responsibility and division of property holding costs between the lessor and the lessee and the remaining economic life of the property. Where properties are held for sale and contracts have been exchanged, the property is valued at its contracted sale price.

Fair value adjustments at 30 June 2012

- The Trust's policy is to independently value at least one half of its property portfolio annually. Independent valuations were obtained for all properties as at 31 December 2011 or 31 March 2012. All of these valuations were completed by CBRE Hotels Valuation & Advisory Services and Robertson & Robertson.
- Directors reviewed the carrying values of the properties effective 30 June 2012. The capitalisation rates for each property were determined after consideration of the results of the latest available independent valuations, any recent developments on the property and market evidence available for similar properties.
- The Waterloo Hotel has been affected by fire and is currently under redevelopment. This property has been fair valued based on its redevelopment costs.

Yields applied in the valuations at 30 June 2012 fall in the following ranges for tenants:

	2012 Yields	2011 Yields
Coles	6.75% - 9.00%	6.75% - 9.00%
NLG	8.02% - 16.78%	7.72% - 12.89%
Other	8.00% - 16.00%	8.25% - 15.17%

Redcape Property Trust
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 30 June 2012

	2012	2011
	\$'000	\$'000
Note 11 Other non-current assets		
Rent receivables	73,092	65,261
	<u>73,092</u>	<u>65,261</u>
Rent receivables represent the non-current portion of straight-line rental income receivable. Refer note 1(d).		
Note 12 Other investments		
Units in The C.H. Trust	<u>2,000</u>	<u>2,000</u>
The C.H. Trust is a 100% subsidiary of Redcape Property Trust. C.H. Properties Pty. Ltd acts as trustee of The C.H. Trust.		
Note 13 Trade and other payables		
<i>Current</i>		
Trade payables	160	270
Accrued Interest	4,671	-
Due to related parties	6,278	1,991
Other payables	1,252	1,508
	<u>12,361</u>	<u>3,769</u>
Note 14 Loans and borrowings		
<i>Current</i>		
Bank loans	855	616,108
Establishment fee deferred	-	12,000
Accrued interest	-	26,199
	<u>855</u>	<u>654,307</u>
<i>Non-current</i>		
Bank loans	391,703	-
	<u>391,703</u>	<u>-</u>
Total bank loans	<u>392,558</u>	<u>654,307</u>
SFA		
Syndicated Facility Agreement ("SFA")	404,302	-
Borrowing costs capitalised	(12,435)	-
Amortisation of borrowing costs	691	-
	<u>392,558</u>	<u>-</u>
SSFA		
Senior Syndicated Facility Agreement ("SSFA")	-	549,630
Borrowing costs capitalised	-	(12,712)
Amortisation of borrowing costs	-	5,451
Establishment fee deferred	-	10,853
Accrued interest	-	26,199
	<u>-</u>	<u>579,421</u>
JSFA		
Junior Syndicated Facility Agreement ("JSFA")	-	74,734
Borrowing costs capitalised	-	(1,738)
Amortisation of borrowing costs	-	743
Establishment fee deferred	-	1,147
	<u>-</u>	<u>74,886</u>

Redcape Property Trust
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended 30 June 2012

Note 14 Loans and borrowings (continued)

Assets pledged as security

The financiers have first security over all of the assets of the Trust, a registered mortgage over each property and a fixed charge over each liquor and gaming licence.

Refer to note 3 for further information in regard to the Trust's finance costs.

2012	2011
\$'000	\$'000

Note 15 Derivative financial instruments

Derivative financial instrument - current liability	-	53,736
Derivative financial instrument - non current liability	874	-
	874	53,736

Movements

Interest rate swaps at fair value at the beginning of the year	53,736	60,126
Fair value movement for the year	15,820	(6,390)
Swap settlement	(69,556)	-
Fair value of interest rate swaps at the end of the year	-	53,736
Interest rate collar at the beginning of the year	-	-
Fair value movement for the year	874	-
Fair value of interest rate collar at the end of the year	874	-
Total fair value movement for the year	16,694	(6,390)

Redcape Property Trust
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 30 June 2012

Note 16 Contributed equity	No of units	\$'000
2012		
On issue at the beginning of the year	162,452,601	461,513
Movements	8,880,308,880	230,000
On issue at the end of the year	<u>9,042,761,481</u>	<u>691,513</u>
2011		
On issue at the beginning of the year	162,452,601	461,513
Movements	-	-
On issue at the end of the year	<u>162,452,601</u>	<u>461,513</u>

A unit confers on its holder an undivided absolute, vested and indefeasible beneficial interest in the Trust as a whole, subject to Trust liabilities, not in parts or single assets. All units confer identical interests and rights. Each member registered at the record date has a vested and indefeasible interest in a share of the distribution in proportion to the number of units held by them. All issued units are fully paid.

	2012	2011
	\$'000	\$'000
Note 17 Reserves		
Capital reserve	<u>62</u>	<u>62</u>

Note 17 Reserves

Capital reserve

The capital reserve is no longer maintained for a specific purpose.

Note 18 Operating leases — leases as lessor

The Trust leases out its investment properties under operating leases (see note 10). The future minimum lease receipts under non-cancellable leases are as follows:

Less than one year	65,414	64,225
Between one and five years	279,684	274,917
More than five years	561,086	715,101
	<u>906,184</u>	<u>1,054,243</u>

Redcape Property Trust

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Note 19 Statement of cash flows - additional information			
Reconciliation of cash flows from operating activities with profit attributable to unit holders			
Profit/(loss) attributable to unit holders		82,094	(24,254)
Amortisation of borrowing costs		8,948	6,193
Fair value adjustment of derivative financial instruments		16,694	(6,390)
Fair value adjustment to investment property		1,033	2,893
(Gain) / loss on sale of investment property		-	1,157
Finance cost - non cash		21,598	24,321
Forgiveness of loans		(122,818)	-
<i>Change in operating assets and liabilities</i>			
Changes in trade and other receivables		(241)	(7,988)
Changes in prepayments		(615)	47
Changes in payables		5,100	16,615
Changes in provisions		(10)	-
		11,783	12,594
Non-cash financing activities			
During the year, the following financing transactions occurred that did not involve cash flows:			
Interest payable capitalised to loans	3	21,598	24,321
Swap settlement capitalised to loans	15	69,556	-
Forgiveness of loans	5	122,818	-

Note 20 Contingent assets

The Trust is not aware of any contingent assets at 30 June 2012 which may materially affect the operation of the business.

Note 21 Contingent liabilities

The Trust is not aware of any contingent liabilities at 30 June 2012 which may materially affect the operation of the business.

Note 22 Commitments

There were no commitments for capital or other expenditure at 30 June 2012.

Note 23 Subsequent events

The interest rate collar principal was increased from \$315m at 30 June 2012 to \$390m.

The Westcourt Tavern was held for sale at 30 June 2012. On 15 August 2012 the Trust entered into an agreement to sell this property for an amount substantially consistent with its carrying value at reporting date.

The Responsible Entity has been provided consent by the banking syndicate for the de-registration of Redcape Property Trust as a Managed Investment Scheme. The application was lodged with ASIC on 31 July 2012.

Note 24 Trust information

Registered office of the Responsible Entity

The Trust Company (RE Services) Limited, Level 15, 20 Bond Street, Sydney, NSW 2000

Registered office of the Trust

Redcape Property Trust, Ground Floor, 312 St Kilda Road, Melbourne, VIC 3004

Redcape Property Trust

DIRECTORS' DECLARATION

For The Year Ended 30 June 2012

In the opinion of the directors of The Trust Company (RE Services) Limited, the Responsible Entity of Redcape Property Trust (the "Trust"):

- a) the Trust is not a reporting entity;
- b) the financial statements and notes set out on pages 6 to 25, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Trust's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 1(b) and the *Corporations Regulations 2001*; and
- c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of The Trust Company (RE Services) Limited.



Rupert Smoker

Alternate Director

Dated the 25th day of September 2012

Sydney



INDEPENDENT AUDITOR'S REPORT

To the security holders of the Redcape Property Trust

We have audited the accompanying financial report, being a special purpose financial report, of Redcape Property Trust ("the Trust"), which comprises the statement of financial position as at 30 June 2012, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 24 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of The Trust Company (RE Services) Limited ("the Responsible Entity") are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the security holders. The directors' responsibility also includes such internal control as the directors determine necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements so as to present a true and fair view which is consistent with our understanding of the Trust's financial position, and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



INDEPENDENT AUDITOR'S REPORT

To the security holders of the Redcape Property Trust (continued)

Auditor's opinion

In our opinion, the financial report of Redcape Property Trust is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Trust's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting requirements under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

KPMG

Graham Coonan
Partner

Cairns
25 September 2012