

28 September 2011

The Manager
Company Announcement Office
Australian Securities Exchange
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Redcape Property Fund (ASX: RPF)

Audited Financial Results for 12 months ended 30 June 2011

Redcape Property Fund (ASX: RPF) (**Redcape**) comprises Redcape Property Trust (**Trust**) and Redcape Property Fund Limited (**Company**). Redcape Services Pty Limited (**Manager**) is the investment manager for the Trust and The Trust Company (RE Services) Limited (**Responsible Entity**) is the responsible entity for the Trust.

Redcape has reported its final audited financial results today for the 12 months ended 30 June 2011.

Key Financial Highlights for FY 2011

- Total revenue of \$88 million;
- Operating cash flow of \$5.1 million;
- Underlying loss from operations of \$26.6 million;
- A net loss of \$22.3 million, including property write downs of \$0.9 million;
- Financing charges of \$85.5 million, including cash-interest charges of \$54.9 million, deferred interest charges of \$24.3 million, and loan establishment fee amortisation charges of \$6.2 million;
- a gain of \$6.4 million on the Interest Rate Swap position in accordance with AASB 139. However, turmoil on world financial markets in the period subsequent to year end has caused the interest rate swap liability to deteriorate significantly;
- Loans and borrowings of \$654 million at 30 June 2011;
- No distribution was paid to stapled security holders during the year and a nil final distribution was declared;
- Net assets per stapled security of \$0.33 cents; and
- Senior Lender Loan to Valuation Ratio (LVR) of 76.1% (within bank covenant).

Key business and operational highlights

- Business Operations: Continuation of normal operations as pub owner and lessor;
- Property Valuations: Across the investment property portfolio there was an impairment write-down of \$0.9m resulting mainly from falling asset values in far north Queensland where Redcape has 15 pubs;

- **Asset Sales:** During the financial year, Redcape reduced its bank loans by \$70.5 million as a result of the sale of 8 pubs (and the proceeds of one pub sold in June 2010), however a further \$24.3 million of deferred interest charges increased bank debt, with the net movement in bank loans being a reduction of \$46.2 million.

Debt Reduction and Recapitalisation Proposals

In refinancing its bank loan facilities in June 2010, Redcape was required to accept highly restrictive and costly terms from its bank syndicate, including interest rate margins which made it very difficult for Redcape to attract new capital investors. Redcape management has explored all avenues to recapitalise Redcape in order to return value to the stapled security holders, including large-scale asset sales and debt or equity capital-raising. However, the restrictive and costly nature of Redcape's bank loans has limited the number of parties of sufficient size and scale to become involved.

In order to reduce the level of Redcape's bank loans, Redcape continued to sell pubs in a measured way as it had in the previous financial year, with 8 pubs divested in the 6 months ending 31 December 2010.

However, commencing February 2011 Redcape held detailed discussions with the Laundry Hotel Group (LHG) and its advisers in regard to a possible sale of 20 Redcape pubs which are leased to NLG. LHG required an undertaking from Redcape to suspend Redcape's asset sale program and this was provided with the full knowledge, understanding and support of Redcape's senior and junior secured lenders in March 2011.

The proposed sale of 20 pubs to LHG did not proceed because:

- in late May 2011, an investment group comprising York Capital Management, Varde Partners Inc and Goldman Sachs (Asia) Finance (Investor Group) acquired 38.7% of the senior secured debt and advised Redcape that the Investor Group wished to enter into negotiations for a recapitalisation proposal with Redcape; and
- Redcape's senior secured lenders did not consent to the proposed sale to LHG because such consent requires two-thirds majority agreement from the senior secured lenders and the Investor Group holds 38.7% of the senior secured debt.

After detailed negotiations (and continuation of the undertaking to suspend Redcape's asset sale program), on 18 August 2011 Redcape entered into an Implementation Agreement for Schemes and Recapitalisation with related entities of the Investor Group which involved:

- the acquisition of all of the existing stapled securities of Redcape at a price of \$0.08 per stapled security;
- the subscription of \$278 million for new stapled securities of Redcape (including by converting the Investor Group's 38.7% holding of the senior secured debt into equity); and
- a new senior debt facility for Redcape which, together with the equity subscription, would mean that all of Redcape's existing senior secured lenders would be repaid and the junior secured lenders would receive a specified amount in satisfaction of their secured debt.

This Implementation Agreement was terminated on 29 August 2011 by Redcape because a condition precedent was not satisfied, namely, that the junior secured lenders agree by 24 August 2011 to

accept on completion of the recapitalisation a certain payment in full satisfaction of their secured debt.

Although Redcape believes that the secured lenders are not entitled to rely on a breach of the amortisation covenant, Redcape has formally requested that the senior secured lenders confirm their previous support for suspension of Redcape's asset sale programme by amending or waiving the amortisation covenant.

As consent to this waiver or amendment requires two thirds majority agreement from the senior secured lenders, this consent may not be forthcoming because the Investor Group holds 38.7% of the senior secured debt.

Nevertheless, Redcape does not believe that the senior secured lenders will attempt to rely upon a breach of the amortisation covenant and demand repayment of all the senior secured debt after 30 September 2011 because:

- senior secured lenders supported Redcape suspending its asset sale programme (including the undertakings required to be given by Redcape to the LHG and then subsequently to the Investor Group that Redcape would suspend its asset sales); and
- such demand would result in the senior secured lenders not obtaining the benefit of the recapitalisation proposals referred to below which, if agreed and implemented, will include full repayment of the senior secured debt; or a sales transaction with LHG that will, if agreed and implemented, result in a significant repayment of the senior secured debt.

Outlook

Redcape is negotiating an implementation agreement for schemes of arrangement and recapitalisation with a consortium led by BW Partners Pty Limited (Consortium) which Redcape expects will involve the Consortium:

- acquiring all of the existing stapled securities of Redcape at a price of \$0.10 per stapled security;
- acquiring all the debt owed by Redcape to the junior secured lenders;
- subscribing equity, namely new stapled securities of Redcape; and
- procuring that Redcape undertakes a new senior debt facility which, together with the Consortium's equity subscription, will mean that all of Redcape's existing senior secured lenders will be repaid.

Redcape has reasonable grounds to believe that negotiations with the Consortium will result in a binding agreement.

However, Redcape is also holding discussions with other proponents of recapitalisation proposals (including the Investor Group which already holds 38.7% of Redcape's senior secured debt). These proponents are considering proposals which involve making an investment in the Redcape structure rather than acquiring its assets.

If a recapitalisation proposal does not proceed, Redcape understands that LHG may be interested in re-establishing the previous sale transaction, subject to consent to that sale transaction from the senior secured lenders. If the Investor Group is no longer interested in recapitalising Redcape then

such consent might be forthcoming as the sale transaction will result in a significant repayment to the senior secured lenders.

Annual General Meeting

Redcape will hold its Annual General Meeting in Melbourne on 24 November 2011.



Colin J Henson
Executive Chairman
Redcape Property Fund Limited