



## 1. Company details

Name of entity:	Redcape Hotel Group
ARSN:	comprising Redcape Hotel Trust I (ARSN 629 354 614) and Redcape Hotel Trust II (ARSN 629 354 696)
Reporting period:	For the period ended 31 December 2019
Previous period:	For the period ended 31 December 2018

## 2. Results for announcement to the market

		%	Dec 2019 \$'000	Dec 2018 \$'000
Revenues from ordinary activities	up	12.7%	160,564	142,463
Profit/(loss) after tax for the period attributable to the stapled security holders	up	249.6%	17,386	(11,624)

Redcape Hotel Group has adopted AASB 16 *Leases* for the period ended 31 December 2019 using the modified retrospective approach and as such the comparatives have not been restated.

### Comments

Commentary and analysis of the result can be found in the ASX released results announcement and presentation.

## 3. Net assets and Net tangible assets

	Reporting Period Cents	Previous Period Cents
Net assets per stapled security	115.16	113.02
Net tangible assets per stapled security	12.86	5.89

No. of stapled securities on issue at 31 December 2019 are 552,195,195 (31 December 2018: 551,445,932).

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.



## 6. Distributions

### *Current period*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Distribution for the quarter ended 30 September 2019 (paid 29 November 2019)	2.199	-
Distribution for the quarter ended 31 December 2019 (payable 28 February 2020)	2.211	-

### *Previous period*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Distribution for the quarter ended 30 September 2018 (paid 31 October 2018)	2.205	-
Distribution for the quarter ended 31 December 2018 (paid 31 January 2019)	2.205	-

There is no foreign sourced distribution for the current and previous period.

## 7. Distribution reinvestment plans

*The following dividend or distribution plans are in operation:*

The Distribution Reinvestment Plan ("DRP") was active for the FY20 September quarter distribution and deactivated for FY20 December quarter distribution.

The key terms of the DRP are as follows:

- Securities acquired under the DRP rank equally with existing securities on issue.
- The price at which securities were allocated under the DRP was the average of the daily volume weighted average price of all sales of stapled securities of Redcape Hotel Group (ASX code: RDC) recorded on ASX for each of the first ten ASX trading days following the ASX trading day from and including the 3rd ASX trading day after the record date in respect of the distribution.

## 8. Details of associates and joint venture entities

Not applicable.

## 9. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

Not applicable.

## 10. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

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## 11. Attachments

*Details of attachments (if any):*

The Interim Report of Redcape Hotel Group for the period ended 31 December 2019 is attached.

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## 12. Signed



Signed \_\_\_\_\_

Date: 19 February 2020

Nicholas Collishaw  
Chairman  
Sydney

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**Redcape Hotel Group comprising Redcape Hotel Trust I  
(ARSN 629 354 614) and Redcape Hotel Trust II (ARSN  
629 354 696)**

**Interim Report - 31 December 2019**



The directors of the Responsible Entity present their report, together with the financial statements, of the consolidated entity (referred to hereafter as 'Redcape' or 'Group') consisting of Redcape Hotel Trust I (RHT I) and Redcape Hotel Trust II (RHT II) and the entities they controlled at the end of, or during, the period ended 31 December 2019.

## **Directors**

The following persons were directors of the Responsible Entity of Redcape for the period ended 31 December 2019:

Mr Nicholas Collishaw  
Mr Daniel Brady  
Mr Andrew Ireland  
Mr David Groves  
Mr Hugh Thomson

## **Non-IFRS Disclosures**

The Group utilises non-IFRS underlying adjustments and other financial metrics such as Distributable earnings in its assessment and presentation of Group performance. In particular the Group references Underlying Operating Earnings Before Interest, Tax, Depreciation and Amortisation ("Underlying Operating EBITDA"), Distributable Earnings per Security and Underlying Net Profit After Tax ("Underlying NPAT").

The directors believe the underlying financial and distributable earnings information is useful to users as it:

- reveals the underlying run rate business economics of Redcape which enhances the reader's understanding of past performance;
- provides insight into Management's decision making as Management uses these measures to run the business, allocate resources and make financial, strategic and operating decisions;
- forms the basis of Redcape's annual budgeting and internal forecasting processes; and
- forms the basis of the financial metrics relevant to the determination of variable components of executive and employee remuneration.

Underlying NPAT and other financial metrics, such as distributable earnings are not prepared in accordance with International Financial Reporting Standards and are not audited.

Differences in measurement can have both a positive and negative impact on the underlying financial information presented. Specifically, some adjustments give rise to material reductions in underlying measures but align with the principles by which Redcape views and manages itself internally.

## **Principal activities**

Redcape is an ASX listed, leading Australian hotel business operating a portfolio of 32 hotels across NSW and QLD. Redcape owns 30 of the 32 hotels it operates as Freehold Going Concerns. The hotels offer patrons:

- Gaming
- On-premise food and beverage
- Off-premise packaged liquor through retail bottle shops
- Other services

Freehold Going Concern ownership gives Redcape the ability to invest in refurbishment opportunities as well as provide potential future capital gains from the real estate on which the hotels are situated.

## **Review of operations**

The statutory profit for Redcape after providing for income tax amounted to \$17.4 million (31 December 2018: loss of \$11.6 million).



The key highlights are set out below:

- Distributable earnings of \$26.4 million or 4.78 cents per stapled security
- Distributions of \$24.3 million or 4.41 cents per stapled security
- Underlying operating EBITDA increased 19.8% to \$38.7 million
- Operating cash flows of \$16.2 million
- Portfolio value decreased to \$1,057.1 million (including Royal Hotel which has been classified as an asset held for sale) from \$1,077.4 million in June 2019. The decline in value reflects the net impact of revaluation \$10.4 million, Eden Brewhouse acquisition \$11.5 million, divestment of St George Hotel (\$45.8 million) and capital spend less depreciation.
- Net Asset Value of \$1.152 per stapled security
- Total capital expenditure of \$10.7 million of which \$6.8 million related to capital growth and \$3.9 million for capital maintenance

	Consolidated Dec 2019	Consolidated Dec 2018	Change	Change
	\$'000	\$'000	\$'000	%
Gaming revenue	102,684	90,726	11,958	13.2%
On-premise revenue	32,987	26,435	6,552	24.8%
Off-premise revenue	24,280	24,812	(532)	(2.1%)
Other revenue	613	490	123	25.1%
<b>Total revenue (a)</b>	<b>160,564</b>	<b>142,463</b>	<b>18,101</b>	<b>12.7%</b>
Cost of sales (a)	(74,833)	(67,265)	(7,568)	(11.3%)
<b>Gross profit</b>	<b>85,731</b>	<b>75,198</b>	<b>10,533</b>	<b>14.0%</b>
Rent expense	(76)	(833)	757	90.9%
Employment costs	(21,502)	(18,984)	(2,518)	(13.3%)
Other operating costs	(16,866)	(15,186)	(1,680)	(11.1%)
Management fees	(8,594)	(7,893)	(701)	(8.9%)
<b>Underlying Operating EBITDA</b>	<b>38,693</b>	<b>32,302</b>	<b>6,391</b>	<b>19.8%</b>
Listing costs and performance fee	-	(20,562)	20,562	100.0%
Loss on asset revaluation	-	(5,814)	5,814	100.0%
Venue acquisition costs	(856)	(7,589)	6,733	88.7%
Gain on sale of venues	366	1,029	(663)	(64.4%)
Loss on sale of other non-current assets	(388)	(452)	64	14.2%
Restatement of management fees pre-IPO	-	254	(254)	(100.0%)
One-off employee share grants	-	(199)	199	100.0%
<b>Statutory EBITDA</b>	<b>37,815</b>	<b>(1,031)</b>	<b>38,846</b>	<b>3767.8%</b>
Depreciation expense on right-of-use assets	(827)	-	(827)	-
Depreciation	(6,556)	(5,174)	(1,382)	(26.7%)
<b>Statutory EBIT</b>	<b>30,432</b>	<b>(6,205)</b>	<b>36,637</b>	<b>590.4%</b>
Interest on lease liability	(418)	-	(418)	-
Net financing costs (b)	(12,085)	(8,427)	(3,658)	(43.4%)
<b>Profit/(loss) before tax</b>	<b>17,929</b>	<b>(14,632)</b>	<b>32,561</b>	<b>222.5%</b>
Tax (expense)/benefit	(543)	3,008	(3,551)	(118.1%)
<b>Statutory net profit/(loss) after tax</b>	<b>17,386</b>	<b>(11,624)</b>	<b>29,010</b>	<b>249.6%</b>



- (a) Prior period comparatives for Revenue, Cost of Sales and Expenses have been reclassified to align with current period.  
 (b) Includes \$3.8 million of hedge break costs and \$0.2 million capitalised loan establishment costs written off due to refinancing in September 2019.

	Consolidated Dec 2019	Consolidated Dec 2018	Change	Change
	\$'000	\$'000	\$'000	%
<b>Statutory net profit/(loss) after tax</b>	<b>17,386</b>	<b>(11,624)</b>	<b>29,010</b>	<b>249.6%</b>
<b>Underlying adjustments</b>				
Listing costs and performance fee	-	20,562	(20,562)	(100.0%)
One-off refinancing costs	3,992	-	3,992	-
Restatement of management fees pre-IPO	-	(254)	254	100.0%
One-off employee share grants	-	199	(199)	(100.0%)
Tax benefit	-	(3,625)	3,625	100.0%
<b>Underlying net profit after tax</b>	<b>21,378</b>	<b>5,258</b>	<b>16,120</b>	<b>306.6%</b>
<b>Add/(deduct) non-cash &amp; non-operating items</b>				
Depreciation	6,556	5,174	1,382	26.7%
Venue acquisition costs	856	7,589	(6,733)	(88.7%)
Gain on sale of venues	(366)	(1,029)	663	64.4%
Loss on sale of other non-current assets	388	452	(64)	(14.2%)
Depreciation expense on right-of-use assets	827	-	827	-
Interest on lease liability	418	-	418	-
Cash rent adjustment	(867)	-	(867)	-
Amortisation of borrowing costs	527	214	313	146.3%
Maintenance capital expenditure	(3,863)	(2,210)	(1,653)	(74.8%)
Other non-cash items	-	5,792	(5,792)	(100.0%)
Tax expense	542	617	(75)	(12.2%)
<b>Distributable earnings</b>	<b>26,396</b>	<b>21,857</b>	<b>4,539</b>	<b>20.8%</b>
<b>Distributable earnings per stapled security (cents)</b>	<b>4.78</b>	<b>4.31</b>	<b>0.47</b>	<b>10.9%</b>

#### Significant changes in the state of affairs

There were no significant changes in the state of affairs of Redcape during the financial period.

#### Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect Redcape's operations, the results of those operations, or Redcape's state of affairs in future financial years.

#### Rounding of amounts

Amounts have been rounded to the nearest thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

#### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.



This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors

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Nicholas Collishaw  
Chairman

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Daniel Brady  
Executive Director

19 February 2020  
Sydney

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# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Redcape Hotel Group Management Ltd, as Responsible  
Entity of Redcape Hotel Group

I declare that, to the best of my knowledge and belief, in relation to the review of Redcape Hotel Group for the half-year ended 31<sup>st</sup> December 2019 there have been:

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

KPMG

Paul Thomas  
Partner  
Sydney  
19 February 2020

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**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
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**31 December 2019**



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**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the period ended 31 December 2019**



	Note	Consolidated 31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Revenue</b>	5	160,564	142,463
Cost of sales		(74,833)	(67,265)
<b>Expenses</b>			
Operating costs	6	(16,942)	(16,019)
Management fees	7	(8,594)	(7,639)
Net finance costs	8	(12,503)	(8,427)
Employment costs		(21,502)	(19,183)
Depreciation expense on right-of-use assets	15	(827)	-
Depreciation expense	13	(6,556)	(5,174)
Gain/(loss) on disposal of non-current assets		(22)	577
Loss on asset revaluation		-	(5,814)
Business acquisition costs	25	(856)	(7,589)
<b>Operating profit</b>		17,929	5,930
Listing costs and performance fee	9	-	(20,562)
<b>Profit/(loss) before income tax (expense)/benefit</b>		17,929	(14,632)
Income tax (expense)/benefit	10	(543)	3,008
<b>Profit/(loss) after income tax (expense)/benefit for the period</b>		17,386	(11,624)
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on the revaluation of land		10,420	12,020
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity		3,523	(776)
Other comprehensive income for the period, net of tax		13,943	11,244
<b>Total comprehensive income for the period</b>		<u>31,329</u>	<u>(380)</u>
Profit/(loss) for the period is attributable to:			
Unitholders of Redcape Hotel Trust I		22,213	3,834
Unitholders of Redcape Hotel Trust II		(4,827)	(15,458)
		<u>17,386</u>	<u>(11,624)</u>
Total comprehensive income for the period is attributable to:			
Unitholders of Redcape Hotel Trust I		36,156	15,078
Unitholders of Redcape Hotel Trust II		(4,827)	(15,458)
		<u>31,329</u>	<u>(380)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per stapled security	28	3.15	(2.30)
Diluted earnings per stapled security	28	3.15	(2.30)

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
**Consolidated statement of financial position**  
**As at 31 December 2019**



		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		29,638	16,981
Trade and other receivables		2,657	3,936
Inventories		5,718	5,130
Other current assets		2,731	2,760
		<u>40,744</u>	<u>28,807</u>
Non-current assets classified as held for sale	11	49,548	-
<b>Total current assets</b>		<u>90,292</u>	<u>28,807</u>
<b>Non-current assets</b>			
Derivative financial instruments		35	-
Land	12	330,830	351,648
Property, plant and equipment	13	136,208	134,953
Intangible assets	14	540,526	590,757
Right-of-use assets	15	42,872	-
Deferred tax		15,539	15,645
<b>Total non-current assets</b>		<u>1,066,010</u>	<u>1,093,003</u>
<b>Total assets</b>		<u>1,156,302</u>	<u>1,121,810</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	31,439	38,749
Lease liabilities		1,059	-
Employee benefits		2,057	1,708
Distribution payable	17	12,211	12,030
<b>Total current liabilities</b>		<u>46,766</u>	<u>52,487</u>
<b>Non-current liabilities</b>			
Other payables		-	430
Borrowings	19	429,298	436,002
Lease liabilities	18	44,074	-
Derivative financial instruments		-	3,489
Employee benefits		234	255
<b>Total non-current liabilities</b>		<u>473,606</u>	<u>440,176</u>
<b>Total liabilities</b>		<u>520,372</u>	<u>492,663</u>
<b>Net assets</b>		<u>635,930</u>	<u>629,147</u>
<b>Equity</b>			
Contributed equity		235,897	235,545
Accumulated losses		(49,137)	(43,293)
Equity attributable to the stapled security holders of RHT II		186,760	192,252
Non-controlling interest	20	449,170	436,895
<b>Total equity</b>		<u>635,930</u>	<u>629,147</u>

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

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
**Consolidated statement of financial position**  
**As at 31 December 2019**



		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
		<b>\$'000</b>	<b>\$'000</b>
Equity attributable to RHT I (non-controlling interest)			
Contributed equity	20	318,936	318,469
Reserves	20	169,859	161,923
Accumulated losses	20	<u>(39,625)</u>	<u>(43,497)</u>
Total equity attributable to security holders of RHT I (non-controlling interest)		<u><u>449,170</u></u>	<u><u>436,895</u></u>

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

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
**Consolidated statement of changes in equity**  
**For the period ended 31 December 2019**



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	199,549	(1,156)	-	198,393
Arising due to stapling arrangement	-	(26,517)	387,408	360,891
Profit/(loss) after income tax benefit for the period	-	(15,458)	3,834	(11,624)
Other comprehensive income for the period, net of tax	-	-	11,244	11,244
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(15,458)</b>	<b>15,078</b>	<b>(380)</b>
<i>Transactions with stapled security holders in their capacity as stapled security holders:</i>				
Contributions of equity, net of transaction costs	35,996	-	50,711	86,707
Distributions paid (note 21)	-	-	(22,344)	(22,344)
<b>Balance at 31 December 2018</b>	<b>235,545</b>	<b>(43,131)</b>	<b>430,853</b>	<b>623,267</b>
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2019	235,545	(43,293)	436,895	629,147
Adjustment to opening retained earnings on transition to AASB 16, net of tax	-	(1,017)	-	(1,017)
Balance at 1 July 2019 - restated	235,545	(44,310)	436,895	628,130
Profit/(loss) after income tax expense for the period	-	(4,827)	22,213	17,386
Other comprehensive income for the period, net of tax	-	-	13,943	13,943
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(4,827)</b>	<b>36,156</b>	<b>31,329</b>
<i>Transactions with stapled security holders in their capacity as stapled security holders:</i>				
Distribution reinvestment plans	352	-	467	819
Distributions paid (note 21)	-	-	(24,348)	(24,348)
<b>Balance at 31 December 2019</b>	<b>235,897</b>	<b>(49,137)</b>	<b>449,170</b>	<b>635,930</b>

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

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
**Consolidated statement of cash flows**  
**For the period ended 31 December 2019**



	Note	Consolidated 31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		177,899	155,788
Payments to suppliers and employees (inclusive of GST)		(144,153)	(134,716)
		33,746	21,072
Interest received		41	154
Interest and other finance costs paid (a)		(17,544)	(8,983)
Net cash from operating activities	27	16,243	12,243
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	25	(11,520)	(153,349)
Business acquisition transaction costs		(856)	(7,589)
Payments for property, plant and equipment	13	(10,673)	(12,262)
Payments for intangibles	14	(88)	-
Proceeds from disposal of business		46,156	20,433
Proceeds from disposal of property, plant and equipment		192	46
Net cash from/(used in) investing activities		23,211	(152,721)
<b>Cash flows from financing activities</b>			
Proceeds from issue of stapled securities		819	89,757
Proceeds from borrowings		62,000	85,000
Repayment of borrowings		(65,000)	(23,000)
Repayment of leases		(449)	-
Stapled Securities issue transaction costs		-	(3,724)
Distributions paid		(24,167)	(21,038)
Net cash from/(used in) financing activities		(26,797)	126,995
Net increase/(decrease) in cash and cash equivalents		12,657	(13,483)
Cash and cash equivalents at the beginning of the financial period		16,981	35,055
Cash and cash equivalents at the end of the financial period		29,638	21,572

(a) FY20 includes one-off refinancing establishment costs of \$4.5 million and hedge break costs of \$3.8 million

## **Note 1. General Information**

### **(a) Reporting Entity**

In accordance with AASB 3 *Business Combinations* one of the entities in the stapled structure is required to be identified as the parent for the purpose of preparing consolidated financial reports. In accordance with this requirement, RHT II was identified as the parent entity.

Redcape is a for-profit entity and its principal activity is the ownership and operation of Hotels. There has been no significant change in the nature of the principal activity during the period.

The consolidated annual financial statements of Redcape as at 30 June 2019 are available at [www.redcape.com.au](http://www.redcape.com.au).

### **(b) Responsible Entity**

Redcape Hotel Group Management Ltd ("RHGM") is the Responsible Entity of RHT I and RHT II effective 24 October 2018 (replacing Moelis Australia Asset Management Ltd).

### **(c) Scheme Registration**

RHT I (ARSN 629 354 614) and RHT II (ARSN 629 354 696) are domiciled in Australia and were registered as managed investment schemes on 26 October 2018 under the *Corporations Act 2001*.

## **Note 2. Basis of preparation**

These interim financial statements for the half-year reporting have been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*, as appropriate for profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'Interim Financial Reporting'*.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Redcape during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### **(a) Basis of measurement**

The financial statements have been prepared on the historical cost basis, except for the following that are measured at fair value:

- land; and
- derivative financial instruments.

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



## **Note 2. Basis of preparation (continued)**

### (b) Comparative figures

During the December 2019 period, Redcape modified the classification certain line items. In the statement of profit and loss and other comprehensive income, revenue, cost of sales, operating expense, property outgoing expenses and rental expenses. In the statement of financial position, capitalised borrowing costs have been reclassified from other current assets to borrowings. In the consolidated statement of cash flows, interest and other finance costs, and transaction costs which are not directly related to equity which has previously been classified as financing activities have been reclassified as operating activities. As a result, the accounts have been corrected by reclassifying each of the affected financial statement line items for the prior period.

### (c) Functional and presentation currency

The interim consolidated financial statements are presented in Australian dollars, which is Redcape's functional currency and amounts have been rounded to the nearest thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

### (d) Use of estimates and judgements

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 accounting policies. Estimates and judgements affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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.

The significant judgements made by Management in applying Redcape's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements related to lessee accounting under AASB 16, which are described in Note 3.

### (e) Going Concern

The interim consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. At 31 December 2019, Redcape had current assets of \$40.7 million (excluding assets held for sale) and current liabilities of \$46.8 million leaving a net deficit of working capital of \$6.0 million. The directors of the Responsible Entity believe Redcape will continue to generate operating cash flows sufficient to meet current liability obligations. In addition, Redcape had access to \$66.3 million of undrawn loan facilities at reporting date.

## **Note 3. Significant accounting policies**

### **New or amended Accounting Standards and Interpretations adopted**

Redcape has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to Redcape:

#### **AASB 16 Leases**

Redcape has adopted AASB 16 from 1 July 2019. AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Redcape, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

### **Note 3. Significant accounting policies (continued)**

Redcape has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated - i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below.

#### **(a) Definition of a lease**

Previously, Redcape determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 Determining Whether an Arrangement contains a Lease. Redcape now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to AASB 16, Redcape elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or exchanged on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease component, Redcape allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone prices.

#### **(b) As a lessee**

Redcape leases many assets, including properties and equipment. As a lessee, Redcape previously classified leases as operating or finance lease based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, Redcape recognises right-of-use assets and lease liabilities for most leases i.e. these leases are on balance sheet.

However, Redcape has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. equipment). Redcape recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Right-of-use assets that meet the definition of investment property are presented within investment property. The carrying amounts of right-of-use assets relate to land and building are \$23.8 million at 1 July 2019 and \$42.9 million at 31 December 2019.

#### **(i) Changes in significant accounting policies**

Redcape recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Redcape's incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under the residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Redcape has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Redcape is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

#### **(ii) Transition**

Previously, Redcape classified property leases as operating leases under AASB 117. The leases typically run for a period of 15 to 20 years. Some leases include an option to renew the lease for an additional 10 to 15 years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

**Note 3. Significant accounting policies (continued)**

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at Redcape's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

Redcape used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) Impacts on financial statements

*(i) Impacts on transition*

On transition to AASB 16, Redcape recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	<b>1 July 2019 \$'000</b>
Right-of-use assets	23,753
Deferred tax asset	436
Lease liabilities	(25,636)
Retained earnings	1,017

When measuring lease liabilities for leases that were classified as operating leases, Redcape discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 2.92%.

	<b>1 July 2019 \$'000</b>
Operating lease commitment at 30 June 2019 as disclosed in Redcape's consolidated financial statements	33,118
Discounted using the incremental borrowing rate at 1 July 2019	(7,482)
Lease liabilities recognised at 1 July 2019	<u>25,636</u>

*(ii) Impact for the period*

As a result of initially applying AASB 16, in relation to the leases that were previously classified as operating leases, Redcape recognised \$42.9 million right-of-use assets and \$45.1 million of lease liabilities as at 31 December 2019.

Also in relation to those leases under AASB 16, Redcape has recognised depreciation and interest costs, instead of operating lease expense. During the interim period ended 31 December 2019, Redcape recognised \$0.8 million of depreciation charges and \$0.4 million of interest costs from these leases.



#### Note 4. Operating segments

##### *Identification of reportable operating segments*

Redcape operates as one business segment being the owner and/or operator of Hotels, and in one geographic segment being Australia. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information is reported to the CODM at the end of each period.

#### Note 5. Revenue

##### *Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Major revenue streams</i>		
Gaming revenue	102,684	90,726
On-premise revenue	32,987	26,435
Off-premise revenue	24,280	24,812
Other revenue	613	490
	<u>160,564</u>	<u>142,463</u>

All major revenue streams are within Australia and timing of revenue recognition is when goods or services transferred.

#### Note 6. Operating costs

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Administrative expenses	2,001	1,552
Advertising and marketing expenses	2,985	2,758
Operating expenses	6,156	5,918
Repairs and maintenance expenses	1,251	1,033
Property outgoing expenses	4,473	3,924
Rental expenses	76	834
	<u>16,942</u>	<u>16,019</u>



**Note 7. Management fees**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Hotel operating fee	5,931	5,225
Asset management fee	2,663	2,414
	<u>8,594</u>	<u>7,639</u>

**Note 8. Net finance costs**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Finance income	(41)	(154)
Finance costs	8,134	8,581
Interest on lease liability	418	-
Hedge break costs	3,821	-
Capitalised loan establishment costs written off	171	-
	<u>12,503</u>	<u>8,427</u>

**Note 9. Listing costs and performance fee**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Listing costs (a)	-	6,762
Performance fee (b)	-	13,800
	<u>-</u>	<u>20,562</u>

(a) Previous period expensed costs associated with listing Redcape on the ASX.

(b) Previous period fee payable to the Responsible Entity, in its personal capacity, on the overall performance of Redcape and realised upon IPO event. Comprises fee of \$13.5 million plus non-claimable GST of \$0.3 million.



**Note 10. Income tax expense/(benefit)**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense/(benefit)</i>		
Current tax	-	(2,575)
Deferred tax - origination and reversal of temporary differences	543	(433)
	<u>543</u>	<u>(3,008)</u>
Aggregate income tax expense/(benefit)		
Deferred tax included in income tax expense/(benefit) comprises:		
Decrease/(increase) in deferred tax assets	543	(433)
	<u>543</u>	<u>(433)</u>
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Profit/(loss) before income tax (expense)/benefit	17,929	(14,632)
Tax at the statutory tax rate of 30%	5,379	(4,390)
<i>Tax effect amounts which are not deductible/(taxable) in calculating taxable income</i>		
Trust profit/(loss) not subject to tax	(6,664)	(1,150)
Other	(63)	-
Non-deductible expenses	1,875	657
Prior year adjustment	16	-
	<u>16</u>	<u>-</u>
Income tax expense/(benefit)	<u>543</u>	<u>(3,008)</u>

**Note 11. Current assets - non-current assets classified as held for sale**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Land	21,345	-
Property, plant & equipment	1,551	-
Goodwill	12,752	-
Gaming and liquor licences	13,900	-
	<u>49,548</u>	<u>-</u>



**Note 12. Non-current assets - Land**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Land - at valuation	<u>330,830</u>	<u>351,648</u>

*Reconciliation*

Reconciliation of the fair values at the beginning and end of the current and previous financial period are set out below:

Opening fair value	351,648
Classified as held for sale (note 11)	(21,345)
Disposals - business	(9,893)
Additions - business acquisitions	-
Revaluation increments	10,420
Adjustment arising from stapling arrangement	<u>-</u>
Closing fair value	<u>330,830</u>

*Valuations of land*

The basis of the valuations of land is fair value. A portion of the land was last revalued externally on 31 May 2019 based on independent external assessments by a professionally qualified valuer, having recent experience in the location and category of land being valued. Land is also revalued by the directors each half year where an independent valuation has not been sought. The directors believe that an uplift of \$10.4 million is appropriate since the last revaluation date.

Refer to note 22 for further information on fair value measurement.

**Note 13. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Buildings - at cost	58,784	59,505
Less: Accumulated depreciation	<u>(2,717)</u>	<u>(2,033)</u>
	56,067	57,472
Property improvements - at cost	43,727	37,189
Less: Accumulated depreciation	<u>(3,127)</u>	<u>(2,615)</u>
	40,600	34,574
Furniture, fittings & equipment - at cost	44,228	41,869
Less: Accumulated depreciation	<u>(11,376)</u>	<u>(9,691)</u>
	32,852	32,178
Work in progress - at cost	<u>6,689</u>	<u>10,729</u>
	<u>136,208</u>	<u>134,953</u>

**Note 13. Non-current assets - property, plant and equipment (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

<b>Consolidated</b>	<b>Building \$'000</b>	<b>Property improvement \$'000</b>	<b>Furniture, fittings &amp; equipment \$'000</b>	<b>Work in progress \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2019	57,472	34,574	32,178	10,729	134,953
Classified as held for sale (note 11)	(399)	(483)	(645)	(24)	(1,551)
Disposals	-	(323)	(207)	(50)	(580)
Disposal - business	(277)	(1,618)	(629)	(42)	(2,566)
Additions	-	4,136	3,615	2,922	10,673
Additions - business acquisitions	-	121	1,714	-	1,835
Transfers in/(out) from work in progress	-	5,477	1,369	(6,846)	-
Depreciation expense	(729)	(1,284)	(4,543)	-	(6,556)
Balance at 31 December 2019	<u>56,067</u>	<u>40,600</u>	<u>32,852</u>	<u>6,689</u>	<u>136,208</u>

**Note 14. Non-current assets - intangible assets**

	<b>Consolidated 31 Dec 2019 \$'000</b>	<b>30 Jun 2019 \$'000</b>
Goodwill - at cost	<u>297,774</u>	<u>327,714</u>
Gaming and liquor licences - at cost	<u>242,752</u>	<u>263,043</u>
	<u>540,526</u>	<u>590,757</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

<b>Consolidated</b>	<b>Goodwill \$'000</b>	<b>Gaming and liquor licences \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2019	327,714	263,043	590,757
Additions - business acquisitions (note 25)	2,244	7,421	9,665
Classified as held for sale (note 11)	(12,752)	(13,900)	(26,652)
Disposals	(19,432)	(13,900)	(33,332)
Additions	-	88	88
Balance at 31 December 2019	<u>297,774</u>	<u>242,752</u>	<u>540,526</u>

*Impairment testing*

(i) Goodwill

Goodwill is allocated to the group of cash-generating units which in total reflect Redcape's operating segment.

The recoverable amount of Redcape's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 1 year projection period approved by management and extrapolated for a further 4 years using a steady rate, together with a terminal value applied to the forecast fifth year after tax cashflows.



**Note 14. Non-current assets - intangible assets (continued)**

Management has based the value-in-use calculations on the historical performance and future prospects of the business as reported to the CODM, taking into consideration the like-for-like historical growth.

As a result of the value-in-use calculation, no impairment of goodwill has been recorded in the financial statements.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the value-in-use calculations:

	<b>Dec 2019</b>
	<b>%</b>
Discount rate (pre-tax)	7.7%
EBITDA growth rate	3.0%
Terminal value growth rate	3.0%

The pre-tax discount rate of 7.7% reflects management's estimate of the time value of money and Redcape's weighted average cost of capital adjusted for, the risk-free rate and the volatility of the share price relative to market movements.

Management believes the projected 3% growth rate is prudent and justified, based on the like-for-like historical growth.

*Sensitivity*

Management believes that any reasonably possible change in the key assumptions used would not cause the cash-generating unit's carrying amount to exceed its recoverable amount and result in a material impairment based on current economic conditions and CGU performance.

The below table shows the key assumptions used in the value in use calculation and the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value.

	<b>Terminal value %</b>	<b>Pre-tax discount rate %</b>
Assumptions used in value in use calculation	3.0%	7.7%
Rate required for recoverable amount to equal carrying value (a)	1.2%	9.1%

**Note 14. Non-current assets - intangible assets (continued)**

(ii) Gaming and liquor licences

Gaming and liquor licences are accounted for at cost, as per criteria set out in AASB 118, there is not an active market. Both the gaming and liquor licences are considered to have an indefinite useful life and are tested for impairment annually.

These licences form part of specific cash generating units ("CGU") represented in this instance by individual venues ("hotels").

The carrying amount of each CGU comprises land at fair value, buildings at cost less accumulated depreciation, plant and equipment at cost less accumulated depreciation, work in progress and intangibles at cost comprising gaming and liquor licences.

Redcape tests these licences for impairment at the CGU level being each individual hotel. This is the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

Redcape has assessed the recoverable amount of each CGU based on its fair value less costs to dispose ("FVLCD"). As the recoverable amount from the FVLCD valuation exceeds the carrying amount for each CGU, no impairment loss was recorded.

**Note 15. Non-current assets - right-of-use assets**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Land and buildings - right-of-use assets	43,699	-
Less: Accumulated depreciation	(827)	-
	42,872	-
	42,872	-

Redcape leases land and buildings for its offices and retail outlets under agreements of between 3 to 20 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

*Breakdown*

Breakdown of the written down values at the beginning and end of the current financial period are set out below:

<b>Consolidated</b>	<b>Land &amp; buildings \$'000</b>
Balance at 1 July 2019	-
Adjustment to opening balance on transition to AASB 16	23,753
Additions through business combination	19,946
Depreciation expense	(827)
	42,872
Balance at 31 December 2019	42,872



**Note 16. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	3,104	3,972
Accrued interest	648	1,944
Performance fee	-	6,400
Other payables	7,714	8,125
State Government taxes	19,973	18,308
	<u>31,439</u>	<u>38,749</u>

**Note 17. Current liabilities - distribution payable**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Distributions	<u>12,211</u>	<u>12,030</u>

*Distributions*

The provision represents distributions declared, being appropriately authorised and no longer at the discretion of the trust, on or before the end of the financial period but not distributed at the reporting date.

	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Carrying amount at the start of the period	12,030	10,243
Additional provisions recognised	24,348	46,271
Payments relating to prior period	(12,030)	(10,243)
Payments relating to current period	<u>(12,137)</u>	<u>(34,241)</u>
Carrying amount at the end of the period	<u>12,211</u>	<u>12,030</u>

**Note 18. Non-current liabilities - lease liabilities**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Lease liabilities	<u>44,074</u>	<u>-</u>

**Note 19. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	433,700	436,700
Capitalised loan establishment costs	(4,402)	(698)
	<u>429,298</u>	<u>436,002</u>



**Note 19. Non-current liabilities - borrowings (continued)**

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	<u>433,700</u>	<u>436,700</u>

*Common Terms Bank Facility*

The total facility amount is \$500.0 million (excluding \$3.0 million ancillary facility) being Tranche A facility \$150.0 million, Tranche B facility \$250.0 million and Revolving facility \$100.0 million. Tranche A and revolving facility expires on 1 September 2022. Tranche B facility expires on 1 September 2024.

*Assets pledged as security*

The financiers in respect of the bank loans have first ranking security over all of the assets of each entity in Redcape, a registered mortgage over each property and a fixed charge over each liquor and gaming licence.

*Defaults and breaches*

There have been no breaches of bank covenants in the period ended 31 December 2019.

*Restrictions on distributions*

There have been no breaches of the restrictions on distributions in the period ended 31 December 2019.

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank loans	<u>500,000</u>	<u>477,000</u>
Used at the reporting date		
Bank loans	<u>433,700</u>	<u>436,700</u>
Unused at the reporting date		
Bank loans	<u>66,300</u>	<u>40,300</u>

**Note 20. Equity - non-controlling interest**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Contributed equity	318,936	318,469
Reserves	169,859	161,923
Accumulated losses	<u>(39,625)</u>	<u>(43,497)</u>
	<u>449,170</u>	<u>436,895</u>

**Note 20. Equity - non-controlling interest (continued)**

	Contributed equity \$'000	Hedging reserve \$'000	Revaluation reserve \$'000	Accumulated losses \$'000	Total \$'000
<b>RHT I</b>					
Balance at 1 July 2019	318,469	(3,488)	165,411	(43,497)	436,895
Profit for the period	-	-	-	22,213	22,213
Total other comprehensive income	-	3,523	4,413	6,007	13,943
Issue of securities	467	-	-	-	467
Interim distributions paid to security holders	-	-	-	(12,137)	(12,137)
Provisions for distribution to security holders	-	-	-	(12,211)	(12,211)
Balance at 31 December 2019	<u>318,936</u>	<u>35</u>	<u>169,824</u>	<u>(39,625)</u>	<u>449,170</u>

**Note 21. Equity - distributions**

Distributions paid/payable during the financial period were as follows:

	Consolidated	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Final distribution for the quarter ended 30 September 2019 of 2.199 cents (FY19: 2.205 cents) per security	12,137	10,795
Final distribution for the quarter ended 31 December 2019 of 2.211 cents (FY19: 2.205 cents) per security	<u>12,211</u>	<u>11,548</u>
	<u>24,348</u>	<u>22,343</u>

**Note 22. Fair value measurement**

*Fair value hierarchy*

The following tables detail Redcape's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Land	-	-	330,830	330,830
Interest rate swaps	-	-	35	35
Total assets	<u>-</u>	<u>-</u>	<u>330,865</u>	<u>330,865</u>



**Note 22. Fair value measurement (continued)**

Consolidated - 30 Jun 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Land	-	-	351,648	351,648
Total assets	-	-	351,648	351,648
<i>Liabilities</i>				
Interest rate swaps	-	-	3,489	3,489
Total liabilities	-	-	3,489	3,489

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial period.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

*Valuation techniques for fair value measurements categorised within level 2 and level 3*

The basis of the valuations of land is fair value. A portion of the land was last revalued externally on 31 May 2019 based on independent external assessments by a professionally qualified valuer, having recent experience in the location and category of land being valued. Land is revalued by the directors each half year where an independent valuation has not been sought. The directors believe that an uplift of \$10.4 million is appropriate since the last revaluation date.

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available.

**Note 23. Contingent liabilities**

Redcape has provided bank guarantees to a supplier and landlord as at 31 December 2019 of \$2.6 million (June 2019: \$1.8 million).

**Note 24. Related party transactions**

*Parent entity*

Redcape Hotel Trust II is the parent entity.

**Note 24. Related party transactions (continued)**

*Transactions with related parties*

**(a) Responsible entity**

	Transaction values for the period ended 31 Dec 2019 \$	Balance outstanding as at 31 Dec 2019 \$	Transaction values for the period ended 31 Dec 2018 \$	Balance outstanding as at 30 June 2019 \$
<b>Moelis Australia Asset Management Ltd (i)</b>				
Asset management fee	-	-	1,466,532	-
Debt arrangement fee	-	-	250,000	-
Acquisition fee	-	-	1,080,000	-
Disposal fee	-	-	210,000	-
	-	-	3,006,532	-
<b>Redcape Hotel Group Management Ltd (ii)</b>				
Asset management fee	2,662,988	439,603	947,611	-
Debt arrangement fee (iii)	2,500,000	-	-	435,667
Acquisition fee	115,000	-	500,000	-
Disposal fee	471,250	471,250	-	-
Performance fee (iv)	-	-	14,400,000	6,400,000
	5,749,238	910,853	15,847,611	6,835,667

(i) Moelis Australia Asset Management Ltd ceased to be the Responsible Entity on 24 October 2018.

(ii) Redcape Hotel Group Management Ltd became the Responsible Entity of the Trust from 24 October 2018.

(iii) Debt arrangement fee equates to 0.5% of the \$500 million debt refinanced in September 2019.

(iv) Performance fee of \$0.9 million has been capitalised to equity and \$13.5 million has been expensed in FY19.

**(b) Other related party transactions**

The aggregate amounts recognised during the period relating to transactions between Redcape and related entities were as follows:

**Note 24. Related party transactions (continued)**

Related Entity	Transaction	Transaction values for the period ended 31 Dec 2019 \$	Balance outstanding as at 31 Dec 2019 \$	Transaction values for the period ended 31 Dec 2018 \$	Balance outstanding as at 30 June 2019 \$
Moelis Australia Advisory Pty Limited	Underwriting fee	-	-	2,375,000	-
Moelis Australia Advisory Pty Limited	Transaction fee	-	-	3,115,670	-
Moelis Australia Hotel Management Pty Ltd	Hotel operating fee	5,930,737	871,322	5,224,716	(409,473)
Moelis Australia Hotel Management Pty Ltd	Project development fee	128,848	57,095	421,925	73,822
		<u>6,059,585</u>	<u>928,417</u>	<u>11,137,311</u>	<u>(335,651)</u>

**Note 25. Business combinations and disposals**

*Business acquisitions*

Redcape has settled on the acquisition of 1 leasehold only hotel during the period ended 31 December 2019. The following summarises the major classes of consideration transferred and recognises the amounts of assets acquired and liabilities assumed at the acquisition date:

Details of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	140
Inventories	49
Prepayments	72
Property, plant and equipment (Note 13)	1,835
Gaming and liquor licences (Note 14)	7,421
Trade and other payables	(70)
Employee benefits	(31)
Net assets acquired	9,416
Goodwill (Note 14)	2,244
Acquisition-date fair value of the total consideration transferred	<u>11,660</u>
Representing:	
Cash paid or payable to vendor	<u>11,660</u>
Acquisition costs expensed to profit or loss	<u>856</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	11,660
Less: cash and cash equivalents	(140)
Net cash used	<u>11,520</u>



**Note 25. Business combinations and disposals (continued)**

*Acquisition related costs*

Business acquisition costs of \$0.9 million include stamp duty, legal fees and due diligence costs. These costs were included in Redcape's consolidated statement of profit or loss and other comprehensive income.

*Disposals*

Redcape disposed of 1 hotel during the period ended 31 December 2019 resulting in a gain on disposal of \$0.4 million. At the date of disposal, the carrying amount of land amounted to \$9.9 million, property, plant and equipment \$2.6 million and intangibles \$33.3 million.

**Note 26. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect Redcape's operations, the results of those operations, or Redcape's state of affairs in future financial years.

**Note 27. Reconciliation of profit/(loss) after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax (expense)/benefit for the period	17,386	(11,624)
Adjustments for:		
Depreciation and amortisation expense	7,383	5,174
Loss on asset revaluation	-	5,814
Net loss/(gain) on disposal of non-current assets	22	(577)
Business acquisition costs	856	7,589
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,279	(1,075)
Increase in inventories	(539)	(204)
Decrease/(increase) in deferred tax assets	543	(3,009)
Increase in prepayments	(3,604)	(577)
Increase/(decrease) in trade and other payables	(7,380)	10,765
Increase/(decrease) in employee benefits	297	(33)
Net cash from operating activities	<u>16,243</u>	<u>12,243</u>

**Note 28. Earnings per stapled security**

	<b>Consolidated</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	<u>17,386</u>	<u>(11,624)</u>
Weighted average number of ordinary securities used in calculating basic and diluted earnings per stapled security	551,767,567	506,545,736
Basic and diluted earnings per stapled security (cents)	3.15	(2.30)

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II**  
**Directors' declaration**  
**31 December 2019**



In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting';
- the attached financial statements and notes give a true and fair view of Redcape's financial position as at 31 December 2019 and of its performance for the period ended on that date;
- 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 directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

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Nicholas Collishaw  
Chairman

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Daniel Brady  
Executive Director

19 February 2020  
Sydney



# Independent Auditor's Review Report

To the Responsible Entities Directors of Redcape Hotel Group

## Report on the Interim Financial Report

### Conclusion

We have reviewed the accompanying **Interim Financial Report** of Redcape Hotel Trust II as the deemed parent presenting the stapled security arrangement of the Redcape Hotel Group (the Stapled Group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Redcape Hotel Group is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Stapled Group's financial position as at 31 December 2019 and of its performance for the Interim Period ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the period ended on that date
- Notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The Stapled Group comprises Redcape Hotel Trust II and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 31 December 2019.



## Responsibilities of the Responsible Entities Directors for the Interim Financial Report

The Responsible Entity's Directors of the Stapled Security Group are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Stapled Group's financial position as at 31 December and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Redcape Hotel Group, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we are independent of the Stapled Group in accordance with the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants*.

KPMG

Paul Thomas  
Partner  
Sydney  
19 February 2020