

Redcape Hotel Group (ASX: RDC)
Appendix 4D
For the six months period ending 31 December 2018

Name of entity:	ARSN:		
Redcape Hotel Group (RDC) comprising Redcape Hotel Trust I (RHT I) and Redcape Hotel Trust II (RHT II) the securities in which are stapled together to form RDC stapled securities.	Redcape Hotel Trust I	629 354 614	
	Redcape Hotel Trust II	629 354 696	
1.0 Reporting period:			
Current reporting period:	6 Months to 31 December 2018		
Previous reporting period:	6 Months to 31 December 2017		
2.0 Results for announcement to the market	Six months ended 31 Dec 18	Six months ended 31 Dec 17	% Change
	\$'000	\$'000	
2.1 Revenue from ordinary activities	142,603	121,346	18%
2.2 Profit/(loss) after tax from ordinary activities attributable to Redcape Hotel Group Securityholders ⁽¹⁾	5,296	(12,963)	141%
2.3 Net loss after tax attributable to Redcape Hotel Group Securityholders	(11,624)	(12,963)	10%
2.4 Distributions		Cents per unit	Record date
September 2018 quarter distribution (paid 26 October 2018)		2.21	30-Sep-18
December 2018 quarter distribution (paid 31 January 2019)		2.21	31-Dec-18
Interim 2019 distribution		4.41	
June 2018 quarter distribution (paid 27 July 2018)		2.18	30-Jun-18
2.5 Record date for determining entitlement to distribution	As above		
2.6 Operating and financial review			
Commentary and analysis of the result for the current period can be found in the attached ASX release.			
3.0 Net Tangible Assets and Net Assets		31-Dec-18	31-Dec-17
Number of securities		551,445,932	450,642,850
Net tangible assets per stapled security (\$)		0.06	(0.07)
Net assets per stapled security (\$)		1.13	1.04
4.0 Details of entities over which control has been gained or lost during the period			
4.1 RHT I and RHT II were stapled on 2 July 2018.			
5.0 Details of distribution paid and payable for current period		Cents per security	Total \$'000
September 2018 quarter Distribution paid 26 October 2018		2.21	10,795
December 2018 quarter distribution paid 31 January 2019		2.21	11,549
June 2018 Distribution paid 27 July 2018		2.18	10,243
No part of these distribution relate to foreign sourced income			
6.0 The Dividend Reinvestment Plan	Not currently activated in FY19		
7.0 Details of associates and joint venture entities	Not applicable		
8.0 For foreign entities, accounting standards used in compiling the report	Not applicable		
9.0 The Appendix 4D is based on an Interim Financial Report which has been reviewed by the Group's auditors. The Interim Financial Report is subject to an emphasis of matter due to this being a special purpose financial report. Refer to Note (2) Basis of preparation and below point 10.0 for further details.			
10.0 Other information			
Redcape Hotel Trust I (ARSN 629 354 614) and Redcape Hotel Trust II (ARSN 629 354 696) were registered with ASIC as a managed investment schemes on 26 October 2018. In accordance with section 323D of the Corporations Act 2001 (Cth) the first half-year for the Redcape Group must commence on the date of registration as managed investment schemes and end on the date that is 6 months later (subject to the directors' discretion to determine that the half-year is to be shorter or longer by not more than 7 days). Strict compliance with this section would require Redcape to prepare half-year accounts for the period from 26 October 2018 to 25 April 2019. Given the limited value of such accounts to users, ASIC has granted relief to the responsible entity of Redcape Hotel Trust I and Redcape Hotel Trust II exempting it from the requirement to lodge half-year accounts as required under the Corporations Act.			
On condition that Redcape prepare and release accounts for the 6 months to 31 December 2018 in the form accompanying this Appendix 4D, ASX has confirmed that Redcape does not need to release half-year accounts for the 6 month period from 26 October 2018 to 25 April 2019 as would be required under the Corporations Act.			

(1) Comprises Statutory net loss excluding transaction and performance fees (\$20,562) adjusted for tax related expenses (\$3,642)

Redcape

HOTEL GROUP

Redcape Hotel Trust II (ARSN 629 354 696) and Consolidated Entities (Redcape Hotel Group)

**Special Purpose Interim Financial Report
Half Year 31 December 2018**

R

Contents

- 2** Directors' report
- 4** Lead auditor's independence declaration
- 5** Financial statements
- 30** Directors' declaration
- 31** Independent auditor's report

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Directors' Report
Redcape Hotel Group Management Ltd as responsible entity for Redcape Hotel Trust I and Redcape Hotel Trust II

The Redcape Hotel Trust II (formerly Moelis Australia Hotel Trust II) ("RHT II") and Redcape Hotel Trust I (formerly Moelis Australia Hotel Trust I) ("RHT I") are registered managed investment schemes under the Corporations Act 2001 domiciled in Australia. The registered managed investment schemes became effective on 26 October 2018. These consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2018 comprise of RHT II, RHT I and their controlled entities, and collectively are referred to as the "Group" and individually as the "Group entities". The Responsible Entity of RHT I and RHT II is Redcape Hotel Group Management Ltd (the "Responsible Entity"). In accordance with the stapling deed, RHT II and RHT I were stapled to one another on 2 July 2018. The parent entity for the purpose of these interim financial statements is RHT II. The units of RHT II and the RHT I are stapled such that the units are effectively dealt with as a single interest.

The aggregated comparative financial statements have been prepared to present the aggregated position of the Group entities and aggregates all of the assets, liabilities, revenues and expenses of the Group entities into a single set of aggregated financial statements. The Group entities prior to 2 July 2018 do not form the definition of a Group or an "Economic Entity" as defined by AASB 10 Consolidated Financial Statements.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

The directors of Redcape Hotel Group Management Ltd as Responsible Entity for RHT I and RHT II present their report together with the consolidated interim financial statements of the Group for the half year ended 31 December 2018 and the auditor's report thereon.

1. Directors and officers

The Group has entered into a hotel operating agreement with Moelis Australia Hotel Management Pty Ltd (the "Operator") to manage and operate the Groups hotels in Australia.

In addition, the Responsible Entity has appointed the Operator to provide certain investment management and administration services pursuant to an Investment Management Agreement.

Redcape Hotel Group Management Ltd is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 27, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000.

The following persons held office as directors of Redcape Hotel Group Management Ltd during the period or since the end of the period and up to the date of this report:

Hugh Thomson
David Frederick Groves
Nicholas Roland Collishaw
Andrew Ireland
Daniel John Brady

2. Principal activities

The principal activity of the Group during the period is the ownership and operation of pubs. There has been no significant change in the nature of the principal activity during the period.

3. Operating and financial review

For the half year ended 31 December 2018, the Group recorded a loss after tax of \$11,624,000 (December 2017 loss after tax of \$12,963,000).

During the half year, RHT I declared interim distributions to unitholders of \$10,795,000 for 30 September 2018 and \$11,549,000 for 31 December 2018.

Refer to ASX announcement and appendix 4D for detailed commentary.

4. Significant changes in the state of affairs

Units in RHT II and RHT I were stapled on 2 July 2018 in accordance with the stapling deed and are dealt with as a single security. For further details on the stapling, refer to Note 4 of the consolidated interim financial statements.

RHT I and RHT II are domiciled in Australia and were registered as managed investment schemes on 26 October 2018 under the Corporations Act 2001.

On 30 November 2018 the stapled securities in the Group commenced trading on the Australian Securities Exchange (ASX).

The group has received an ASIC waiver from producing statutory accounts for half year. This would have been from the scheme registration date, 26 October 2018 to 31 December 2018.

The Group has acquired 6 venues and disposed of 1 venue during the half year.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Directors' Report

Redcape Hotel Group Management Ltd as responsible entity for Redcape Hotel Trust I and Redcape Hotel Trust II

5. Events subsequent to reporting date

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

6. Likely developments

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

7. Interests of the Responsible Entity

The Responsible Entity held no units or options in the Trust during or since the end of the half year.

8. Environmental regulation

Whilst the Group is not subject to significant environmental regulation in respect of its property activities, the directors are satisfied that adequate systems are in place for the management of its environmental responsibility and compliance with the various licence requirements and regulations. Further, the directors are not aware of any material breaches of these requirements.

9. Indemnities and insurance premiums for officers or auditors

Indemnification

Under the Trusts' 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 Hotel Operating Agreement, the Trust indemnifies Moelis Australia Hotel Management Pty Ltd (the "Operator") for any liabilities, direct losses and other amounts suffered or incurred by the Operator, its related bodies corporate or any of their respective officers, employees or agents or any other person engaged or appointed by the Operator in exercising the Operator's powers or performing the Operator's duties under the Hotel Operator Agreement.

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 Group.

10. Lead auditor's independence declaration

A copy of the lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half year ended 31 December 2018.

11. Rounding of amounts

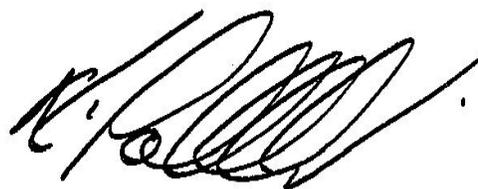
The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument) and in accordance with that instrument, amounts in the directors' report and interim financial report have been rounded off to the nearest thousand dollars unless otherwise stated.

12. Units on issue

As at 31 December 2018 the Group had 551,445,932 units on issue. Further details are provided in Note 18 to the financial statements.



Daniel John Brady
Director
Dated this 20th day of February 2019
Sydney



Nicholas Roland Collishaw
Director
Dated this 20th day of February 2019
Sydney



Lead Auditor's Independence Declaration

To the Trustee's Directors 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 December 2018 there have been no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Cameron Roan

Partner

Sydney

20 February 2019

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Consolidated statement of profit or loss and other comprehensive income

		Dec 2018	Aggregated ⁽¹⁾ Dec 2017
	Note	\$'000	\$'000
Revenue		142,603	121,346
Cost of sales		(67,613)	(58,921)
Gross profit		74,990	62,425
Employment costs		(19,183)	(14,345)
Operating costs	7	(15,811)	(13,046)
Management fees	8	(7,639)	(6,594)
Venue acquisition costs	5	(7,589)	(29,359)
Gain/(loss) on disposal of non-current assets		577	(239)
Loss on asset revaluation	12	(5,814)	-
Depreciation	12	(5,174)	(4,592)
Net finance costs	10	(8,427)	(7,455)
		5,930	(13,205)
Listing costs and performance fee	9	(20,562)	-
Loss before income tax		(14,632)	(13,205)
Tax benefit	14	3,008	242
Net loss after tax		(11,624)	(12,963)
Profit for the period attributable to:			
Unitholders of Redcape Hotel Trust II		(15,458)	-
Unitholders of Redcape Hotel Trust I (Non-controlling interest)		3,834	-
		(11,624)	-
Other comprehensive income			
Hedging reserve		(776)	(263)
Revaluation reserve		12,020	51,318
Total comprehensive income		(380)	38,092
Total comprehensive income for the period attributable to:			
Unitholders of Redcape Hotel Trust II		(15,458)	-
Unitholders of Redcape Hotel Trust I (Non-controlling interest)		15,078	-
		(380)	-
		Cents	
Basic and diluted earnings per stapled security (cents)		(2.30)	

(1) As the group did not staple until 2 July 2018, the aggregated number (as if the two entities were stapled for the half year ended 31 December 2017) have been included for comparability purposes.

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

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Consolidated statement of financial position

		Dec 2018	Aggregated ⁽¹⁾
	Note	\$'000	Jun 2018
			\$'000
Assets			
Current assets			
Cash and cash equivalents	11	21,572	35,055
Inventories		5,571	5,104
Trade and other receivables		2,490	1,415
Other current assets		4,145	7,286
Total current assets		33,778	48,860
Non-current assets			
Property, plant and equipment	12	466,624	396,565
Intangible assets	13	590,762	509,590
Deferred tax assets	14	16,357	12,674
Total non-current assets		1,073,743	918,829
Total assets		1,107,521	967,689
Liabilities			
Current liabilities			
Trade and other payables	15	41,113	29,460
Employee benefits		1,584	1,431
Distribution payable	17	11,549	10,243
Total current liabilities		54,246	41,134
Non-current liabilities			
Trade and other payables		452	474
Loans and borrowings	16	428,304	366,284
Derivative financial instruments		1,049	272
Employee benefits		203	240
Total non-current liabilities		430,008	367,270
Total liabilities		484,254	408,404
Net assets		623,267	559,285
Equity			
Contributed equity	18	-	467,307
Reserves		-	127,568
Accumulated losses		-	(35,590)
Total equity		-	559,285
Equity attributable to Redcape Hotel Trust II			
Contributed equity	18	235,545	-
Accumulated losses		(43,131)	-
Total equity attributable to unitholders of Redcape Hotel Trust II		192,414	-
Equity attributable to Redcape Hotel Trust I (non-controlling interests)			
Contributed equity	18	318,469	-
Reserves		138,811	-
Accumulated losses		(26,427)	-
Total equity attributable to unitholders of Redcape Hotel Trust I (non-controlling interest)		430,853	-
Total equity		623,267	-

(1) As the group did not staple until 2 July 2018, the aggregated number (as if the two entities were stapled for the half year ended 31 December 2017) have been included for comparability purposes.

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

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Consolidated statement of changes in equity

	Redcape Hotel Trust II			Redcape Hotel Trust I (non-controlling interests)					Total equity \$'000	
	Contributed Equity	Accumulated losses	Total	Contributed Equity	Hedging reserve	Revaluation reserve	Retained earnings/ (Accumulated losses)	Total		
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Attributable to owners of the Trust										
Balance at 1 July 2018		199,549	(1,156)	198,393	-	-	-	-	-	198,393
Total comprehensive income for the period										
Loss for the period		-	(15,458)	(15,458)	-	-	-	3,834	3,834	(11,624)
Total other comprehensive income		-	-	-	-	(776)	12,020	-	11,244	11,244
Total comprehensive income for the period		-	(15,458)	(15,458)	-	(776)	12,020	3,834	15,078	(380)
Transactions with owners in their capacity as owners, recognised directly in equity										
Arising on stapling	4	-	(26,517)	(26,517)	267,758	(273)	127,840	(7,917)	387,408	360,891
Issue of units	18	37,569	-	37,569	52,188	-	-	-	52,188	89,757
Equity raising costs	18	(2,247)	-	(2,247)	(1,477)	-	-	-	(1,477)	(3,724)
Deferred tax asset	18	674	-	674	-	-	-	-	-	674
Interim distribution paid to unitholders	17	-	-	-	-	-	-	(10,795)	(10,795)	(10,795)
Provision for distribution to unitholders	17	-	-	-	-	-	-	(11,549)	(11,549)	(11,549)
		35,996	(26,517)	9,479	318,469	(273)	127,840	(30,261)	415,775	425,254
Balance at 31 December 2018		235,545	(43,131)	192,414	318,469	(1,049)	139,860	(26,427)	430,853	623,267

The opening balance of the current year consolidated statement of changes in equity relates to RHT II (parent). RHT I (non-controlling interests) is presented upon stapling. Refer to Note 4 Business combination for further information on the stapling.

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

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Consolidated statement of changes in equity (continued)

	Unitholder funds \$'000	Hedging reserve \$'000	Revaluation reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2017	-	-	-	-	-
Total comprehensive income for the period					
Loss for the period	-	-	-	(12,963)	(12,963)
Other comprehensive income	-	(263)	51,318	-	51,055
Total comprehensive income for the period	-	(263)	51,318	(12,963)	38,092
Transactions with owners in their capacity as owners, recognised directly in equity					
Issue of units	453,500	-	-	-	453,500
Equity raising costs	(8,284)	-	-	-	(8,284)
Deferred tax asset	1,770	-	-	-	1,770
Payment of distribution to unitholders	-	-	-	(7,830)	(7,830)
Provision for distribution to unitholders	-	-	-	(9,021)	(9,021)
	446,986	-	-	(16,851)	430,135
Balance at 31 December 2017	446,986	(263)	51,318	(29,814)	468,227

The comparative for the statement of changes in equity are prepared on an aggregated basis.

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

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Consolidated statement of cash flows

		Aggregated ⁽¹⁾	
		Dec 2018	Dec 2017
	Note	\$'000	\$'000
Cash flows from operating activities			
Receipts from pub operations		155,788	133,261
Interest receipts		154	159
Payments to suppliers		(121,696)	(125,881)
Net cash from operating activities	21	34,246	7,539
Cash flows from investing activities			
Acquisition of venues including acquisition costs		(160,938)	(760,716)
Proceeds from sale of venues		20,433	-
Capital expenditure	12	(12,262)	(7,649)
Payment for intangible assets		-	(1,218)
Proceeds from disposal of property, plant and equipment		46	662
Net cash used in investing activities		(152,721)	(768,921)
Cash flows from financing activities			
Proceeds from drawdown of borrowings		85,000	351,772
Repayment of borrowings		(23,000)	(14,072)
Proceeds from issue of stapled securities		81,558	453,500
Equity raising and listing costs		(8,545)	-
Payment of distributions		(21,038)	(7,830)
Payment of interest		(8,593)	(4,746)
Payment of borrowing costs related to loans and borrowings		(390)	(987)
Net cash from financing activities		104,992	777,637
Net (decrease)/increase in cash held		(13,483)	16,255
Cash and cash equivalents at the beginning of the period		35,055	-
Cash and cash equivalents at the end of the period	11	21,572	16,255

(1) As the group did not staple until 2 July 2018, the aggregated number (as if the two entities were stapled for the half year ended 31 December 2017) have been included for comparability purposes.

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

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018

Notes	Page	
1	General information	11
2	Basis of preparation	11
3	Summary of significant accounting policies	12
4	Business combination	19
5	Venue acquisition costs	20
6	Segment reporting	20
7	Operating costs	21
8	Management fees	21
9	Listing costs and performance fee	21
10	Net finance costs	21
11	Cash and cash equivalents	21
12	Property, plant and equipment	22
13	Intangible assets	23
14	Taxes	24
15	Trade and other payables	25
16	Loans and borrowings	25
17	Distribution payable	26
18	Contributed equity	26
19	Group entities	27
20	Related party disclosures	28
21	Statement of cashflows - additional information	29
22	Contingent assets	29
23	Contingent liabilities	29
24	Commitments	29
25	Subsequent events	29
26	Trust information	29

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 1 General information

(a) Stapling

The Redcape Hotel Trust II ("RHT II") (formerly Moelis Australia Hotel Trust II) and Redcape Hotel Trust I ("RHT I") (formerly Moelis Australia Hotel Trust I) were stapled on 2 July 2018. The units of RHT II and the RHT I are stapled such that the units are effectively dealt with as a single interest.

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 to be the parent entity. In the Statement of Comprehensive Income and Statement of Financial Position, non-controlling interests are shown separately and reflect interests in RHT I which are not held directly or indirectly by RHT II.

(b) Responsible Entity

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

(c) Scheme Registration

RHT 1 (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.

(d) IPO Listing

The stapled securities of RHT I and RHT II (collectively "Redcape") commenced trading as a single stapled unit on the ASX on 30 November 2018 under the ticker code "RDC". Details of the product disclosure statement ("PDS") are available at <http://www.redcape.com.au/investor-centre>.

(e) Half Year Reporting

Under the Corporations Act the responsible entity of a registered managed investment scheme is required to prepare financial statements for its first half-year which shall be a six month period commencing on the date of registration. Redcape has obtained an exemption from ASIC to produce statutory half year financial reports for its first half-year being the period commencing 26 October 2018 (the date RHT I and RHT II were registered with ASIC as managed investment schemes). There has been no significant change in the nature of Redcape's principal activity during the six month period to 31 December, therefore the board has determined it appropriate to prepare financial reports for the period from 1 July 2018 to 31 December 2018.

Redcape and its controlled entities ("Group") is a for-profit entity and its principal activity is the ownership and operation of pubs.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full (refer Note 2(a) in relation to comparative information).

The consolidated interim financial statements were approved by the directors of the Responsible Entity on 20 February 2019.

Note 2 Basis of preparation

The Responsible Entity has prepared special purpose financial statements for the half year ended 31 December 2018 for use by the directors of the Responsible Entity for the purpose of meeting the listing requirements of the Australian Securities Exchange ("ASX").

(a) Compliance statement

The special purpose interim financial statements have been prepared in accordance with the recognition, measurement and classification aspects of Australian Accounting Standard AASB 134 Interim Financial Reporting. The special purpose interim financial statements include those disclosures considered necessary by the directors of the Responsible Entity to meet the needs of users. The special purpose interim financial statements comply with all disclosure requirements of AASB 134 Interim Financial Reporting except for the comparatives not complying with: -AASB 10 Consolidated financial statements

Stapling of the entities occurred on 2 July 2018 hence the Group's FY18 accounts were prepared on an aggregated basis as there was no single parent entity. Under AASB 10 aggregation of the Group is not a consolidation. To comply with AASB 10, the comparative financials to be included in the 31 December 2018 accounts are those of RHT II (the parent entity in the FY18 accounts). As RHT I and RHT II were not stapled during the six months to 31 December 2017, AASB 10 would require that the financials of RHT I would be wholly excluded from the comparative numbers in the 31 December 2018 accounts.

The Responsible Entity has deemed that aggregated financials of RHT II and RHT I are the most relevant financials to be used as comparatives for the period ended 31 December 2018 with the sole difference being the allocation of non-controlling interest to RHT I with RHT II as the parent. For this reason alone, the 31 December 2018 accounts have been prepared as special purpose accounts.

The financial report has been prepared on a going concern basis.

(b) Basis of measurement

The interim financial statements have been prepared on the historical cost basis, except for land and derivatives which are measured at fair value.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 2 Basis of preparation (continued)

(c) Functional and presentation currency

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

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument) and in accordance with that instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(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.

(e) Going concern

The aggregated interim 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 2018, the Group had current assets of \$33,778,000 and current liabilities of \$54,246,000 leaving a net deficit of working capital of \$20,468,000. The Group's operations will be funded by undrawn bank loans and operating cash inflows.

Note 3 Summary of significant accounting policies

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Acquisitions of non-controlling interest

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. The adjustments to non-controlling interest arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries and associated entities

Subsidiaries of the Group are entities controlled by the Group entities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements.

(v) Stapling

The stapling of the units of the Trust II and Trust I occurred on 2 July 2018. The acquirer and the parent entity for the purpose of these financial statements is Trust II.

(b) Revenue recognition

The Group's operations and main revenue streams comprised predominantly of food and beverage sales and gaming revenue.

The nature and effect of initially applying AASB 15 on the Group's interim financial statements are disclosed in Note 3(o).

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 3 Summary of significant accounting policies (continued)

(c) Income tax

Trust I

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.

Trust II

Tax expense / benefit comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

(iii) Tax exposures

In determining the amount of current and deferred tax Trust II takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Trust II believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes Trust II to change its judgement regarding the adequacy of existing tax assets and liabilities; such changes to tax assets and liabilities will impact tax expense in the period such a determination is made.

(iv) Tax consolidation

Trust II's wholly-owned Australian resident entities have formed a tax consolidated group with effect from July 2017 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Redcape Hotel Trust II.

Current tax expense or income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand-alone taxpayer' method consistent with UIG 1052 *Tax Consolidation Accounting*.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable to or receivable from other entities in the tax consolidated group in conjunction with any tax funding arrangement amount (refer below).

(v) Nature of tax funding arrangement and tax sharing agreement

The members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to or from the head entity equal to the current tax liability or asset assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

The members of the tax consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(d) 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.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 3 Summary of significant accounting policies (continued)

(e) Financial Instruments

(i) Non-derivative financial assets

The Group 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 Group becomes a party to the contractual provisions of the instrument.

The Group 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 by the Group 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 Group 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 Group has the following non-derivative financial assets:

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 deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short term commitments.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. 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.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Issued units

Issued units in 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.

(iv) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivatives is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit and loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit and loss in the same period or periods during which the hedged items affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 3 Summary of significant accounting policies (continued)

(f) Property, plant and equipment

(i) Recognition and measurement

With the exception of land, all other 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 Group, 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 that the Group will obtain ownership by the end of the lease term.

The estimated useful lives are as follow:

Freehold buildings	40 to 150 years
Property improvements	7 to 40 years
Furniture, fittings and equipment	7 to 15 years
Software	4 to 7 years

Residual values and useful lives are reviewed and adjusted if appropriate, at each financial year end. Any gain or loss on disposal of an item of property, plant and equipment are recognised in profit or loss.

(iv) Revaluation

Land is recognised at fair value based on periodic valuations by external independent valuers. A revaluation surplus is credited to other reserves in shareholders' equity. All other property, plant and equipment is recognised at historical cost less depreciation.

Increases in the carrying amounts arising on revaluation of land are recognised in other comprehensive income and accumulated in other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 3 Summary of significant accounting policies (continued)

(g) Intangible assets and goodwill

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented within intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(i).

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Gaming licences

Separately acquired Gaming licences are shown at historical cost. Gaming licences acquired in a business combination are recognised at fair value at the acquisition date. They have an indefinite useful life and are subsequently carried at cost less accumulated impairment losses.

Gaming licenses are not amortised but tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses.

(iii) Liquor licences

Separately acquired Liquor licences are shown at historical cost. Liquor licences acquired in a business combination are recognised at fair value at the acquisition date. They have an indefinite useful life and are subsequently carried at cost less accumulated impairment losses.

Liquor licenses are not amortised but tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses.

(h) Inventories

Inventories which include food and beverages are costed on a weighted average basis and are measured at the lower of cost and net realisable value.

(i) Impairment

Non-derivative financial assets

A financial asset not classified as 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 are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group 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.

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 estimate 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 profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, 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. Goodwill and indefinite life intangible assets are tested annually for impairment. 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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to first reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 3 Summary of significant accounting policies (continued)

(j) 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 Group'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.

(k) 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.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated or government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 3 Summary of significant accounting policies (continued)

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard — i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of its pub venues. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

(o) Changes in significant accounting policies

AASB 9 Financial Instruments

The Group has adopted AASB 9 Financial Instruments from 1 July 2018 which replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new hedge accounting requirements.

The impact on the Group from adoption of AASB 9 is set out below.

Hedge accounting

In accordance with the transition provisions of AASB 9 for hedge accounting, the Group has applied the AASB 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. There has been no change in the Groups transactions that are subject to hedge accounting from the adoption of AASB 9, being the interest rate swaps. Accordingly, there has been no impact on the hedging reserve from the adoption of AASB 9.

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018, which replaces AASB 118 Revenue.

AASB 15 establishes a principles-based approach for revenue recognition whereby revenue is recognised when performance obligations are satisfied and the control of goods or services is transferred. The standard applies a five-step approach to the timing of revenue recognition and is applicable to all contracts with customers, except those in the scope of other standards, replacing the separate models for goods, services and construction contracts under the previous accounting standards.

The major sources of the Group's revenue are from the sale of goods and rendering of services, which are considered below.

Sale of goods and rendering of services

The adoption of AASB 15 has not impacted the timing of revenue recognition on the sale of goods, which continues to be recognised on a point in time basis.

In previous reporting periods, revenue from the sale of goods was recognised when the customer accepted the risks and rewards of ownership, which occurred at the point of sale or when the goods were collected/delivered. In applying AASB 15, revenue associated with the sale of goods is recognised when the performance obligation of the sale has been fulfilled and control of the goods has transferred to the customer, which continues to occur at the point of sale or when the goods are collected/delivered.

In recognising revenue from the sale of goods, the Group considers its historical experience with sales returns to determine if it is 'highly probable' that a significant reversal of revenue will arise in the future.

Timing of revenue recognition

As described above, the Group's revenue is principally generated on a 'point in time' basis, the amount of revenue recognised by the Group on an 'over time' basis is not material in the context of the Group's total revenue.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 4 Business combination to form Redcape Hotel Group

Stapling

In accordance to the stapling deed, units in RHT I and RHT II were stapled to one another on 2 July 2018. They were listed as a single security on the ASX at 30 November 2018.

RHT II is identified as the parent of the Group and acquirer of RHT I with the acquisition accounted for as a change in ownership without a loss of control. The issued units of RHT I are not owned by RHT II and are presented as non-controlling interests in the Group even though units in RHT I are held directly by the unitholders of the Trust.

The equity in the net assets of RHT I and the profit/(loss) arising from those net assets have been separately identified in the statements of comprehensive income and financial position. RHT I's contributed equity and retained earnings/accumulated losses are shown as a non-controlling interest in the consolidated financial statements in accordance with accounting standards.

Assets and liabilities

The fair value of RHT I's assets and liabilities on 2 July 2018 are as follows:

	\$'000
Assets	
Cash and cash equivalents	14,519
Related party loan	136,625
Other current assets	5,379
Investment property	611,872
Total assets	768,395
Liabilities	
Trade and other payables	3,900
Distribution payable	10,243
Loans and borrowings	366,572
Derivative financial instruments	272
Total liabilities	380,987
Net assets	387,408

Accumulated losses

Accumulated losses are losses attributable to RHT II.

Movement in accumulated losses were as follows:

	Dec 2018
	\$'000
Balance at 1 July 2018	(1,156)
Net loss for the half year attributable to RHT II	(15,458)
Arising from stapling ⁽ⁱ⁾	(26,517)
Balance at 31 December 2018	(43,131)

(i) RHT I holds the Freehold assets which are recognised collectively as investment properties in the RHT I balance sheet. On consolidation, where the Group holds the freehold going concern of the assets, the investment properties are disaggregated into their components (Land, Buildings, Licences). On disaggregation, depreciation and capitalised acquisition costs are also expensed to the income statement causing losses to the income statement as a result of stapling.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 5 Venue acquisition costs

The Group has settled on the acquisition of 6 hotels during the half year ended 31 December 2018.

The following summarises the major classes of consideration transferred and recognises the amounts of assets acquired and liabilities assumed at the acquisition date:

		Dec 2018	Jun 2018
	Note	\$'000	\$'000
Consideration transferred			
Cash		157,930	794,560
<i>Identifiable assets acquired and liabilities assumed</i>			
Property, plant and equipment	12	64,477	272,020
Investment property		-	2,324
Gaming and Liquor Licences	13	37,423	235,500
Inventory		263	4,929
Cash and cash equivalents		229	13,138
Prepayments		105	2,647
Trade and other receivables		-	1,534
Deferred tax assets		-	10,646
Trade and other payables		(698)	(27,569)
Current tax liabilities		-	(1,632)
Employee benefits		(149)	(2,380)
Total net identifiable assets		101,650	511,157
<i>Goodwill on acquisition</i>			
Goodwill was recognised as a result of the acquisition as follows:			
Total consideration transferred		157,930	794,560
Fair value of net identifiable net assets acquired		(101,650)	(511,157)
Goodwill on acquisition	13	56,280	283,403

The goodwill is attributed to the existing cashflow and profitability of the businesses acquired, the present value of which is in addition to the fair value of the net tangible assets of the business.

Acquisition related costs

Business acquisition costs of \$7,589,000 which includes stamp duty, legal fees and due diligence costs were included in the Group's consolidated statement of profit or loss and other comprehensive income.

Note 6 Segment reporting

The Group operates as one business segment being the owner and/or operator of pubs, and in one geographic segment being Australia. The Group's segments are based on reports used by the Chief Operating Decision Maker in making strategic decisions about the Group, assessing the financial performance and financial position of the Group, determining the allocation of resources, and risk management.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

		Dec 2018	Aggregated Dec 2017
	Note	\$'000	\$'000
Note 7 Operating costs			
Administrative expenses		1,552	974
Advertising and marketing		2,758	1,749
Operating expenses		5,710	3,744
Repair and maintenance		1,033	867
Property outgoing expenses		4,133	3,447
Rental expenses		625	2,265
		<u>15,811</u>	<u>13,046</u>
Note 8 Management fees			
Hotel operating fee	20(b)	5,225	4,902
Asset management fee	20(a)	2,414	1,692
		<u>7,639</u>	<u>6,594</u>
Note 9 Listing costs and performance fee			
Listing costs ⁽ⁱ⁾		6,762	-
Performance fee ⁽ⁱⁱ⁾	20(a)	13,800	-
		<u>20,562</u>	<u>-</u>
(i) Listing Costs - Expensed costs associated with listing the Group on the ASX.			
(ii) Performance Fee - Expensed fee payable to the Responsible Entity, in its personal capacity, on the overall performance of the group and realised upon IPO event.			
Note 10 Net finance costs			
Finance Income		154	156
Finance costs		(8,581)	(7,611)
Net finance costs		<u>(8,427)</u>	<u>(7,455)</u>
Note 11 Cash and cash equivalents			
Cash at bank and on hand		21,572	35,055
		<u>21,572</u>	<u>35,055</u>

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

	Note	Land and buildings \$'000	Property Improvements \$'000	Furniture, fittings & equipment \$'000	Work in progress \$'000	Total \$'000
Note 12 Property, plant and equipment						
Cost						
Balance at 1 July 2018		339,867	24,957	29,945	8,549	403,318
Acquisition through business combination	5	57,507	-	6,970	-	64,477
Additions		25	4,216	3,442	4,580	12,262
Disposal		(6,760)	(1,300)	(3,427)	(114)	(11,601)
Transfer from work in progress		-	4,370	1,290	(5,660)	-
Asset revaluation *		7,084	-	-	-	7,084
Balance at 31 December 2018		397,723	32,243	38,220	7,355	475,540
Depreciation						
Balance at 1 July 2018		(803)	(1,420)	(4,530)	-	(6,753)
Depreciation		(609)	(901)	(3,664)	-	(5,174)
Disposal		97	327	2,587	-	3,011
Balance at 31 December 2018		(1,315)	(1,994)	(5,607)	-	(8,916)
Carrying amounts						
at 1 July 2018		339,064	23,537	25,415	8,549	396,565
at 31 December 2018		396,408	30,249	32,613	7,355	466,624
Cost						
Balance at 1 July 2017		-	-	-	-	-
Acquisition through business combination	5	219,347	22,529	26,704	3,440	272,020
Additions		22	689	5,091	8,959	14,761
Disposals		(7,342)	(566)	(3,343)	(52)	(11,303)
Transfer from work in progress		-	2,305	1,493	(3,798)	-
Asset revaluation		127,840	-	-	-	127,840
Balance at 30 June 2018		339,867	24,957	29,945	8,549	403,318
Depreciation						
Balance at 10 July 2017		-	-	-	-	-
Depreciation		(814)	(1,537)	(6,542)	-	(8,893)
Disposals		11	117	2,012	-	2,140
Balance at 30 June 2018		(803)	(1,420)	(4,530)	-	(6,753)
Carrying amounts						
at 1 July 2017		-	-	-	-	-
at 30 June 2018		339,064	23,537	25,415	8,549	396,565

* An additional uplift of \$12,898,000 is recognised in the asset revaluation reserve, it is offset by \$5,814,000 which is recognised in the income statement. This has resulted in a net impact of \$7,084,000 increase to land & buildings.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

	Note	Goodwill \$'000	Gaming and Liquor Licences \$'000	Total \$'000
Note 13 Intangible assets and goodwill				
Cost				
Balance at 1 July 2018		278,461	231,129	509,590
Acquisition through business combination	5	56,280	37,423	93,703
Disposal		(7,022)	(5,509)	(12,531)
Balance at 31 December 2018		327,719	263,043	590,762
Carrying amounts				
at 1 July 2018		278,461	231,129	509,590
at 31 December 2018		327,719	263,043	590,762
Cost				
Balance at 1 July 2017		-	-	-
Acquisition through business combination	5	283,403	235,500	518,903
Additions		-	1,329	1,329
Disposal		(4,942)	(5,700)	(10,642)
Balance at 30 June 2018		278,461	231,129	509,590
Carrying amounts				
at 1 July 2017		-	-	-
at 30 June 2018		278,461	231,129	509,590

Goodwill and intangible assets are considered to have indefinite lives and are tested for impairment annually. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount of the asset is the higher of its fair value less costs to sell and its value in use.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

	Dec 2018	Dec 2017				
	\$'000	\$'000				
Note 14 Taxes						
Tax benefit						
(a) Tax benefit recognised in profit or loss						
<i>Current tax benefit</i>						
Current year	(2,576)	(587)				
	<u>(2,576)</u>	<u>(587)</u>				
<i>Deferred tax expense</i>						
Origination and reversal of temporary differences	(433)	345				
	<u>(433)</u>	<u>345</u>				
Tax benefit attributable to loss from operations	<u>(3,008)</u>	<u>(242)</u>				
(b) Numerical reconciliation between tax benefit and pre-tax accounting loss						
Loss before tax	(14,632)	(13,205)				
Income tax benefit calculated at 30%	(4,390)	(3,962)				
Trust loss not subject to tax	725	3,483				
Non deductible expenses	657	237				
Tax benefit on loss before tax	<u>(3,008)</u>	<u>(242)</u>				
(c) Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
	Assets		Liabilities		Net	
	Dec-18	Jun-18	Dec-18	Jun-18	Dec-18	Jun-18
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Employee benefits	536	501	-	-	536	501
Accrued expenses	540	584	-	-	540	584
Straight line lease liability	1,711	1,763	-	-	1,711	1,763
Over market rent liability	2,644	2,928	-	-	2,644	2,928
Property, plant and equipment	1,103	1,002	-	-	1,103	1,002
Transaction costs	5,452	4,092	-	-	5,452	4,092
Other items	25	34	-	-	25	34
Tax losses	4,346	1,770	-	-	4,346	1,770
	<u>16,357</u>	<u>12,674</u>	<u>-</u>	<u>-</u>	<u>16,357</u>	<u>12,674</u>
(d) Movements in deferred tax balances during the period			Dec-18	Jun-18		
			\$'000	\$'000		
Balance at the beginning of the period			12,674	-		
Recognised in business combination			-	10,646		
Recognised in equity			675	1,843		
Recognised in profit and loss			3,008	185		
Balance at the end of the period			<u>16,357</u>	<u>12,674</u>		

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

	Aggregated	
	Dec 2018	Jun 2018
	\$'000	\$'000
Note 15 Trade and other payables		
<i>Current</i>		
Trade payables	3,798	3,055
Accrued interest	2,488	2,595
Gaming tax payable	18,391	16,321
Other payables	16,436	7,489
	41,113	29,460
Note 16 Loans and borrowings		
<i>Current</i>		
Unamortised borrowing costs (included in other current assets in the statement of financial position)	(529)	(333)
<i>Non-current</i>		
Syndicated Facility Agreement (SFA)	428,700	366,700
Unamortised borrowing costs	(396)	(416)
	428,304	366,284
	427,775	365,951

Syndicated Bank Facility (SFA)

The total facility amount is \$477 million and expires on 23 September 2020.

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 the Group, 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 half year ended 31 December 2018.

Restrictions on distributions

There have been no breaches of the restrictions on distributions in the half year ended 31 December 2018.

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

	Aggregated	
	Dec 2018	Jun 2018
	\$'000	\$'000
Note 17 Distribution Payable		
<i>Current</i>		
Provision for distribution to unitholders	11,549	10,243
	11,549	10,243
Balance at the beginning of the period	10,243	-
Distribution paid relating to prior period	(10,243)	-
Distribution paid relating to current period	(10,795)	(26,783)
Provisions made during the period	22,344	37,026
Balance at the end of the period	11,549	10,243

The provision for distribution relates to a distribution payable to the unitholders of the Trust.

	Dec 2018	Dec 2018	Jun 2018	Jun 2018
	No of securities '000	\$'000	No of securities '000	\$'000
Note 18 Contributed equity				
Units in the RHT II				
On issue at beginning of period	470,312	199,549	-	-
Units issued	81,134	37,569	470,312	203,849
Equity raising costs	-	(2,247)	-	(6,143)
Deferred tax asset	-	674	-	1,843
On issue at end of period	551,446	235,545	470,312	199,549
Units in RHT I (non-controlling interest)				
On issue at beginning of period	470,312	267,758	-	-
Units issued	81,134	52,188	470,312	270,219
Equity raising costs	-	(1,477)	-	(2,461)
On issue at end of period	551,446	318,469	470,312	267,758

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 19 Group entities

Subsidiaries (All incorporated in Australia with 100% ownership interest)

Subsidiaries of Redcape Hotel Trust II

Redcape Hotel Fund Pty Ltd (formerly Moelis Australia Hotel Fund Pty Ltd)

MAHF Custodian Pty Ltd

MAHPT TT Pty Ltd

Redcape Group Limited

Redcape Hotel Group Pty Ltd

RHG Operations Pty Ltd

Redcape Services Pty Ltd

RGM TT Pty Ltd (MARAM TT Pty Ltd)

Subsidiaries of Redcape Hotel Trust I

Recape Hotel Property Trust (formerly Moelis Australia Hotel Property Trust)

St George Hotel Trust

Doonside Hotel Trust (Pub sold in FY17)

El Cortez Hotel Trust

Keighery Hotel Trust

Lakeview Hotel Motel Trust

Prospect Hotel Trust

Royal Hotel Trust

St Marys Hotel Trust

Belrose Hotel Trust (Pub sold in FY18)

Red Lantern Hotel Trust

Campbelltown Hotel Trust

Eastwood Hotel Trust

Leumeah Hotel Trust

Mount Annan Hotel Trust

Revesby Pacific Hotel Trust

Willoughby Hotel Trust

Eastern Creek Tavern Hotel Trust

Landmark Hotel Trust

Crown Revesby Hotel Trust

Minskys Hotel Trust

Shamrock Hotel Trust

Hermit Park Hotel Trust

Wattle Hotel Trust

Carrington Hotel Trust (Pub sold in FY17)

Andergrove Tavern Hotel Trust

Cabramatta Hotel Trust

Crescent Hotel Trust

Wattle Grove Hotel Trust

Sun Hotel Trust

Vauxhall Hotel Trust

Australian Hotel & Brewery Trust

Central Hotel Trust

Unanderra Hotel Trust

Figtree Hotel Trust

Acquired on 2 July 2018

Acquired on 13 August 2018

Acquired on 20 August 2018

Acquired on 4 December 2018

Acquired on 4 December 2018

Acquired on 4 December 2018

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

Note 20 Related party disclosures

(a) Responsible Entity

	Transaction values for the period ended 31 December 2018	Balance outstanding as at 31 December 2018	Transaction values for the period ended 31 December 2017	Balance outstanding as at 30 June 2018
	\$	\$	\$	\$
Moelis Australia Asset Management Ltd ⁽ⁱ⁾				
Fund establishment fee	-	-	3,850,000	-
Asset management fee	1,466,532	-	1,691,910	358,656
Debt arrangement fee	250,000	-	321,500	-
Acquisition fee	1,080,000	-	850,000	-
Disposal fee	210,000	-	-	-
	3,006,532	-	6,713,410	358,656
Redcape Hotel Group Management Ltd ⁽ⁱⁱ⁾				
Asset management fee	947,611	430,140	-	-
Acquisition fee	500,000	-	-	-
Performance fee ⁽ⁱⁱⁱ⁾	14,400,000	6,400,000	-	-
	15,847,611	6,830,140	-	-

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

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

(iii) Total performance fee - a portion of these is capitalised to equity.

(b) Non-key management personnel disclosures

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

Related Entity	Transaction	Transaction values for the period ended 31 December 2018	Balance outstanding as at 31 December 2018	Transaction value period ended 31 December 2017	Balance outstanding as at 30 June 2018
		\$	\$	\$	\$
Moelis Australia Advisory Pty Limited	Underwriting fee	2,375,000	-	7,795,597	-
Moelis Australia Advisory Pty Limited	Transaction fee	3,115,670	-	-	-
Moelis Australia Hotel Management Pty Ltd	Hotel operating fee	5,224,716	840,509	4,902,045	655,924
Moelis Australia Hotel Management Pty Ltd	Project development fee	421,925	14,282	90,244	53,715
		11,137,311	854,791	12,787,886	709,639

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Notes to the consolidated financial statements

	Dec 2018	Aggregated Dec 2017
	\$'000	\$'000
Note 21 Statement of cash flows - additional information		
Reconciliation of cash flows from operating activities		
<i>Reconciliation of cash flows from operating activities with profit attributable to unit holders</i>		
Net loss after tax	(11,624)	(12,963)
Venue acquisition costs	7,589	29,359
Loss on the sale of non-current assets	(577)	239
Loss on asset revaluation	5,814	-
Depreciation	5,174	4,592
Finance costs	8,581	7,611
Tax benefit	(3,008)	(242)
<i>Change in operating assets and liabilities</i>		
Increase in inventory	(204)	(1,029)
(Increase) / decrease in trade and other receivables	(1,075)	344
Increase in prepayments	(577)	(2,808)
Increase / (decrease) in trade and other payables	24,186	(17,041)
Decrease in employee benefits provisions	(33)	(523)
Net cash from operating activities	34,246	7,539

Note 22 Contingent assets

The Group is not aware of any contingent assets at 31 December 2018 which may materially affect the operation of the business.

Note 23 Contingent liabilities

The Group is not aware of any contingent liabilities at 31 December 2018 which may materially affect the operation of the business.

Note 24 Commitments

The Group has a capital commitment of \$5,060,000. The Group is not aware of any other commitments at 31 December 2018 which may materially affect the operation of the business.

Note 25 Subsequent events

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 and unusual nature likely, in the opinion of the directors of the Responsible Entity, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Note 26 Trust information

Registered office of the Responsible Entity

Redcape Hotel Group Management Ltd, Level 27, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000.

Moelis Australia Asset Management Ltd, Level 27, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000. (Previous Responsible Entity)

Redcape Hotel Group
Interim Financial Report for the half year ended 31 December 2018
Responsible Entity's directors' declaration

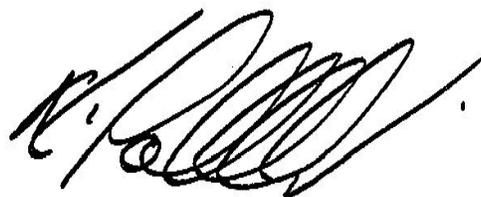
In the opinion of the directors of Redcape Hotel Group Management Limited, the Responsible Entity of Redcape Hotel Trust I ("RHT I") and Redcape Hotel Trust II ("RHT II"):

- a) The consolidated interim financial statements and notes, set out on pages 1 to 29:
 - (i) present fairly the financial position of the consolidated entity as at 31 December 2018 and its performance, as represented by the results of its operations and its cash flows, for the financial period ended on that date in accordance with the statement of compliance and basis of preparation described in Notes 1 to 3;
 - (ii) complying with Australian Accounting Standards (including Australian Interpretations) to the extent described in Notes 1 to 3; and
- b) With reference to going concern note 2 (e), there are reasonable grounds to believe that the Trading 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 Redcape Hotel Group Management Limited.



Daniel John Brady
Director
Dated this 20th day of February 2018
Sydney



Nicholas Roland Collishaw
Director
Dated this 20th day of February 2019
Sydney



Independent Auditor's Review Report

To the Responsible Entity's 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 Interim Financial Report).

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 does not present fairly, in all material respects, the Stapled Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date in accordance with the accounting policies described in Notes 1 to 3 to the Interim Financial Report.

The Interim Financial Report comprises:

- Consolidated statement of financial position as at 31 December 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half year ended on that date
- Notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information
- The Responsible Entity's Directors' Declaration.

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

The Interim Period is the 6 months ended on 31 December 2018.

Emphasis of Matter – basis of preparation and restriction on use

We draw your attention to Note 2 to the Interim Financial Report, which describe the basis of preparation.

The Interim Financial Report has been prepared to assist the Responsible Entity's Directors of the Stapled Group to meet the listing requirements of the Australian Securities Exchange ("ASX"). As a result, the Interim Financial Report and this Auditor's Report for the review of the Interim Financial Report may not be suitable for another purpose.

Our report is intended solely for the Responsible Entity's Directors and should not be used by parties other than the Responsible Entity's Directors of the Stapled Group. We disclaim any assumption of responsibility for any reliance on this report, or on the Interim Financial Report to which it relates, to any person other than the Responsible Entity's Directors of the Stapled Group or for any other purpose than that for which it was prepared.

Responsibilities of the Responsible Entity's Directors for the Interim Financial Report

The Responsible Entity's Directors of the Stapled Group are responsible for the preparation and fair presentation of the Interim Financial Report in accordance with the accounting policies described in Notes 1 to 3 to the Interim Financial Report and for such internal controls as the Responsible Entity's Directors determine is necessary to enable the preparation and fair presentation 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 presented fairly, in all material respects, in accordance with the accounting policies described in Notes 1 to 3 to the Interim Financial Report. As auditor of the Stapled 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



Cameron Roan
Partner
Sydney
20 February 2019

Redcape
HOTEL GROUP