



1. Company details

| | |
|-------------------|---|
| Name of entity: | Redcape Hotel Group Redcape Hotel Trust I (ASRN 629 354 614) and Redcape Hotel Trust II (ASRN 629 354 696) |
| ASRN: | 354 696) |
| Reporting period: | For the year ended 30 June 2019 |
| Previous period: | For the year ended 30 June 2018 |

Redcape Hotel Trust I and Redcape Hotel Trust II were stapled on 2 July 2018. On guidance from the ASX, previous period numbers in this Appendix 4E reflect aggregated financials and the assumption that the trusts were stapled during the period.

2. Results for announcement to the market

| | | | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|------|--------|---|---------------------------------------|
| | | % | | |
| Revenues from ordinary activities | up | 17.4% | 285,215 | 242,885 |
| Loss for the year attributable to the stapled security holders | down | 343.1% | (4,930) | 2,028 |
| | | | Stapled Consolidated 2019 Cents | |
| Basic earnings per share | | | (0.93) | |
| Diluted earnings per share | | | (0.93) | |

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 | 114.09 | 118.92 |
| Net tangible assets per stapled security | 6.96 | 10.57 |

No. of stapled securities on issue at 30 June 2019 are 551,445,932 and 30 June 2018 470,312,074.

4. Control gained over entities

| | |
|---|--|
| Name of entities (or group of entities) | In accordance to the stapling deed, securities in Redcape Hotel Trust I (RHT I) and Redcape Hotel II (RHT II) were stapled to one another on 2 July 2018. They were subsequently listed as a single security on the ASX on 30 November 2018. |
|---|--|



5. Loss of control over entities

Not applicable.

6. Distributions

Current period

| | Amount per security Cents | Franked amount per security Cents |
|---|---------------------------------|--|
| 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 | - |
| Distribution for the quarter ended 31 March 2019 (paid 31 May 2019) | 2.158 | - |
| Distribution for the quarter ended 30 June 2019 (to be paid 30 August 2019) | 2.182 | - |

Previous period

| | Amount per security Cents | Franked amount per security Cents |
|---|---------------------------------|--|
| Distribution for the quarter ended 30 September 2017 (paid 31 October 2017) (a) | 2.205 | - |
| Distribution for the quarter ended 31 December 2017 (paid 31 January 2018) | 2.205 | - |
| Distribution for the quarter ended 31 March 2018 (paid 31 May 2018) | 2.158 | - |
| Distribution for the quarter ended 30 June 2018 (paid 31 August 2018) | 2.182 | - |

Distributions prior to the listing on the ASX as at 30 November 2018 were calculated on a pro rata basis for days held.

(a) Calculated on a pro rata basis notwithstanding that distribution applied from 10 July 2017. Actual amount payable was 1.990 cents per security.

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”) applied to the June quarter distributions. 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 are allocated under the DRP is 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.
- Election for the DRP generally must be received by 5pm AEST on the final business day of each calendar quarter. In line with the DRP rules, the Responsible Entity resolved to extend the election cut-off date to 12 July 2019 for the June 19 quarter 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 have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

Stapling of the entities occurred on 2 July 2018. Due to this, Redcape's General Purpose consolidated financial statement comparatives are for the RHT II group and do not include RHT I. In the interest of providing users with more relevant financial information, the Responsible Entity has supplemented the Annual Report with Special Purpose financial statements, which cover the activities of Redcape's 2019 financial year and provides aggregated comparative financial information for the 2018 financial year.

12. Signed



Signed _____

Date: 28 August 2019

Nicholas Roland Collishaw
Chairman
Sydney

Redcape Hotel Group (ASX:RDC) is a leading hospitality group of 800+ dedicated people, who passionately serve 30 different communities across Australia's east coast.

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



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Our Promise is *'People First'*.

ABOUT REDCAPE

A leading hospitality group with scalable systems and capable people, led by an experienced and proven management team driving growth through active management of a high quality real estate backed portfolio.

OUR VISION

Our vision is to enrich communities through our hospitality. Our promise is 'People First' – our staff, our customers, our securityholders.



Our Assets



Our Communities



Our People



Key Highlights.

KEY HIGHLIGHTS

30 June 2019

Financial Performance

\$46.5m¹

Distributable earnings in line with PDS
Statutory net loss after tax of \$4.9m

8.8cps

FY19 Distributable Earnings
8.8-9.0 cps guidance at IPO

8.75cps

FY Distributions²
8.75 cps guidance at IPO
Equates to 7.85% yield³

Portfolio

\$1.08b

Portfolio value
32 venues includes 6 acquisitions
and 1 divestment



Progressed alternate
use opportunities

\$21.6m

Growth Capex⁴
Spend. Includes major
refurbishment projects

Capital Management

\$1.14

NAV per stapled security
+\$14.6m revaluation post IPO⁵

38.0%

Gearing⁶
Lower end of 35%-45%
target range

3.95x

Interest Coverage Ratio⁷
Cash generative
business

1 Distributable Earnings defined as pro forma NPAT adjusted for non-cash items such as fair value adjustments, depreciation and amortisation and other unrealised and non-recurring items less maintenance capex. Refer to P13 in the Director's Report for reconciliation.
2 Cumulative distributions over FY19 including pre-IPO distributions.
3 Based on RDC share price as at 28 June 2019.
4 Growth Capex includes major refurbishments, one off acquisition and tactical capital expenditure.
5 Uplift measured against previous valuations plus growth capital expenditure over the financial year. Statutory valuation uplift of \$20.5m (excluding Belrose divestment reversal) over the financial year is higher due to treatment of depreciation expense and maintenance capital expenditure.
6 Gearing defined as total borrowings less cash as a percentage of total assets less cash.
7 Interest Cover Ratio ("ICR") calculated as Operating EBITDA / Net finance costs less amortisation of borrowing costs (on a 12 month rolling basis).

30 June 2019

Redcape Hotel Trust I (ARSN 629 354 614) and Redcape Hotel Trust II (ARSN 629 354 696) were established on 13 June 2017, stapled together on 2 July 2018 and registered as managed investment schemes on 26 October 2018.

ASIC granted relief to Redcape to exempt it from the requirement to prepare half-year accounts for the six-month period from their registration as managed investment schemes. In accordance with ASX's requirements, Redcape released an Appendix 4D and Special Purpose interim financial report for the 6-month period ended 31 December 2018 with aggregated comparatives.

Redcape has consulted with ASIC in relation to the period for its financial year ended 30 June 2019. In accordance with ASIC's guidance and with reference to the Corporations Act, Redcape's financial year ended 30 June 2019 is to be the 12-month period commencing on 1 July 2018.

Redcape's General Purpose Financial Statements (as required by Chapter 2M of the Corporations Act) set out Redcape's financial information for its financial year being the 12 months to 30 June 2019. The comparative numbers in the financial statements for the 12 months to 30 June 2018 are the numbers for Redcape Hotel Trust II only because the trusts were not stapled during this period, hence only the comparatives of the parent entity can be used. The comparative period also commences on 10 July 2017, being the date Redcape was acquired by entities associated with Moelis Australia Ltd.

In accordance with ASX's requirements, Redcape has also provided a Special Purpose full year financial report, as an appendix to the Annual Report, for the 12-month period ending 30 June 2019 with full year aggregated comparatives. In contrast to the General Purpose financial report, the comparative period commences on 1 July 2017 using the scenario that Redcape was acquired by entities associated with Moelis Australia Ltd on this date. This comparative period is also the reference for both the Appendix 4E and the Directors' Report.

CORPORATE DIRECTORY

30 June 2019

| | |
|------------------------------------|---|
| Directors | Mr Nicholas Collishaw Mr Daniel Brady Mr Andrew Ireland Mr David Groves Mr Hugh Thomson |
| Responsible Entity | Redcape Hotel Group Management Ltd ACN: 610 990 004 ("The Responsible Entity") |
| Company secretary | Ms Rebecca Ong |
| Entity Information | Redcape Hotel Trust II ARSN: 629 354 696 ("RHT II" or the "Parent Entity") Redcape Hotel Trust I ARSN: 629 354 614 ("RHT I") together form the stapled entity; Redcape Hotel Group ("Redcape") |
| Registered office | Level 27 Governor Phillip Tower 1 Farrer Place Sydney NSW 2000 (02) 8288 5555 |
| Principal place of business | Level 1 Minskys Hotel 287 Military Road Cremorne NSW 2090 (02) 9719 4000 |
| Share register | Boardroom Pty Ltd Level 12 Grosvenor Place 225 George Street Sydney NSW 2000 1300 737 760 |
| Auditor | KPMG Level 38 International Towers Sydney 300 Barangaroo Avenue Sydney NSW 200 |
| Stock exchange listing | Redcape Hotel Group stapled securities are listed on the Australian Securities Exchange (ASX code: RDC) |
| Website | www.redcape.com.au |

30 June 2019

Dear Securityholders,

This has been an exciting year for Redcape Hotel Group (“Redcape” or “the Group”) including the successful listing on the Australian Securities Exchange on 30 November 2018.

Delivering on our strategy

We entered the public realm with a strong management platform and a clear strategy to deliver consistent earnings from our portfolio while pursuing growth through acquisition and capital investment.

I am pleased to report that Redcape has executed well on this strategy delivering a strong pro forma operating EBITDA result up +21.3%¹ year on year underpinned by the acquisition of six venues and solid like for like revenue growth of +3.3%. This sound performance delivered distributions of 8.75cps² for the year consistent with the Group's PDS guidance. Distributable earnings for the year came in at 8.80cps in line with the PDS forecast.

This is a commendable result given the overall weaker market conditions resulting from consumer uncertainty in the lead up to both State and Federal elections. A general reduction in consumer spending impacted many businesses, however our result is a clear demonstration of the resilient nature of our business and our clear focus on delivering shareholder returns.

Future growth opportunities

Our robust operating business is underpinned by owning the majority of the real estate in which we operate. This freehold ownership structure sets us apart from many of our industry peers and provides us with the flexibility to respond quickly to customer preferences or regulatory changes through facility improvements. It also provides us with a valuable land bank for alternate use development opportunities.

Having completed several venue upgrades this year, we already have a well-advanced pipeline of refurbishment opportunities in place for FY20 and beyond. These are designed to continue to deliver incremental earnings growth and underpin a potential uplift in valuations as we continue to improve the quality of our facilities within their local communities. Management has a strong track record of investing this type of growth capital and with FY19 refurbishments now complete, we continue to be optimistic about these growth opportunities that exist across the portfolio.

Our growth proposition is further strengthened by the opportunity to unlock latent land value through alternate use across our freehold assets. Within our greater Sydney portfolio (22 freehold assets), approximately 73% of the site area is underutilised. With access to a depth of experience in asset optimisation, we are enthusiastic about the considerable opportunity to optimise land use and extract additional value for the Group.

¹ Refer to reconciliation provided on P12 of the Directors report

² Cumulative distributions over FY19 including pre-IPO distributions.

30 June 2019

Experienced management platform

The business' strong fundamentals have been enhanced by our industry leading management platform. This operating platform has enabled our local venues to benefit from the expertise of a management team with deep operational experience that is focused on strong risk management and governance whilst utilising the latest technology and data to pinpoint growth opportunities. Over recent years significant investment has been made in this management platform that has positioned Redcape well for future growth.

A focus of this investment has been on talent development, and this is proving rewarding. The development of our people and creating programs that enable young, driven, hospitality professionals to gain a depth of experience across a number of disciplines, as well as gain exposure to broader organisational projects, is something that we believe will allow us to continue to attract high quality business leaders to both Redcape and its venues.

Similarly, our investment in programs that improve social outcomes for the communities in which we operate continues to be a focus of Management. Our venues are the cornerstone of their local communities and we continue to look for opportunities to enhance our contribution through direct financial support and improved harm minimisation initiatives to enhance community life in these areas.

An optimistic outlook

As we move into FY20, we will continue our focus on the investment of growth capital through refurbishment and will continue our disciplined approach to capital management and portfolio optimisation.

Our long-term growth is intrinsically linked to the relationship our venues have with the communities in which they operate. We remain committed to delivering excellent and responsible service, maintaining high quality facilities, and contributing positively to our communities.

Redcape continues to offer a unique investment proposition as a growth company with a strong capital structure, industry leading systems and processes, capable people, and a stable earnings base that is underpinned by owning its real estate.

On behalf of the Board of Directors I would like to thank our existing securityholders, our employees and the communities in which we operate for their continued support throughout the year. We are well placed for growth in FY20. Our business fundamentals remain strong and the sector remains attractive for investors.

I am confident that Redcape, led by Dan Brady and his management team, has the right assets and capability, and is well placed to continue delivering value and positive returns to Securityholders.



Nicholas Collishaw, Chairman



CHIEF EXECUTIVE OFFICER'S REPORT

30 June 2019

FY19 Highlights

\$46.5m

FY19 pro forma distributable earnings³ of \$46.5m or 8.80cps in line with PDS guidance. Statutory net loss after tax of \$4.9m

8.75cps

Distributions of 8.75cps⁴ equating to a 7.85%⁵ yield

+21.3%

Pro forma operating EBITDA⁶ up +21.3% on FY18, driven by venue acquisitions and like-for-like⁷ ("LFL") revenue growth

+3.3%

LFL Revenue grew +3.3% on FY18

\$1.08b

Portfolio value of \$1.08b

\$1.14

Net Asset Value at \$1.14 per stapled security underpinned by Valuations uplift of \$14.6m⁸ over the full year

38.0%

Gearing⁹ of 38.0% at the lower end of target range of 35% - 45%

3 Distributable Earnings defined as pro forma NPAT adjusted for non-cash items such as fair value adjustments, depreciation and amortisation and other unrealised and non-recurring items less maintenance capex. Refer to P13 in the Directors' Report for reconciliation.

4 Cumulative distributions over FY19 includes pre-IPO distributions.

5 Based on RDC share price as at 28 June 2019

6 Pro forma operating EBITDA defined as Earnings Before Interest, Tax, Depreciation and Amortisation, impairment charges and fair value adjustments. Refer to P12 of Directors' Report for a reconciliation of pro forma to Statutory results.

7 Like for Like ("LFL") revenue growth is based on venues that traded for the full year F18 and F19 and thus excludes any part year acquisitions.

8 Uplift measured against previous valuations plus growth capital expenditure over the financial year. Statutory valuation uplift of \$20.5m (excluding Belrose divestment reversal) over the financial year is higher due to treatment of depreciation expense and maintenance capital expenditure.

9 Gearing defined as total borrowings less cash as a percentage of total assets less cash.

30 June 2019

This year has been focused on the balance of delivering enhanced experiences for our customers across many of our venues, improving the learning and development of our people, investing accretive growth capital, and further strategic crafting of the portfolio whilst delivering Redcape's financial objectives.

There is a high level of pride in the team's achievements as we successfully listed the group on the ASX during the period while remaining focused on delivering positive contributions to the communities in which we operate.

Operating Performance

The business is a highly cash generative business with operating cash flows in FY19 of \$36.0m.

Portfolio enhancement through acquisitions and capital investment drove a 21.3% increase in Redcape's FY19 Pro forma Operating EBITDA for the period.

Downward pressure on gaming margin as a result of increased player win rates across the market and some acquisitions taking longer to integrate than expected was offset by a reduction of costs resulting in a \$2.3m overall improvement versus PDS forecast.

Reflecting Moelis Australia Hotel Management Pty Ltd ("MAHM's") continued support of Redcape post listing, the Trust Manager waived \$1.5m from its Hotel Operating fee, demonstrating its long-term alignment to Redcape Securityholders.

Our existing portfolio performed well on a LFL basis, achieving +3.3% LFL revenue growth demonstrating the strength and defensive characteristics of the Redcape business.

This pleasing operating result was attained against the backdrop of a soft consumer market causing variable trading conditions across the FY19 period, predominately due to macro factors leading to this weaker consumer sentiment.

Redcape paid distributions of 8.75cps for the year consistent with the PDS guidance. Pro forma distributable earnings for the year came in at 8.80cps in line with the PDS forecast range of 8.80-9.00cps.

Property Portfolio

Portfolio Management

FY19 was an active year acquiring and integrating six venues into our portfolio and investing \$21.6m in growth capex. Both measures have enhanced the quality of the portfolio, diversified earnings and lay a strong platform to drive future earnings growth.

The acquisition of three hotels south of Sydney comprising the Central Hotel, the Unanderra Hotel and the Figtree Hotel, as well as Sydney hotels, the Vauxhall Inn, the Australian Hotel and Brewery, and the Sun Hotel in Northern Queensland, were undertaken in the period.

The Belrose Hotel in Sydney's Northern Beaches was divested during the period, allowing for the recycling of capital into higher-growth opportunities. This disposal is consistent with the Groups strategy of portfolio optimisation.

Redcape now has a portfolio of 32¹⁰ quality venues in strategic locations across New South Wales and Queensland.

Refurbishment Program

Redcape has a 5-year pipeline of refurbishment opportunities within the existing portfolio that will modernise the Group's venues and make them more appealing to customers. Recent refurbishment activity has delivered IRR's in excess of 20%¹¹.

¹⁰ Excludes post reporting period exchange of contracts to acquire the Eden Brewhouse, Redbank Plains.

¹¹ Based on Internal Rate of Return ("IRR") achieved on a select group of venues (control group of 9 venue refurbishments) where sufficient data exists both pre and post capex investment to reliably establish returns. IRR's are typically determined over a 5-year period. Assumptions used by Management included base line estimate of growth without any capital spend.

CHIEF EXECUTIVE OFFICER'S REPORT

30 June 2019

\$21.6m of growth capex was invested in FY19 which included the major refurbishments of the Leumeah Hotel, the Eastwood Hotel and the Cabramatta Hotel. All three have provided enhanced facilities commensurate with the local communities in which they operate and all three are performing well in these early stages of relaunch.

Valuation

A combination of independent and Directors valuations was completed during the period which saw a net uplift of \$14.6m¹². While uplifts outweighed downward revaluations, the Trust adjusted valuations for a small number of venues that had weaker earnings performance over the course of the year. Management executed a plan to improve the profitability of these venues and are pleased with the trajectory these venues are on.

Alternative Uses

Of the 32 venues, 31 are Freehold Going Concern assets which provide a valuable land bank and the flexibility to consider alternative uses for those sites to augment the hotels' underlying profitability and unlock this latent land value.

Importantly, freehold ownership enables Redcape Securityholders to retain the benefits associated with both property and hotel operator growth.

Management has completed feasibility studies on four of its sites identified for potential alternate use development. Two developments were marked for alternate use development within the existing Local Environmental Plan. The Revesby Hotel, Revesby which sits approximately 100 metres from the Revesby train station on a site are of 2,150 sqm has been earmarked for a 144-bed scheme aged care/retirement site.

The Cabramatta Hotel which sits within approximately 150 metres from the Cabramatta train station on a 4,308 sqm site has been earmarked for a 234 mixed use unit development.

With the independent feasibility studies indicating material potential value uplift if the Group were to undertake the developments, management are continuing to progress preliminary planning and approvals whilst assessing options for extracting this latent land value and de-risking projects.

Capital Management

Redcape has a strong capital structure and a disciplined approach to the deployment of capital.

Our balance sheet has been strengthened by the increase in property asset values, which are a result of an uplift in valuations.

As at 30 June 2019, gearing¹³ of 38.0% was at the lower end of our target range of 35%-45% - and interest coverage ratio was calculated at 3.95times¹⁴.

Post the reporting period, the Group successfully refinanced a \$503m¹⁵ debt facility with enhanced terms, an extension of tenor to a weighted average of four years, and an expanded lender group with four financiers now in place versus three previously.

As a result of closing out the existing hedge program and the refinance, we expect the all-in interest costs to improve ~100 bps from September 2019.



¹² Uplift measured against previous valuations plus growth capital expenditure over the financial year. Statutory valuation uplift of \$20.5m (excluding Belrose divestment reversal) over the financial year is higher due to treatment of depreciation expense and maintenance capital expenditure.

¹³ Gearing defined as total borrowings less cash as a percentage of total assets less cash.

¹⁴ Interest Cover Ratio calculated as Operating EBITDA/Net finance costs, less amortisation of borrowing costs (on a 12-month rolling basis).

¹⁵ Includes \$3.0m ancillary facility.

CHIEF EXECUTIVE OFFICER'S REPORT

30 June 2019

Our People

To help ensure each of our venues reflects the needs of our local communities and to provide local employment opportunities, our venues employ approximately 800 staff mostly from the communities in which we operate.

We strive to offer work environments that provide opportunities for growth and empowerment enabling our staff to thrive, excel and find fulfillment in their career.

Staff in our venues are supported by a strong board and senior leadership team, all with extensive experience in hospitality business management.

Our Community Focus

We continue our focus on providing venues where local communities can come together in sociable environments. Our goal is to continue to provide the best possible customer experiences by focusing on the development of our staff, our appeal to customers and the enhancement of the communities in which we operate.

Throughout the year we continued to provide direct financial support to 106 community groups, local schools, charities and sporting clubs across the 30 communities we serve. We spent over \$1.0m in entertainment for local communities, appointed 192 local jobs, 74 through the development of internal staff and contributed \$80.8m in state government taxes.

We continue to remain focused on harm minimisation, taking a community centric approach to our entertainment offering and the responsible service of alcohol and gaming. We also continue to make advances in providing our customers with tools that promote greater awareness and management of gambling activity.

Summary and Outlook

Having now completed FY19 and our first year as a listed entity we have a strong opportunity set for growth and believe Redcape is well positioned for the future.

Operating in a consumer facing sector with high regulatory and capital investment barriers to entry, the business has stable earnings base, strong cashflows and revenue growth prospects.

The portfolio is difficult to replicate, comprising of strategically located, high-quality assets, most of which are on sites we own and are largely underutilised, providing an opportunity to unlock value through alternate use development.

An optimized program of refurbishment opportunities has been marked for FY20 and an extensive pipeline beyond this perpetuates the growth opportunity set. These facility improvements generate earnings growth coupled with enhanced customer experiences for a total venue offering that is modern and appealing to local communities.

Looking to FY20, we are forecasting distributable earnings to be greater than 9.0cps¹⁶. Distributions are expected to be maintained at 8.75cps, equating to a 7.85% yield. The pay-out ratio is to be consistent at 90-100% of distributable earnings. Like for like revenue growth is expected to track above CPI.

Dan Brady, Chief Executive Officer



¹⁶ Subject to no change in economic conditions, no change to management fee construct and/or portfolio numbers.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
30 June 2019

The directors of the Responsible Entity present their report, together with the financial statements, of the consolidated entity (referred to hereafter as 'Redcape') consisting of RHT II, RHT I and the entities they controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of the Responsible Entity of Redcape from their appointment this financial year and up to the date of this report, unless otherwise stated:

Mr Nicholas Collishaw - appointed 27 September 2018
Mr Daniel Brady - appointed 29 October 2018
Mr Andrew Ireland - appointed 29 October 2018
Mr David Groves - appointed 27 September 2018
Mr Hugh Thomson - appointed 26 February 2016

Non-IFRS Disclosures

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

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

- reveals the underlying run rate business economics of the Group 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 the Group'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.

The Pro forma 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 Pro Forma financial information presented. Specifically, some adjustments give rise to material reductions in underlying measures but align with the principles by which the Company 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 31 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
- Corporate and Other Revenue

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.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
30 June 2019

Distributions

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

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|---|---------------------------------------|
| Final distribution for the quarter ended 30 September 2018 of 2.205 cents (FY18: 2.205 cents (a)) per unit | 10,795 | 7,839 |
| Final distribution for the quarter ended 31 December 2018 of 2.205 cents (FY18: 2.205 cents) per unit | 11,548 | 9,032 |
| Final distribution for the quarter ended 31 March 2019 of 2.158 cents (FY18: 2.158 cents) per unit | 11,898 | 9,912 |
| Final distribution for the quarter ended 30 June 2019(b) of 2.182 cents (FY18: 2.182 cents) per unit | 12,030 | 10,243 |
| | <u>46,271</u> | <u>37,026</u> |

- (a) Calculated on a pro rata basis notwithstanding that distribution applied from 10 July 2017. Actual payable was 1.990 cents per security.
- (b) On 24 June 2019 the directors declared a final dividend for the quarter ended 30 June 2019 of 2.182 cents per unit to be paid on 30 August 2019.

Distributions prior to the listing on the ASX as at 30 November 2018 were calculated on a pro rata basis for days held.

Review of operations

The statutory loss for Redcape after providing for income tax amounted to \$4.9 million (30 June 2018: profit of \$2.0 million).

- Distributable earnings of \$46.5 million or 8.80 cents per stapled security
- Distributions of \$46.3 million or 8.75 cents per stapled security
- Pro forma operating EBITDA increased 21.3% to \$67.1 million
- Operating cash flows of \$36.0 million
- Portfolio value increased to \$1,077.4 million from \$906.2 million in FY18
- Net Asset Value of \$1.14 per stapled security
- Total capex of \$25.2m of which \$21.6 million related to growth capex and \$3.7m for maintenance capex

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
30 June 2019

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 | Change \$'000 | Change % |
|--|---|------------------------------|------------------|-----------------|
| Gaming Revenue | 179,099 | 153,846 | 25,253 | 16.4% |
| On-Premise Revenue | 56,877 | 39,999 | 16,878 | 42.2% |
| Off-Premise Revenue | 48,022 | 48,126 | (104) | (0.2%) |
| Corporate and Other Revenue | 1,217 | 915 | 302 | 33.0% |
| Total Revenue (a) | 285,215 | 242,885 | 42,330 | 17.4% |
| Cost of Sales (a) | (133,021) | (117,110) | (15,911) | (13.6%) |
| Gross profit | 152,194 | 125,775 | 26,419 | 21.0% |
| Employment Costs | (38,522) | (29,487) | (9,035) | (30.6%) |
| Other Operating Costs | (32,162) | (27,462) | (4,700) | (17.1%) |
| Management Fees | (14,421) | (13,511) | (910) | (6.7%) |
| Pro Forma Operating EBITDA | 67,089 | 55,316 | 11,773 | 21.3% |
| Listing costs and Performance fee | (20,562) | - | (20,562) | (100.0%) |
| Loss on Asset Revaluation | (17,998) | - | (17,998) | (100.0%) |
| Venue Acquisition costs (b) | (7,631) | (31,509) | 23,878 | 75.8% |
| Gain on sale of venues | 1,026 | 1,952 | (926) | (47.4%) |
| Loss on sale of other non-current assets | (523) | (605) | 82 | 13.6% |
| Restatement of management fees pre-IPO | 254 | 372 | (118) | (31.7%) |
| One-off Employee share grants | (199) | - | (199) | (100.0%) |
| Employment costs | - | (121) | 121 | 100.0% |
| Other operating costs | - | 340 | (340) | (100.0%) |
| Statutory EBITDA | 21,456 | 25,745 | (4,289) | (16.7%) |
| Depreciation | (11,360) | (9,036) | (2,324) | (25.7%) |
| Statutory EBIT | 10,097 | 16,709 | (6,612) | (39.6%) |
| Net Financing costs | (17,324) | (14,911) | (2,413) | (16.2%) |
| Profit / (Loss) before tax | (7,227) | 1,798 | (9,025) | (501.9%) |
| Tax benefit | 2,297 | 230 | 2,067 | 898.7% |
| Statutory Net Profit / (Loss) after tax | (4,930) | 2,028 | (6,958) | (343.1%) |

(a) Revised statutory mapping since 2018 resulting in Revenue, Cost of Sales and Expenses differing marginally from metrics listed in the PDS.

(b) FY18 includes acquisition costs of \$26.3 million for Redcape by the entities associated with Moelis Australia Ltd.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 | Change \$'000 | Change % |
|--|---|------------------------------|------------------|-----------------|
| Statutory Net Profit / (Loss) after tax | (4,930) | 2,028 | (6,958) | (343.1%) |
| Pro Forma adjustments | | | | |
| Listing Costs and Performance Fee | 20,562 | - | 20,562 | 100.0% |
| Venue Acquisition costs (a) | - | 26,316 | (26,316) | (100.0%) |
| Restatement of management fees pre-IPO | (254) | (568) | 314 | 55.3% |
| One-off Employee share grants | 199 | - | 199 | 100.0% |
| Employment costs | - | 121 | (121) | (100.0%) |
| Other operating costs | - | (144) | 144 | 100.0% |
| Tax benefit / (expense) | (3,625) | (999) | (2,626) | (262.9%) |
| Pro Forma Net Profit after tax | 11,951 | 26,753 | (14,802) | (55.3%) |
| Add / (Deduct) non-cash & non-operating items | | | | |
| Loss on Asset Revaluation | 17,998 | - | 17,998 | (100.0%) |
| Depreciation | 11,360 | 9,036 | 2,324 | 25.7% |
| Venue Acquisition costs | 7,631 | 5,193 | 2,438 | 46.9% |
| Gain on sale of venues | (1,026) | (1,952) | 926 | 47.4% |
| Loss on sale of other non-current assets | 523 | 605 | (82) | (13.6%) |
| Amortisation of borrowing costs | 486 | 681 | (195) | (28.7%) |
| Maintenance capital expenditure | (3,686) | (4,648) | 962 | 20.7% |
| Other non-cash items | (43) | 376 | (419) | (111.4%) |
| Tax expense | 1,328 | 770 | 558 | 72.5% |
| Distributable Earnings | 46,522 | 36,814 | 9,708 | 26.4% |
| Distributable Earnings per stapled security (Cents) | 8.80 | 8.50 | 0.30 | 3.5% |

(a) FY18 includes acquisition costs of \$26.3 million for Redcape by the entities associated with Moelis Australia Ltd.

Significant changes in the state of affairs

Securities in RHT II and RHT I were stapled on 2 July 2018 in accordance with the stapling deed and are dealt with as a stapled security. For further details refer to Note 1 of the consolidated financial statements.

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

On 30 November 2018 Redcape Hotel Group listed on the Australian Securities Exchange ("ASX").

Redcape has acquired 6 venues and disposed of 1 venue during the year. They were all Freehold Going Concern venues.

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

Matters subsequent to the end of the financial year

Subsequent to 30 June 2019, Redcape refinanced its debt facilities resulting in an increased facility of \$503.0 million (including \$3.0 million ancillary facility) with a weighted average term of 4 years. As a result of the refinancing, in FY20 the hedge position of the existing finance facility will be closed out at a cost of approximately \$4.0 million. Capitalised loan establishment costs of \$0.5 million will be written off upon activation of the new facility in FY20.

Post the end of the financial year, Redcape exchanged contracts to acquire the Eden Brewhouse Redbank Plains Queensland as part of the ongoing portfolio optimisation program.

No other material matter or circumstance has arisen since 30 June 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.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
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Likely developments and expected results of operations

Having now completed FY19 and our first year as a listed entity we have a strong opportunity set for growth and believe Redcape is well positioned for the future.

Operating in a consumer facing sector with high regulatory and capital investment barriers to entry, the business has stable earnings base, strong cashflows and revenue growth prospects.

The portfolio is difficult to replicate, comprising of strategically located, high-quality assets, most of which are on sites we own and are largely underutilised, providing an opportunity to unlock value through alternate use development.

An optimized program of refurbishment opportunities has been marked for FY20 and an extensive pipeline beyond this perpetuates the growth opportunity set. These facility improvements generate earnings growth coupled with enhanced customer experiences for a total venue offering that is modern and appealing to local communities.

Looking to FY20, we expect like-for-like revenue growth to track above CPI. We are forecasting distributions to be maintained in line with FY19 and distributable earnings to be greater than 9.0cps subject to no material change in economic conditions, standard management fee construct and/or portfolio numbers.

Environmental regulation

Redcape is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Nicholas Collishaw
Title: Independent Non-Executive Director and Chairman
Experience and expertise: Nicholas was appointed to the Board on 27 September 2018.

Nicholas has over 35 years' experience in Australian and Global real estate and funds management markets. He has considerable experience in the development and management of residential, hotel, commercial, retail, industrial and retirement assets. Nicholas is a Fellow of Australian Institute of Valuers, a Fellow of Royal Institute of Chartered Surveyors, a Graduate Member of FINSIA and the Institute of Company Directors.

Nicholas is currently a Non-Executive Director of Centuria Capital Group ("Centuria") and was previously CEO – Listed Property Funds at Centuria.

Prior to his time at Centuria, Nicholas held the position of CEO and Managing Director of Mirvac Group and successfully guided the business through the GFC and implemented a strategy of sustained growth for the Real Estate and Investment Company.

Other current directorships: Centuria Capital Group (ASX: CNI)
Former directorships (last 3 years): None
Special responsibilities: Chairman of the Board and Member of the Audit, Risk & Compliance Committee
Interests in stapled securities: Ordinary stapled securities – 100,000

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II

Directors' report

30 June 2019

Name: Daniel Brady
Title: Executive Director
Experience and expertise: Daniel was appointed to the Board on 29 October 2018.

Daniel is currently Chief Executive Officer of Moelis Australia Hotel Management Pty Ltd (MAHM), the manager and hotel operator of Redcape. Prior to this, he was Chief Operating Officer at Redcape, a role which he assumed in October 2012. He has extensive operational experience and has held senior positions within listed, privately owned pub organisations and was the owner operator of a pub.

Prior to joining Redcape, Daniel was National Operations Manager at National Leisure and Gaming Limited ("NLG"), a position he held for five years before being made Chief Executive Officer at NLG in January 2011.

Daniel has previously held key industry positions as well as currently being a Director of the Liquor Stax Retail Group.

Daniel completed an Advanced Management Program at Harvard Business School in 2016.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chief Executive Officer (MAHM)
Interests in stapled securities: Ordinary stapled securities – 1,480,000

Name: Andrew Ireland
Title: Independent Non-Executive Director
Experience and expertise: Andrew was appointed to the Board on 29 October 2018.

Andrew is currently Chair of Clemenger Brisbane, Director of Sports Australia and Director of the Sydney Swans.

Prior to this, Andrew was Managing Director and Chief Executive Officer (CEO) of Sydney Swans having been appointed as CEO in September 2009 after joining the club in 2002 as General Manager of Football. Since 1990, Andrew has been involved in the management of leading Australian sporting teams including a successful tenure as CEO of Brisbane Bears and Brisbane Lions (1990 – 2001). He led the Brisbane Lions to their first premiership in 2001 as CEO and has overseen a strong and successful football program and growth in commercial areas during his time at Sydney Swans. During both tenures as CEO, Andrew had ultimate responsibility for the AFL clubs' substantial social clubs, which included bars, restaurants and EGMs.

During his tenure at the Brisbane Lions, Andrew was appointed by the QLD Treasurer as a Director of The Golden Casket Corporation, overseeing a gaming entity in a highly regulated market.

Andrew holds a Bachelor of Science from La Trobe University, is a Fellow of the Australian Institute of Company Directors and is a Life Member of the Australian Football League.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit, Risk & Compliance Committee
Interests in stapled securities: Ordinary stapled securities – 50,000

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
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Name: David Groves
Title: Independent Non-Executive Director
Experience and expertise: David was appointed to the Board on 27 September 2018.

David has over 25 years' experience as a company director.

David is a non-executive director of Pengana Capital Group Limited, Pengana International Equities Limited and Pipers Brook Vineyard Pty Ltd. He is a former director of EQT Holdings Limited, Tassal Group Limited and GrainCorp Limited and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. David is a member of the Council of Wollongong University.

David is a member of the Australian Institute of Chartered Accountants and a fellow of the Australian Institute of Company Directors and holds a Bachelor of Commerce from the University of Wollongong and a Master of Commerce at the University of NSW.

Other current directorships: Pengana Capital Group Limited (ASX: PCG), Pengana International Equities Limited (ASX: PIA)

Former directorships (last 3 years): Pyrolyx AG (ASX: PLX)

Special responsibilities: Chairman of the Audit, Risk & Compliance Committee

Interests in stapled securities: Ordinary stapled securities – 200,000

Name: Hugh Thomson
Title:
Experience and expertise: Hugh was appointed to the Board on 26 February 2016.

Hugh is a Managing Director at Moelis Australia Limited (Moelis Australia) within its Advisory businesses. Prior to this, he was Chief Operating Officer of Moelis Australia.

Hugh has over 24 years' experience in Investment Management, with a particular emphasis on the acquisition of alternative assets, finance and operations in Australia across a range of industry sectors. Hugh's previous roles include CFO and CEO of ING Real Estate Investment Management, COO of HiLife Health & Beauty and CFO of Industrie Clothing.

Hugh has considerable expertise in managing ASX listed funds, including as an executive Board member and Chairman of investment committees and operational risk management committees.

Hugh is a qualified chartered accountant and member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor of Arts (Honours) from the University of East Anglia.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: None

Interests in stapled securities: Ordinary stapled securities – 50,000

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
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Company secretary

Ms Rebecca Ong was appointed to the position of Company Secretary in October 2018.

Rebecca joined Moelis Australia as a Senior Legal Counsel in February 2018. She has over 13 years of experience in areas of corporate, regulatory and funds management.

Prior to joining Moelis Australia, Rebecca was Regional Counsel with UBS, with primary responsibilities for advising its Asset Management businesses across Asia Pacific both from Sydney and Hong Kong.

Rebecca holds a Bachelor of Commerce (Finance Major) / Bachelor of Laws from the University of New South Wales and is a Fellow with the Governance Institute of Australia.

Meetings of directors

The number of meetings of the Responsible Entity's Board of Directors ('the Board') held during the year ended 30 June 2019, and the number of meetings attended by each director were

| | Full Board Attended | Full Board Held | Audit and Risk Committee Attended | Audit and Risk Committee Held |
|-----------------------|--------------------------------|----------------------------|--|--|
| Mr Nicholas Collishaw | 8 | 8 | 3 | 3 |
| Mr Daniel Brady | 8 | 8 | * | * |
| Mr Andrew Ireland | 8 | 8 | 3 | 3 |
| Mr David Groves | 8 | 8 | 3 | 3 |
| Mr Hugh Thomson | 7 | 8 | * | * |

Held: represents the number of meetings held during the time the director held office.

* Not a member of the committee

Remuneration report

Remuneration of the Responsible Entity is as per the Constitution of RHT I and RHT II. As the Responsible Entity is wholly owned by Moelis Australia Limited (Moelis Australia), Moelis Australia oversees the appointment of Directors to the Board of the Responsible Entity and in this connection sets Director remuneration. Remuneration of the Directors is paid either directly by the Responsible Entity or by entities associated with Moelis Australia. The Directors are not provided with any remuneration by the Trusts. Directors are not entitled to any equity interests in the Trusts or any rights to or options for equity interests in the Trusts as a result of their remuneration provided by the Responsible Entity.

Corporate Governance Statement

'Redcape' is a stapled entity comprising of Redcape Hotel Trust I ARSN: 629 354 614 and Redcape Hotel Trust II ARSN: 629 354 696. Redcape Hotel Group Management Ltd (ACN 610 990 004) ('Responsible Entity') is the responsible entity of Redcape and the Board of the Responsible Entity in this capacity ('the Board') is responsible for the overall corporate governance of Redcape and its controlled entities.

The Board has created a framework for managing Redcape, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Redcape's business and which are designed to promote the responsible management and conduct of Redcape.

The Corporate Governance Statement sets out the key features of Redcape's governance framework and reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) ('ASX Principles and Recommendations'). The 4th edition ASX Principles and Recommendations apply to the financial years beginning on or after January 2020. Redcape is in the process of reviewing its corporate governance policies and practices against the 4th edition ASX Principles and Recommendations and has incorporated many of the new recommendations into its Corporate Governance Statement already.

The policies and charters referred to in the Corporate Governance Statement are available via the 'Corporate Governance' section of Redcape's website which is available at WWW.REDCAPE.COM.AU

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
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Indemnity and insurance of officers

In accordance with the Constitution of RHT I and RHT II, the Responsible Entity is indemnified on a full indemnity basis in respect of all taxes, costs and losses which it may pay or incur, in exercising any of its powers, rights, or obligations in properly performing its duties in connection with RHT I and RHT II.

All Directors of the Responsible Entity are appointed by Moelis Australia. Moelis Australia has agreed to indemnify all current and former Directors and company secretaries of the Responsible Entity against all liabilities to persons which arise out of the performance of their normal duties as a Director or Company Secretary to the extent permitted by law unless the liability relates to conduct involving willful misconduct, bad faith or conduct known to be in breach of law.

During the financial year, RHT I and RHT II paid an insurance premium in respect of customary Directors' and Officers' insurance coverage for the Responsible Entity. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The trusts have not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the trusts or any related entity against a liability incurred by the auditor.

During the financial year, the trusts have not paid a premium in respect of a contract to insure the auditor of the trust or any related entity.

Proceedings on behalf of the trust

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the trusts, or to intervene in any proceedings to which the trust is a party for the purpose of taking responsibility on behalf of the trusts for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 30 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the trust, acting as advocate for the trust or jointly sharing economic risks and rewards.

Officers of the trust who are former partners of KPMG

There are no officers of the trusts who are former partners of KPMG.

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.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' report
30 June 2019

Auditor

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Nicholas Roland Collishaw
Chairman

28 August 2019
Sydney



Daniel John Brady
Executive Director



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 audit of Redcape Hotel Group
for the financial year ended 30 June 2019 there have been:

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

KPMG

Cameron Roan

Partner

Sydney

28 August 2019

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

| | Note | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|------|---|--|
| Revenue | 6 | 285,215 | 238,200 |
| Cost of sales | | (133,021) | (115,005) |
| Expenses | | | |
| Operating costs | 7 | (32,162) | (61,917) |
| Management fees | 8 | (14,166) | (12,217) |
| Net finance costs | 9 | (17,324) | (9,016) |
| Employment costs | | (38,720) | (28,938) |
| Depreciation and amortisation expense | 15 | (11,360) | (8,080) |
| Gain/(loss) on disposal of non-current assets | | 502 | 511 |
| Loss on asset revaluation | 15 | (17,998) | - |
| Business acquisition costs | 35 | (7,631) | (4,879) |
| Operating profit/(loss) | | 13,335 | (1,341) |
| Listing costs and performance fee | 10 | (20,562) | - |
| Loss before income tax benefit | | (7,227) | (1,341) |
| Income tax benefit | 11 | 2,297 | 185 |
| Loss after income tax benefit for the year | | (4,930) | (1,156) |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Gain on the revaluation of land | | 37,573 | - |
| <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 | | (3,216) | - |
| Other comprehensive income for the year, net of tax | | 34,357 | - |
| Total comprehensive income for the year | | <u>29,427</u> | <u>(1,156)</u> |
| Profit/(loss) for the year is attributable to: | | | |
| Unitholders of Redcape Hotel Trust I | | 10,691 | - |
| Unitholders of Redcape Hotel Trust II | | (15,621) | (1,156) |
| | | <u>(4,930)</u> | <u>(1,156)</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Unitholders of Redcape Hotel Trust I | | 45,048 | - |
| Unitholders of Redcape Hotel Trust II | | (15,621) | (1,156) |
| | | <u>29,427</u> | <u>(1,156)</u> |
| Basic earnings per share (cents) | 39 | (0.93) | |
| Diluted earnings per share (cents) | 39 | (0.93) | |

The above 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
Statement of financial position
As at 30 June 2019

| | Note | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|------|---|--|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 12 | 16,981 | 20,537 |
| Trade and other receivables | 13 | 3,936 | 1,415 |
| Inventories | | 5,130 | 5,104 |
| Other current assets | 14 | 3,319 | 2,849 |
| Total current assets | | <u>29,366</u> | <u>29,905</u> |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 486,601 | 57,502 |
| Intangible assets | 16 | 590,757 | 278,461 |
| Deferred tax | 17 | 15,645 | 12,674 |
| Total non-current assets | | <u>1,093,003</u> | <u>348,637</u> |
| Total assets | | <u>1,122,369</u> | <u>378,542</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 18 | 38,749 | 28,641 |
| Employee benefits | 19 | 1,708 | 1,432 |
| Distribution payable | 20 | 12,030 | - |
| Total current liabilities | | <u>52,487</u> | <u>30,073</u> |
| Non-current liabilities | | | |
| Other payables | 21 | 430 | 13,302 |
| Borrowings | 22 | 436,561 | 136,534 |
| Derivative financial instruments | 23 | 3,489 | - |
| Employee benefits | 24 | 255 | 240 |
| Total non-current liabilities | | <u>440,735</u> | <u>150,076</u> |
| Total liabilities | | <u>493,222</u> | <u>180,149</u> |
| Net assets | | <u>629,147</u> | <u>198,393</u> |
| Equity | | | |
| Contributed equity | 25 | 235,545 | 199,549 |
| Accumulated losses | | (43,293) | (1,156) |
| Equity attributable to the stapled security holders of RHT II | | 192,252 | 198,393 |
| Non-controlling interest | 26 | 436,895 | - |
| Total equity | | <u>629,147</u> | <u>198,393</u> |
| Equity attributable to RHT I (non-controlling interest) | | | |
| Contributed equity | | 318,469 | - |
| Reserves | | 161,923 | - |
| Accumulated losses | | (43,497) | - |
| Total equity attributable to unitholders of RHT I (non-controlling interest) (a) | | <u>436,895</u> | <u>-</u> |

a) RHT II stand-alone is the comparative therefore the RHT I (non-controlling interest) balance reflected is zero

The above 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
Statement of changes in equity
For the year ended 30 June 2019

| | Contributed equity \$'000 | Accumulated losses \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
|--|--------------------------------------|--------------------------------------|--|--------------------------------|
| RHT II Consolidated | | | | |
| Balance at 1 July 2017 | - | - | - | - |
| Loss after income tax benefit for the year | - | (1,156) | - | (1,156) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | (1,156) | - | (1,156) |
| <i>Transactions with security holders in their capacity as security holders:</i> | | | | |
| Contributions of equity, net of transaction costs (note 25) | 199,549 | - | - | 199,549 |
| Balance at 30 June 2018 | 199,549 | (1,156) | - | 198,393 |
| | | | | |
| | Issued capital \$'000 | Accumulated losses \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
| Stapled Consolidated | | | | |
| Balance at 1 July 2018 | 199,549 | (1,156) | - | 198,393 |
| Arising due to stapling arrangement | - | (26,516) | 387,410 | 360,894 |
| Profit/(loss) after income tax benefit for the year | - | (15,621) | 10,691 | (4,930) |
| Other comprehensive income for the year, net of tax | - | - | 34,357 | 34,357 |
| Total comprehensive income for the year | - | (15,621) | 45,048 | 29,427 |
| <i>Transactions with stapled security holders in their capacity as stapled security holders:</i> | | | | |
| Contributions of equity, net of transaction costs (note 25) | 35,996 | - | 50,708 | 86,704 |
| Distributions paid (note 27) | - | - | (46,271) | (46,271) |
| Balance at 30 June 2019 | 235,545 | (43,293) | 436,895 | 629,147 |

The above 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
Statement of cash flows
For the year ended 30 June 2019

| | Note | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|------|---|--|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 311,559 | 262,414 |
| Payments to suppliers and employees (inclusive of GST) | | <u>(257,638)</u> | <u>(245,186)</u> |
| | | 53,921 | 17,228 |
| Interest received | | 259 | 135 |
| Interest and other finance costs paid | | (18,183) | (9,317) |
| Income taxes paid | | <u>-</u> | <u>(1,632)</u> |
| Net cash from operating activities | 38 | <u>35,997</u> | <u>6,414</u> |
| Cash flows from investing activities | | | |
| Payment for purchase of business, net of cash acquired | 35 | (153,349) | (306,863) |
| Business acquisition transaction costs | | (7,631) | (4,879) |
| Payments for property, plant and equipment | 15 | (25,182) | (14,739) |
| Proceeds from disposal of business | | 20,430 | 5,848 |
| Proceeds from disposal of property, plant and equipment | | <u>112</u> | <u>425</u> |
| Net cash used in investing activities | | <u>(165,620)</u> | <u>(320,208)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of stapled securities | 25 | 89,757 | 203,849 |
| Proceeds from borrowings | | 119,000 | 283,275 |
| Repayment of borrowings | | (49,000) | (146,650) |
| Stapled Securities issue transaction costs | | (3,724) | (6,143) |
| Distributions paid | 27 | <u>(44,484)</u> | <u>-</u> |
| Net cash from financing activities | | <u>111,549</u> | <u>334,331</u> |
| Net increase/(decrease) in cash and cash equivalents | | (18,074) | 20,537 |
| Cash and cash equivalents at the beginning of the financial year | | <u>35,055</u> | <u>-</u> |
| Cash and cash equivalents at the end of the financial year | 12 | <u><u>16,981</u></u> | <u><u>20,537</u></u> |

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

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 1. General Information

(a) Reporting Entity

The Redcape Hotel Trust II ("RHT II") and Redcape Hotel Trust I ("RHT I") were stapled on 2 July 2018 such that the securities are effectively dealt with as a stapled security.

The stapled securities of RHT I and RHT II (collectively "Redcape Hotel Group" or "Redcape") commenced trading as a single stapled security on the ASX on 30 November 2018 under the ticker code "RDC".

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 year.

(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.

(d) First-year report

Redcape has consulted with ASIC in relation to the period for its financial year ended 30 June 2019. In accordance with ASIC's guidance and with reference to the Corporations Act, Redcape's financial year ended 30 June 2019 is to be the 12-month period commencing on 1 July 2018.

Redcape's General Purpose Financial Statements (as required by Chapter 2M of the Corporations Act) set out Redcape's financial information for its financial year being the 12 months to 30 June 2019. The comparative numbers for the 12 months to 30 June 2018 are the numbers for Redcape Hotel Trust II consolidated only. The trusts were not stapled during this period; hence the comparatives exclude Redcape Hotel Trust I.

Redcape has also provided a Special Purpose full year financial report for the 12-month period ending 30 June 2019 with full year aggregated comparatives. This can be seen in the appendix of the Annual Report.

Note 2. Basis of preparation

The Responsible Entity has prepared General Purpose consolidated financial statements for the year ended 30 June 2019 for the purpose of meeting the listing requirements of the Australian Securities Exchange ("ASX").

(a) Compliance Statement

The General Purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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

The consolidated financial report as at and for the year ended 30 June 2019 was approved by the directors of the Responsible Entity on 28 August 2019

Note 2. Basis of preparation (continued)

(b) 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

(c) Functional and presentation currency

The 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.

(e) Going Concern

The 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 30 June 2019, Redcape had current assets of \$29.4 million and current liabilities of \$52.5 million leaving a net deficit of working capital of \$23.1 million. The directors of the Responsible Entity believe Redcape will continue to generate operating cash flows sufficient to meet current liability obligations.

Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 adoption of these Accounting Standards and Interpretations did not have any material impact on the financial performance or position of Redcape.

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

AASB 9 Financial Instruments

From 1 July 2018, Redcape has applied AASB 9 prospectively. The resulting accounting policies for Redcape's financial instruments are explained in further detail in Note 3.

AASB 15 Revenue from Contracts with Customers

From 1 July 2018, Redcape has applied AASB 15 prospectively. The resulting accounting policies for Redcape's revenue are explained in further detail in Note 3 Revenue Recognition.

Note 3. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of RHT II as at 30 June 2019 and the results of all subsidiaries for the year then ended. RHT II and its subsidiaries together are referred to in these financial statements as 'Redcape'.

Subsidiaries are all those entities over which Redcape has control. Redcape controls an entity when Redcape is exposed to, or has rights to, variable returns from its involvement with the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Redcape. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in Redcape are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries align with the policies adopted by Redcape.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where Redcape loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. Redcape recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). Redcape operates wholly within one business segment being the ownership and operation of hotels in Australia.

Revenue recognition

Redcape recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which Redcape is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, Redcape identifies the contract with a customer, identifies the performance obligations in the contract, determines the transaction price which takes into account estimates of variable consideration and the time value of money, allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered, and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration is not material in the context of Redcape's 'total revenue'.

Gaming Revenue

Gaming revenue is the net difference between gaming wins and losses and is recognised upon the outcome of the game at the close of business.

Food and beverage revenue (On-Premise and Off-Premise)

Food and beverage revenue is recognised at the point in time the goods are provided and payment is collected.

Accommodation and other revenues

Accommodation and other revenues are recognised at the point in time services are performed.

Interest

Interest income is recognised using the effective interest method.

Note 3. Significant accounting policies (continued)

Income tax

RHT I

Under current income tax legislation, RHT I is not liable for income tax provided unit holders are presently entitled to all of RHT I's income at 30 June each year.

RHT II

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

RHT II and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime, effective July 2017 and are taxed as a single entity from that date. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group. These are recognised as amounts payable to or receivable from other entities in the tax consolidated group in conjunction with any tax funding arrangement amount.

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.

Note 3. Significant accounting policies (continued)

In determining the amount of current and deferred tax RHT II takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. RHT 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 RHT 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

Redcape has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to hedge Redcape's interest rate risk exposures. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Note 3. Significant accounting policies (continued)

Property, plant and equipment

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.

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 Redcape, 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.

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 Redcape will obtain ownership by the end of the lease term.

The estimated useful lives are as follow:

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to Redcape. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Revaluation

Land is recognised at fair value based on periodic valuations by external independent valuers and/or 6-month director valuations. A revaluation surplus is credited to other reserves in securityholders' equity.

Increases in the carrying amounts arising on revaluation of land are recognised in other comprehensive income and accumulated in other reserves in securityholders' 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.

Note 3. Significant accounting policies (continued)

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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.

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.

Impairment

Non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Financial assets

Redcape recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost. Redcape has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables. These provisions are considered representative across all customers of Redcape based on recent sales experience, historical collection rates and forward-looking information that is available.

Trade and other payables

These amounts represent liabilities for goods and services provided to Redcape prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost, are unsecured and are not discounted.

Note 3. Significant accounting policies (continued)

Loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs are expensed in the period in which they are incurred. Finance costs comprise interest expense on borrowings, using the effective interest rate method, and unwinding of the discount on provisions.

Provisions

Provisions are recognised when Redcape has a present (legal or constructive) obligation as a result of a past event, it is probable Redcape will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary stapled securities are classified as equity.

Note 3. Significant accounting policies (continued)

Incremental costs directly attributable to the issue of new stapled securities or options are shown in equity as a deduction, net of tax, from the proceeds.

Distributions

Distributions are recognised when declared during the financial year and no longer at the discretion of the trust.

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the trust, on or before the end of the financial year but not distributed at the reporting date.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at the proportionate share of identifiable net assets of the acquiree. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, Redcape assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, Redcape's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, Redcape remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Note 3. Significant accounting policies (continued)

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by Redcape for the annual reporting period ended 30 June 2019. Redcape's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to Redcape, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 and its impact on adoption is expected to result in total lease assets increasing by approximately \$23.8 million and total lease liabilities increasing approximately \$25.6 million. Deferred tax asset that arises as a result of both the internal and external leases that will not be eliminated on consolidation is by approximately \$9.5 million.

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, which management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. Judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Valuation of land

The fair value of land is reviewed regularly by management with reference to external independent valuations, recent offers and market conditions existing at reporting date, using generally accepted market practices. Then critical assumptions underlying management's estimates of fair value are those relating to the capitalisation rate and adopted earnings. If there is any change in these assumptions or economic conditions, the fair value of the land may differ.

Fair value measurement hierarchy

Redcape is required to classify all assets and liabilities, measured 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; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

Note 4. Critical accounting judgements, estimates and assumptions (continued)

Goodwill and other indefinite life intangible assets

Redcape tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

Redcape assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to Redcape and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Note 5. 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 6. Revenue

Disaggregation of revenue

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

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|------------------------------|---|--|
| <i>Major revenue streams</i> | | |
| Gaming revenue | 179,099 | 150,918 |
| On-premise revenue | 56,877 | 39,268 |
| Off-premise revenue | 48,022 | 47,308 |
| Corporate and other revenue | 1,217 | 706 |
| | <u>285,215</u> | <u>238,200</u> |

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

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
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Note 7. Operating costs

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|------------------------------------|---|--|
| Administrative expenses | 3,287 | 2,161 |
| Advertising and marketing expenses | 5,082 | 3,758 |
| Operating expenses | 11,771 | 9,541 |
| Repairs and maintenance expenses | 2,161 | 1,826 |
| Property outgoing expenses | 8,613 | 6,991 |
| Rental expenses | 1,248 | 37,640 |
| | <u>32,162</u> | <u>61,917</u> |

Note 8. Management fees

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|----------------------|---|--|
| Hotel operating fee | 9,138 | 9,389 |
| Asset management fee | 5,028 | 2,828 |
| | <u>14,166</u> | <u>12,217</u> |

Note 9. Net finance costs

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|----------------|---|--|
| Finance income | (259) | (136) |
| Finance costs | 17,583 | 9,152 |
| | <u>17,324</u> | <u>9,016</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
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Note 10. Listing costs and performance fee

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| Listing costs (a) | 6,762 | - |
| Performance fee (b) | 13,800 | - |
| | <u>20,562</u> | <u>-</u> |
| Total listing costs and performance fee | <u><u>20,562</u></u> | <u><u>-</u></u> |

(a) Expensed costs associated with listing Redcape on the ASX.

(b) 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 11. Income tax benefit

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| <i>Income tax benefit</i> | | |
| Deferred tax - origination and reversal of temporary differences | <u>(2,297)</u> | <u>(185)</u> |
| Aggregate income tax benefit | <u><u>(2,297)</u></u> | <u><u>(185)</u></u> |
| Deferred tax included in income tax benefit comprises: | | |
| Increase in deferred tax assets (note 17) | <u>(2,297)</u> | <u>(185)</u> |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i> | | |
| Loss before income tax benefit | <u>(7,227)</u> | <u>(1,341)</u> |
| Tax at the statutory tax rate of 30% | (2,168) | (402) |
| Trust loss not subject to tax | (787) | - |
| Non-deductible expenses | <u>658</u> | <u>217</u> |
| Income tax benefit | <u><u>(2,297)</u></u> | <u><u>(185)</u></u> |

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|---|--|
| <i>Amounts credited directly to equity</i> | | |
| Deferred tax assets (note 17) | <u>(674)</u> | <u>(1,843)</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 12. Current assets - cash and cash equivalents

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---------------------------|---|--|
| Cash and cash equivalents | <u>16,981</u> | <u>20,537</u> |

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less.

Note 13. Current assets - trade and other receivables

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|-----------------------|---|--|
| Trade receivables | 514 | 81 |
| Other receivables (a) | <u>3,422</u> | <u>1,334</u> |
| | <u>3,936</u> | <u>1,415</u> |

(a) Includes receivables from supplier rebates.

Allowance for expected credit losses

There was no expense for expected credit losses for the year ended 30 June 2019.

Note 14. Current assets - other current assets

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------------------------|---|--|
| Prepayments | 2,760 | 1,388 |
| Acquisition costs | - | 1,388 |
| Capitalised loan establishment costs | <u>559</u> | <u>73</u> |
| | <u>3,319</u> | <u>2,849</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 15. Non-current assets - property, plant and equipment

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| Land - at valuation | 351,648 | - |
| | <u>351,648</u> | <u>-</u> |
| Buildings - at cost | 59,505 | - |
| Less: Accumulated depreciation | (2,033) | - |
| | <u>57,472</u> | <u>-</u> |
| Property improvements - at cost | 37,189 | 24,957 |
| Less: Accumulated depreciation | (2,615) | (1,420) |
| | <u>34,574</u> | <u>23,537</u> |
| Furniture, fittings & equipment - at cost | 41,869 | 29,946 |
| Less: Accumulated depreciation | (9,691) | (4,530) |
| | <u>32,178</u> | <u>25,416</u> |
| Work in progress - at cost | 10,729 | 8,549 |
| | <u>486,601</u> | <u>57,502</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 15. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

| | Land | Building | Property improvement | Furniture, fittings & equipment | Work in progress | Total |
|--|----------------|---------------|----------------------|---------------------------------|------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| RHT II Consolidated | | | | | | |
| Balance at 1 July 2017 | - | - | - | - | - | - |
| Disposals | - | - | (250) | (756) | (22) | (1,028) |
| Disposal - business | - | - | (199) | (573) | (30) | (802) |
| Additions | - | - | 689 | 5,091 | 8,959 | 14,739 |
| Additions - business acquisitions | - | - | 22,529 | 26,704 | 3,440 | 52,673 |
| Transfers in/(out) | - | - | 2,305 | 1,493 | (3,798) | - |
| Depreciation expense | - | - | (1,537) | (6,543) | - | (8,080) |
| Stapled Consolidated | | | | | | |
| Balance at 30 June 2018 | - | - | 23,537 | 25,416 | 8,549 | 57,502 |
| Disposals | - | - | (839) | (133) | - | (972) |
| Disposal - business (a) | (1,821) | (4,841) | (264) | (710) | (114) | (7,750) |
| Additions | - | 86 | 3,518 | 6,513 | 15,065 | 25,182 |
| Additions - business acquisitions (a) | 40,756 | 16,751 | - | 6,975 | - | 64,482 |
| Revaluation increments (b) | 20,453 | - | - | - | - | 20,453 |
| Adjustment arising from stapling arrangement | 292,260 | 46,804 | - | - | - | 339,064 |
| Transfers in/(out) | - | - | 10,634 | 2,137 | (12,771) | - |
| Depreciation expense | - | (1,328) | (2,012) | (8,020) | - | (11,360) |
| Balance at 30 June 2019 | <u>351,648</u> | <u>57,472</u> | <u>34,574</u> | <u>32,178</u> | <u>10,729</u> | <u>486,601</u> |

(a) Note 35 details treatment of business combination and disposal.

(b) Net revaluation uplift of \$20.5 million includes gain of \$38.5 million recognised in the asset revaluation reserve offset by a loss of \$18.0 million recognised in the income statement. Gain on revaluation of land of \$37.6 million in other comprehensive income includes the reserve released on the sale of Belrose Hotel.

Valuations of land

The basis of the valuations of land is fair value. A portion of the land was last revalued 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 do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

Land stated under the historical cost convention

If land and buildings were stated under the historical cost convention, the amounts would be as follows:

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|----------------|----------------------------------|---------------------------------|
| Land - at cost | 204,233 | - |
| | <u>204,233</u> | <u>-</u> |

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Note 16. Non-current assets - intangible assets

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------------------------|---|--|
| Goodwill - at cost | 327,714 | 278,461 |
| Gaming and liquor licences - at cost | 263,043 | - |
| | <u>590,757</u> | <u>278,461</u> |

Reconciliations

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

| | Goodwill \$'000 | Gaming and liquor licences \$'000 | Total \$'000 |
|--|----------------------------|--|-------------------------|
| RHT II Consolidated | | | |
| Balance at 1 July 2017 | - | - | - |
| Additions - business acquisitions | 283,403 | - | 283,403 |
| Disposals | (4,942) | - | (4,942) |
| Stapled Consolidated | | | |
| Balance at 30 June 2018 | 278,461 | - | 278,461 |
| Additions - business acquisitions (note 35) | 56,275 | 37,423 | 93,698 |
| Disposals (a) | (7,022) | (5,509) | (12,531) |
| Adjustment arising from stapling arrangement | - | 231,129 | 231,129 |
| Balance at 30 June 2019 | <u>327,714</u> | <u>263,043</u> | <u>590,757</u> |

(a) Relates to disposal of Belrose hotel. Refer disposal commentary in note 35.

Impairment testing

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.

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:

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
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Note 16. Non-current assets - intangible assets (continued)

| | 2019 % | 2018 % |
|----------------------------|------------------|------------------|
| Discount rate (pre-tax) | 8.1% | 8.7% |
| EBITDAR growth rate | 3.0% | 3.0% |
| Terminal value growth rate | 3.0% | 3.0% |

The pre-tax discount rate of 8.1% 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.

| | Terminal value % | Pre-tax discount rate % |
|--|---------------------------------|--|
| Assumptions used in value in use calculation | 3.0% | 8.1% |
| Rate required for recoverable amount to equal carrying value (a) | 1.7% | 9.2% |

(a) Each rate is determined in isolation.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 17. Non-current assets - deferred tax

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|---|--|
| <i>Deferred tax asset comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 4,975 | 1,770 |
| Property, plant and equipment | 1,249 | 1,002 |
| Employee benefits | 589 | 501 |
| Accrued expenses | 163 | 584 |
| Straight-line lease liability | 1,659 | 1,763 |
| Over market rent (Onerous rent) liability | 2,360 | 2,928 |
| Transaction costs | 4,636 | 4,092 |
| Other items | 14 | 34 |
| Deferred tax asset | <u>15,645</u> | <u>12,674</u> |
| <i>Movements:</i> | | |
| Opening balance | 12,674 | - |
| Credited to profit or loss (note 11) | 2,297 | 185 |
| Credited to equity (note 11) | 674 | 1,843 |
| Additions through business combinations | - | 10,646 |
| Closing balance | <u>15,645</u> | <u>12,674</u> |

Note 18. Current liabilities - trade and other payables

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|-------------------------------------|---|--|
| Trade payables | 3,972 | 3,056 |
| Accrued interest | 1,944 | - |
| Performance fee | 6,400 | - |
| Other payables | 8,125 | 6,930 |
| State Government taxes | 18,308 | 16,321 |
| Over market rent (Onerous rent) (a) | - | 1,894 |
| Straight-line lease liability (a) | - | 440 |
| | <u>38,749</u> | <u>28,641</u> |

- (a) Leases in which a significant portion of the risks and rewards of ownership are not transferred to Redcape as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 19. Current liabilities - employee benefits

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------|---|--|
| Annual leave | 1,453 | 1,208 |
| Long service leave | 255 | 224 |
| | <u>1,708</u> | <u>1,432</u> |

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since Redcape does not have an unconditional right to defer settlement. However, based on past experience, Redcape does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| Employee benefits obligation expected to be settled after 12 months | <u>255</u> | <u>240</u> |

Note 20. Current liabilities - distribution payable

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---------------|---|--|
| Distributions | <u>12,030</u> | <u>-</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 year but not distributed at the reporting date.

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|---|--|
| Carrying amount at the start of the year | 10,243 | - |
| Additional provisions recognised | 46,271 | - |
| Payments relating to prior period | (10,243) | - |
| Payments relating to current period | (34,241) | - |
| Carrying amount at the end of the year | <u>12,030</u> | <u>-</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
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Note 21. Non-current liabilities - other payables

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| Straight line lease liability | 430 | 5,436 |
| Over market rent (onerous rent) provision | - | 7,866 |
| | <u>430</u> | <u>13,302</u> |

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Redcape as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Note 22. Non-current liabilities - borrowings

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------------------------|---|--|
| Bank loans | 436,700 | - |
| Redcape Hotel Property Trust (a) | - | 136,625 |
| Capitalised loan establishment costs | (139) | (91) |
| | <u>436,561</u> | <u>136,534</u> |

Total secured liabilities

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

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|----------------------------------|---|--|
| Bank loans | 436,700 | - |
| Redcape Hotel Property Trust (a) | - | 136,625 |
| | <u>436,700</u> | <u>136,625</u> |

Syndicated Bank Facility

The total facility amount is \$477.0 million (excluding \$3.0 million ancillary facility) 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 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 year ended 30 June 2019.

Restrictions on distributions

There have been no breaches of the restrictions on distributions in the year ended 30 June 2019.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 22. Non-current liabilities - borrowings (continued)

(a) This entity is a related party (subsidiary of RHT I). In FY19 the borrowing is eliminated on consolidation.

Financing arrangements

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

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|------------------------------|---|--|
| Total facilities | | |
| Bank loans | 477,000 | - |
| Used at the reporting date | | |
| Bank loans | 436,700 | - |
| Unused at the reporting date | | |
| Bank loans | 40,300 | - |

Note 23. Non-current liabilities - derivative financial instruments

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| Interest rate swap contracts - cash flow hedges | 3,489 | - |

Refer to note 28 for further information on financial instruments.

Note 24. Non-current liabilities - employee benefits

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------|---|--|
| Long service leave | 255 | 240 |

Note 25. Equity - contributed equity

| | Stapled Consolidated 2019 Stapled Securities | RHT II Consolidated 2018 Securities | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------|---|--|---|--|
| Contributed equity | 551,445,932 | 470,312,074 | 235,545 | 199,549 |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Note 25. Equity - contributed equity (continued)

| Details | June 2019 No of securities '000 | June 2019 \$'000 | June 2018 No of securities '000 | June 2018 \$'000 |
|--|--|-----------------------------|--|-----------------------------|
| RHT II Consolidated | | | | |
| Balance at beginning of the period | 470,312 | 199,549 | - | - |
| Unit issuances | 81,134 | 37,569 | 470,312 | 203,849 |
| Equity raising costs | - | (2,247) | - | (6,143) |
| Deferred tax asset | - | 674 | - | 1,843 |
| | <u>551,446</u> | <u>235,545</u> | <u>470,312</u> | <u>199,549</u> |
| | | | | |
| Details | June 2019 No of securities '000 | June 2019 \$'000 | June 2018 No of securities '000 | June 2018 \$'000 |
| RHT I Consolidated (non-controlling interest) | | | | |
| Balance at beginning of the period | 470,312 | 267,758 | - | - |
| Unit issuances | 81,134 | 52,188 | - | - |
| Equity raising costs | - | (1,477) | - | - |
| | <u>551,446</u> | <u>318,469</u> | <u>-</u> | <u>-</u> |

Ordinary stapled securities

The Ordinary securities of RHT II are stapled to the securities of RHT I. Each stapled security entitles the holder to participate in distributions and the proceeds on the winding up of the trust in proportion to the number of and amounts paid on the securities held. The fully paid stapled ordinary securities have no par value and the trust does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each stapled security shall have one vote.

Stapled Securities buy-back

As disclosed in the PDS, the Responsible Entity may in its sole discretion proceed with an on-market buy-back of up to 5% of Redcape stapled securities. The timing of and conduct of the buy-back will be in accordance with the Listing Rules and all applicable laws. No buy-back of Redcape stapled securities has been undertaken by the Responsible Entity.

Voluntary Escrow

There are currently 51.5 million shares subject to a voluntary escrow arrangement. The escrow period ends in February 2020 in line with Redcape's FY20 HY results release.

Capital risk management

Redcape's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for stapled security holders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, Redcape may adjust the amount of distributions paid to stapled security holders, return capital to stapled security holders, issue new stapled securities or sell assets to reduce debt.

Redcape would look to raise capital when an opportunity to invest in a business or company is seen as value adding relative to the current trust's stapled securities price at the time of the investment.

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Note 25. Equity - contributed equity (continued)

Redcape is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the previous reporting period.

Note 26. Equity - non-controlling interest

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--------------------|---|--|
| Contributed equity | 318,469 | - |
| Reserves | 161,923 | - |
| Accumulated losses | (43,497) | - |
| | <u>436,895</u> | <u>-</u> |

RHT II only comparative therefore the RHT I (non-controlling interest) balance reflected is zero.

| | Contributed equity \$'000 | Hedging reserve \$'000 | Revaluation reserve \$'000 | Retained earnings/ (Accumulate d losses) \$'000 | Total \$'000 |
|--|--|---------------------------------------|---|--|-------------------------|
| RHT I Consolidated | | | | | |
| Profit for the year | - | - | - | 10,691 | 10,691 |
| Total other comprehensive income | - | (3,216) | 37,573 | - | 34,357 |
| Arising on stapling | 267,758 | (272) | 127,838 | (7,917) | 387,407 |
| Issue of securities | 52,188 | - | - | - | 52,188 |
| Equity raising costs | (1,477) | - | - | - | (1,477) |
| Interim distributions paid to unitholders | - | - | - | (34,241) | (34,241) |
| Provisions for distribution to unitholders | - | - | - | (12,030) | (12,030) |
| Balance at 30 June 2019 | <u>318,469</u> | <u>(3,488)</u> | <u>165,411</u> | <u>(43,497)</u> | <u>436,895</u> |

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Note 27. Equity - distributions

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

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|---|--|
| Final distribution for the quarter ended 30 September 2018 of 2.205 cents (FY18: 2.205 cents (a)) per unit | 10,795 | - |
| Final distribution for the quarter ended 31 December 2018 of 2.205 cents (FY18: 2.205 cents) per unit | 11,548 | - |
| Final distribution for the quarter ended 31 March 2019 of 2.158 cents (FY18: 2.158 cents) per unit | 11,898 | - |
| Final distribution for the quarter ended 30 June 2019(b) of 2.182 cents (FY18: 2.182 cents) per unit | 12,030 | - |
| | <u>46,271</u> | <u>-</u> |

(a) Calculated on a pro rata basis notwithstanding that distribution applied from 10 July 2017. Actual payable was 1.990 cents per security.

(b) On 24 June 2019 the directors declared a final dividend for the quarter ended 30 June 2019 of 2.182 cents per unit to be paid on 30 August 2019.

Distributions prior to the listing on the ASX as at 30 November 2018 were calculated on a pro rata basis for days held.

Distributions of \$44.5 million (2018: \$26.8 million) were paid during the current period from RHT I. This represents the last quarter of FY18 and the first three quarters of FY19 (2018: First three quarters of FY18).

Note 28. Financial instruments

Financial risk management objectives

Redcape's activities expose it to interest rate risk, credit risk and liquidity risk. Redcape's overall risk management program seeks to minimise potential adverse effects on the financial performance of Redcape. Redcape uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk exposure. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. Redcape uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the directors of the Responsible Entity. These policies include identification and analysis of the risk exposure of Redcape and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within Redcape's operations. Finance reports to the directors on a monthly basis.

Market risk

Foreign currency risk

Redcape is not exposed to any foreign currency risk.

Price risk

Redcape is not exposed to any significant price risk.

Interest rate risk

Redcape's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose Redcape to interest rate risk. Borrowings obtained at fixed rates expose Redcape to fair value interest rate risk. The policy is to maintain approximately 50% of current borrowings at fixed rates using interest rate swaps to achieve this when necessary.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 28. Financial instruments (continued)

As at the reporting date, Redcape had the following variable rate borrowings and interest rate swap contracts outstanding:

| | Stapled Consolidated 2019 | | RHT II Consolidated 2018 | |
|---|---|---------------------------|---|---------------------------|
| | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| Bank loans | 2.98% | 436,700 | - | - |
| Redcape Hotel Property Trust | - | - | 6.50% | 136,625 |
| Interest rate swaps (notional principal amount) | - | (238,500) | - | - |
| Net exposure to interest rate risk | | <u>198,200</u> | | <u>136,625</u> |

The bank loans outstanding, totalling \$436.7 million, are interest payment loans. Monthly cash outlays of approximately \$1.1 million per month are required to service the interest payments. An official increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax of \$4.4 million per annum.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Redcape. Redcape has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount. Redcape does not hold any collateral. Redcape does not hold any collateral or have any expected credit losses.

Liquidity risk

Redcape manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Redcape has a voluntary working capital deficiency based on its capital management strategy of paying down debt with excess cash.

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|------------|---|--|
| Bank loans | <u>40,300</u> | <u>-</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 28. Financial instruments (continued)

Remaining contractual maturities

The following tables detail Redcape's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Stapled Consolidated 2019 | | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|------------------------------------|--|---|--------------------------------------|---|---|--------------------------------|--|
| Non-derivatives | | | | | | | |
| <i>Non-interest bearing</i> | | | | | | | |
| Trade payables | | - | 3,972 | - | - | - | 3,972 |
| Other payables | | - | 34,777 | - | - | - | 34,777 |
| <i>Interest-bearing - variable</i> | | | | | | | |
| Bank loans | | 2.98% | 17,386 | 468,102 | - | - | 485,488 |
| Total non-derivatives | | | 56,135 | 468,102 | - | - | 524,237 |

| RHT II Consolidated 2018 | | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|------------------------------------|--|---|--------------------------------------|---|---|--------------------------------|--|
| Non-derivatives | | | | | | | |
| <i>Non-interest bearing</i> | | | | | | | |
| Trade payables | | - | 3,056 | - | - | - | 3,056 |
| Other payables | | - | 25,585 | - | - | - | 25,585 |
| <i>Interest-bearing - variable</i> | | | | | | | |
| Redcape Hotel Property Trust | | 6.50% | 1,094 | 183,389 | - | - | 184,483 |
| Total non-derivatives | | | 29,735 | 183,389 | - | - | 213,124 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above. Subsequent to 30 June 2019, Redcape has refinanced its debt facilities which will extend the repayments by another four years. The extension of the bank loans is not reflected in the above contractual maturities.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 29. 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

| Stapled Consolidated 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 |

There were no transfers between levels during the financial year.

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 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 remaining land values were based on internal valuations performed by Redcape's property team and approved by the Board to form Directors valuations. All internal valuations have been reviewed and approved by the Board. The directors do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

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 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the trust:

| | Stapled Consolidated 2019 \$ | RHT II Consolidated 2018 \$ |
|--|---|--|
| <i>Audit services - KPMG</i> | | |
| Audit or review of the financial statements | 349,075 | 299,534 |
| <i>Other services - KPMG</i> | | |
| IPO related services including due diligence | 799,914 | 20,000 |
| | <u>1,148,989</u> | <u>319,534</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
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Note 31. Contingent liabilities

Redcape has provided bank guarantees to a supplier and landlord as at 30 June 2019 of \$1,800,000.

Note 32. Commitments

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|---|---|--|
| <i>Capital commitments</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | - | 1,296 |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,322 | 34,279 |
| One to five years | 5,803 | 108,348 |
| More than five years | 25,993 | 94,686 |
| | <u>33,118</u> | <u>237,313</u> |

Note 33. Related party transactions

Parent entity

Redcape Hotel Trust II is the parent entity.

Transactions with related parties

(a) Responsible entity

| | Transaction values for the year ended 30 June 2019 \$ | Balance outstanding as at 30 June 2019 \$ | Transaction values for the year ended 30 June 2018 \$ | Balance outstanding as at 30 June 2018 \$ |
|--|--|--|--|--|
| Moelis Australia Asset Management Ltd (i) | | | | |
| Fund establishment fee | - | - | 2,850,000 | - |
| Asset management fee | 1,466,532 | - | 2,828,190 | 268,992 |
| Debt arrangement fee | 250,000 | - | - | - |
| Acquisition fee | 1,080,000 | - | 275,500 | - |
| Disposal fee | 210,000 | - | 60,000 | - |
| | <u>3,006,532</u> | <u>-</u> | <u>6,013,690</u> | <u>268,992</u> |
| Redcape Hotel Group Management Ltd (ii) | | | | |
| Asset management fee | 3,561,614 | 435,667 | - | - |
| Acquisition fee | 500,000 | - | - | - |
| Performance fee (iii) | 14,400,000 | 6,400,000 | - | - |
| | <u>18,461,614</u> | <u>6,835,667</u> | <u>-</u> | <u>-</u> |

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

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 33. Related party transactions (continued)

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

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

(b) Other related party transactions

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

| Related Entity | Transaction | Transaction values for the year ended 30 June 2019 | Balance outstanding as at 30 June 2019 | Transaction values for the year ended 30 June 2018 | Balance outstanding as at 30 June 2018 |
|---|-------------------------|---|---|---|---|
| | | \$ | \$ | \$ | \$ |
| Moelis Australia Advisory Pty Limited | Underwriting fee | 2,375,000 | - | 6,137,854 | - |
| Moelis Australia Advisory Pty Limited | Transaction fee | 3,115,670 | - | - | - |
| Moelis Australia Hotel Management Pty Ltd | Hotel operating fee (a) | 9,137,915 | (409,473) | 9,389,155 | 655,924 |
| Moelis Australia Hotel Management Pty Ltd | Project development fee | 743,851 | 73,822 | 329,205 | 53,715 |
| Redcape Hotel Property Trust | Related party loan | - | - | 136,625,095 | 136,625,095 |
| Redcape Hotel Property Trust | Interest expense | - | - | 8,454,975 | - |
| Redcape Hotel Property Trust | Rent | - | - | 37,285,984 | - |
| | | <u>15,372,436</u> | <u>(335,651)</u> | <u>198,222,268</u> | <u>137,334,734</u> |

(a) Includes the \$1.45 million waiver of the Hotel Operator Fee by the Trust manager.

Note 34. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|--------------------------------|---------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Profit/(loss) after income tax | (12,815) | 6,154 |
| Total comprehensive income | (12,815) | 6,154 |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 34. Parent entity information (continued)

Statement of financial position

| | Parent | |
|---|----------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Total current assets | 191,798 | 168,297 |
| Total assets | 232,443 | 205,971 |
| Total current liabilities | 3,559 | 268 |
| Total liabilities | 3,559 | 268 |
| Equity | | |
| Contributed equity | 235,545 | 199,549 |
| Retained profits / (Accumulated losses) | (6,661) | 6,154 |
| Total equity | <u>228,884</u> | <u>205,703</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The subsidiaries of RHT II are the initial guarantors of the syndicated bank facility of Redcape Hotel Property Trust, a subsidiary of RHT I. Redcape Hotel Fund Pty Ltd, a subsidiary of RHT II also has in placed a Deed of Cross Guarantees in relation to the debts of certain subsidiaries.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

The accounting policies of the parent entity are consistent with those of Redcape, as disclosed in note 3, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 35. Business combinations and disposals

Business combination to form Redcape Hotel Group

Stapling

In accordance to the stapling deed, securities 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 Redcape and acquirer of RHT I with the acquisition accounted for as a change in ownership without a loss of control. The issued securities of RHT I are not owned by RHT II and are presented as non-controlling interests in Redcape even though securities in RHT I are held directly by the unitholders of the Trust. Additionally, no goodwill has been recognised on acquisition of RHT I because no direct ownership interest was acquired by Redcape in RHT I.

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.

Redcape was admitted to the official list of the ASX as a stapled group and consequently, ASX reserves the right (but without limiting its absolute discretion) to remove any or both of RHT I and RHT II from the official list of ASX if any of the securities in RHT I or RHT II comprising Redcape stapled securities cease to be stapled together or any equity securities are issued by either RHT I or RHT II which are not stapled to the equivalent securities in the other of RHT I or RHT II.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 35. Business combinations and disposals (continued)

Details of the acquisition arising from stapling are as follows:

| | Fair value \$'000 |
|--|------------------------------|
| Cash and cash equivalents | 14,519 |
| Related party loan | 136,625 |
| Other current assets | 5,184 |
| Investment property | 611,873 |
| Trade and other payables | (3,900) |
| Distribution payable | (10,243) |
| Loans and borrowings | (366,376) |
| Derivative financial instruments | (272) |
| | <hr/> |
| Net assets acquired | 387,410 |
| Goodwill | - |
| | <hr/> |
| Acquisition-date fair value of the total consideration transferred | <u><u>387,410</u></u> |

Accumulated losses

Accumulated losses are losses attributable to RHT II.

Movement in accumulated losses were as follows:

| | Stapled Consolidated 2019 \$'000 |
|--|---|
| Balance at 1 July 2018 | (1,156) |
| Net loss for the year attributable to RHT II | (15,621) |
| Arising from stapling (a) | (26,516) |
| | <hr/> |
| | <u><u>(43,293)</u></u> |

- (a) RHT I holds the Freehold assets which are recognised collectively as investment properties in the RHT I balance sheet. On consolidation, where Redcape holds the Freehold 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 comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 35. Business combinations and disposals (continued)

Other business acquisitions

Redcape has settled on the acquisition of 6 hotels during the year ended 30 June 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 of Venues are as follows:

| | Fair value \$'000 |
|--|---|
| Cash and cash equivalents | 229 |
| Inventory | 263 |
| Prepayments | 105 |
| Property, plant and equipment (Note 15) | 64,482 |
| Gaming and liquor licences (Note 16) | 37,423 |
| Trade and other payables | (698) |
| Employee benefits | (149) |
| | <hr/> |
| Net assets acquired | 101,655 |
| Goodwill | 56,275 |
| | <hr/> |
| Acquisition-date fair value of the total consideration transferred | <u>157,930</u> |
| Representing: | |
| Cash paid or payable to vendor | <u>157,930</u> |
| | <hr/> |
| Acquisition costs expensed to profit or loss | <u>7,631</u> |
| | <hr/> |
| | Stapled Consolidated 2019 \$'000 |
| Cash used to acquire businesses; net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 157,930 |
| Add: payments made for future period acquisition | - |
| Less: cash and cash equivalents | (229) |
| Less: payments made in prior periods | (4,352) |
| | <hr/> |
| Net cash used | <u>153,349</u> |

Acquisition related costs

Business acquisition costs of \$7.6 million include stamp duty, legal fees and due diligence costs were included in Redcape's consolidated statement of profit or loss and other comprehensive income.

Disposals

Redcape has disposed 1 hotel during the year ended 30 June 2019 resulting in a gain on disposal of \$1.0 million. The carrying amount of property plant and equipment at the date of disposal amounted to \$7.8 million. The value of intangibles at the date of disposal amounted to \$12.5 million.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 36. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 3:

| | Stapled Consolidated 2019 % | RHT II Consolidated 2018 % |
|---------------------------------|--|---|
| Subsidiaries of RHT II | | |
| (All incorporated in Australia) | | |
| Redcape Hotel Fund Pty Ltd | 100.00% | 100.00% |
| MAHF Custodian Pty Ltd | 100.00% | 100.00% |
| MAHPT TT Pty Ltd | 100.00% | - |
| Redcape Group Limited | 100.00% | 100.00% |
| Redcape Hotel Group Pty Ltd | 100.00% | 100.00% |
| RHG Operations Pty Ltd | 100.00% | 100.00% |
| Redcape Services Pty Ltd | 100.00% | 100.00% |
| RGM TT Pty Ltd | 100.00% | - |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 36. Interests in subsidiaries (continued)

| | Stapled Consolidated 2019 % | RHT II Consolidated 2018 % |
|---|--|---|
| Subsidiaries of RHT I | | |
| (All incorporated in Australia) | | |
| Redcape Hotel Property Trust | 100.00% | - |
| St George Hotel Trust | 100.00% | - |
| Doonside Hotel Trust | 100.00% | - |
| El Cortez Hotel Trust | 100.00% | - |
| Keighery Hotel Trust | 100.00% | - |
| Lakeview Hotel Motel Trust | 100.00% | - |
| Prospect Hotel Trust | 100.00% | - |
| Royal Hotel Trust | 100.00% | - |
| St Marys Hotel Trust | 100.00% | - |
| Belrose Hotel Trust | 100.00% | - |
| Red Lantern Hotel Trust | 100.00% | - |
| Campbelltown Hotel Trust | 100.00% | - |
| Eastwood Hotel Trust | 100.00% | - |
| Leumeah Hotel Trust | 100.00% | - |
| Mount Annan Hotel Trust | 100.00% | - |
| Revesby Pacific Hotel Trust | 100.00% | - |
| Willoughby Hotel Trust | 100.00% | - |
| Eastern Creek Tavern Hotel Trust | 100.00% | - |
| Landmark Hotel Trust | 100.00% | - |
| Crown Revesby Hotel Trust | 100.00% | - |
| Minskys Hotel Trust | 100.00% | - |
| Shamrock Hotel Trust | 100.00% | - |
| Hermit Park Hotel Trust | 100.00% | - |
| Wattle Hotel Trust | 100.00% | - |
| Carrington Hotel Trust | 100.00% | - |
| Andergrove Tavern Hotel Trust | 100.00% | - |
| Cabramatta Hotel Trust | 100.00% | - |
| Crescent Hotel Trust | 100.00% | - |
| Wattle Grove Hotel Trust | 100.00% | - |
| Sun Hotel Trust - Acquired on 2 July 2018 | 100.00% | - |
| Vauxhall Hotel Trust - Acquired on 13 August 2018 | 100.00% | - |
| Australian Hotel & Brewery Trust - Acquired on 20 August 2018 | 100.00% | - |
| Central Hotel Trust - Acquired on 4 December 2018 | 100.00% | - |
| Unanderra Hotel Trust - Acquired on 4 December 2018 | 100.00% | - |
| Figtree Hotel Trust - Acquired on 4 December 2018 | 100.00% | - |

Note 37. Events after the reporting period

Subsequent to 30 June 2019, Redcape refinanced its debt facilities resulting in an increased facility of \$503.0 million (including \$3.0 million ancillary facility) with a weighted average term of 4 years. As a result of the refinancing, in FY20 the hedge position of the existing finance facility will be closed out at a cost of approximately \$4.0 million. Capitalised loan establishment costs of \$0.5 million will be written off upon activation of the new facility in FY20.

Post the end of the financial year, Redcape exchanged contracts to acquire the Eden Brewhouse Redbank Plains Queensland as part of the ongoing portfolio optimisation program.

No other material matter or circumstance has arisen since 30 June 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.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Notes to the financial statements
30 June 2019

Note 38. Reconciliation of loss after income tax to net cash from operating activities

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|---|--|
| Loss after income tax benefit for the year | (4,930) | (1,156) |
| Adjustments for: | | |
| Depreciation and amortisation expense | 11,360 | 8,080 |
| Loss on asset revaluation | 17,998 | - |
| Net loss/(gain) on disposal of non-current assets | (502) | (511) |
| Business acquisition costs | 7,631 | 4,879 |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | (2,520) | 157 |
| Decrease/(increase) in inventories | 237 | (175) |
| Increase in deferred tax assets | (2,297) | (186) |
| Decrease/(increase) in prepayments | (2) | 295 |
| Increase/(decrease) in trade and other payables | 8,880 | (2,628) |
| Decrease in provision for income tax | - | (1,632) |
| Increase/(decrease) in employee benefits | 142 | (709) |
| Net cash from operating activities | <u>35,997</u> | <u>6,414</u> |

Note 39. Earnings per stapled securities

| | Stapled Consolidated 2019 \$'000 | RHT II Consolidated 2018 \$'000 |
|--|---|--|
| Loss after income tax | <u>(4,930)</u> | <u>-</u> |
| Weighted average number of ordinary securities used in calculating basic and diluted earnings per stapled securities | 528,811,312 | - |
| Basic and diluted earnings per stapled unit (cents) | (0.93) | - |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Directors' declaration
30 June 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 3 to the financial statements;
- the attached financial statements and notes give a true and fair view of Redcape's financial position as at 30 June 2019 and of its performance for the financial year 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Nicholas Roland Collishaw
Chairman

28 August 2019
Sydney



Daniel John Brady
Executive Director



Independent Auditor's Report

To the stapled security holders of Redcape Hotel Group

Opinion

We have audited the **Financial Report** of Redcape Hotel Group (the Stapled Group Financial Report).

In our opinion, the accompanying Stapled Group Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Stapled Group's** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Stapled Group comprises:

- Statement of financial position as at 30 June 2019
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Responsible Entity's Directors' Declaration.

The **Stapled Group** consists of Redcape Hotel Trust II and the entities it controlled at the year-end or from time to time during the financial year and Redcape Hotel Trust I and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Stapled Group and Redcape Hotel Group Management Ltd (the Responsible Entity) in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified for the Stapled Group are:

- Carrying value of goodwill and intangible assets
- Valuation of land

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Carrying value of goodwill and intangible assets (\$590.8m)

Refer to Note 16 to the financial report

The key audit matter

Annual testing of goodwill and intangible assets for impairment is a key audit matter, given the size of the balance (being 53% of total assets). We focussed on the significant forward-looking assumptions the Stapled Group applied in their value in use model for the group of CGUs, including:

- forecast cash flows, growth rates (including terminal growth rate).
- discount rate. This is complex in nature and varies according to the conditions and environment in which the group of Cash Generating Unit's (CGUs) operate.

The Stapled Group uses a complex model to perform their annual testing of goodwill and intangible assets for impairment. The model is largely manually developed, uses adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, particularly those containing highly judgemental forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

The Stapled Group has a large number of individual developed properties, necessitating our consideration of the Stapled Group's determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows. We considered the Stapled Group's allocation of goodwill and intangible assets to the Group of CGUs to which they belong based on the management and monitoring of the business.

In addition to the above, the carrying amount of net assets of the Stapled Group is above the Stapled Group's market capitalisation at 30 June 2019. This increased our audit effort in this key audit area.

We involved valuation specialists to supplement our audit team in assessing this key audit matter.

How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- we considered the appropriateness of the value in use method applied by the Stapled Group to perform the annual test of goodwill and intangible assets for impairment, for the group of CGUs, against the requirements of the accounting standards.
- we assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas.
- we considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rate and discount rate, within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.
- we compared the forecast cash flows contained in the value in use model to Board approved forecasts.
- we assessed the accuracy of previous Stapled Group forecasts to inform our evaluation of forecasts incorporated in the model.
- we challenged the Stapled Group's significant forecast cash flow and growth assumptions by comparing the forecast to historical results of the Stapled Group's operations and applied increased scepticism to areas where previous forecasts were not achieved. We compared forecast growth rates, including terminal growth rate to published studies of industry trends and expectations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience.
- we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Stapled Group and the industry it operates in.
- we considered the Stapled Group's determination of their CGUs based on our

| | |
|--|---|
| | <p>understanding of the operations of the Stapled Group's business, and how independent cash inflows were generated, against the requirements of the accounting standards.</p> <ul style="list-style-type: none"> • we analysed the Stapled Group's internal reporting to assess the Stapled Group's monitoring and management of activities, and the consistency of the allocation of goodwill and intangible assets to the Group of CGUs. • we assessed the Stapled Group's reconciliation of differences between the year-end market capitalisation and the carrying amount of the net assets by comparing the implicit earnings multiples from the Stapled Group's model to market multiples of comparable entities. • we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |
|--|---|

| Valuation of Land (\$351.6m) | |
|--|---|
| Refer to Note 15 to the financial report | |
| The key audit matter | How the matter was addressed in our audit |
| <p>It is the Stapled Group's policy that land is recognised at fair value based on periodic valuations of individual developed properties. Valuations are conducted by either the Stapled Group's Directors or external valuation experts engaged by the Stapled Group.</p> <p>We considered valuation of land as a key audit matter, given the:</p> <ul style="list-style-type: none"> • relative size of land in the statement of financial position (being 31% of total assets); • quantum of the revaluation gains/losses that directly impact the Statement of profit or loss and other comprehensive income through the fair value fluctuations; • inherently subjective nature of property valuations due to the use of assumptions containing estimation uncertainty. These estimates lead to additional audit effort due to differing assumptions such as prevailing market conditions, the individual nature, | <p>Working with our real-estate valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • we assessed the appropriateness of the accounting policies applied by the Stapled Group, against the requirements of the accounting standards. • we assessed the scope, competence and objectivity of Stapled Group's Directors and its external valuation experts, to fair value the individual developed properties. • we assessed the valuation methodology used by the Directors of the Stapled Group and its external valuation experts for consistency with the Stapled Group's valuation policy, and compliance with accounting standards and industry practice. • we assessed the specific valuation assumptions (including the capitalisation rate) for a sample of property valuations, through comparison to market data published by |

| | |
|--|---|
| <p>condition and location of each property and the expected future income for each property.</p> <p>We focused on the following key assumptions contained in valuation methodology used by the Stapled Group and its external valuation experts:</p> <ul style="list-style-type: none"> • Capitalisation rate • Stabilised net operating profit (EBITDA) <p>We involved real-estate valuation specialists to supplement our audit team in assessing this key audit matter.</p> | <p>commercial real estate agents, recent market transactions and our knowledge of historical performance of the properties held by the Stapled Group and their condition and location.</p> <ul style="list-style-type: none"> • we compared the stabilised net operating profit (EBITDA) used in the valuations to historical results of the Stapled Group's operations. We adjusted for expected changes such as the annualisation of results of properties acquired by the Stapled Group during the year. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. • we visited a sample of properties to observe the condition and location of the land. • we checked amounts recorded in the statement of profit or loss and other comprehensive, to movements in the fair value of the land for the year from the Stapled Group's Statement of financial position. • we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |
|--|---|

Other Matter

The Consolidated Financial Report of Redcape Hotel Group for the year ended 30 June 2018 was not prepared, nor audited.

Other Information

Other Information is financial and non-financial information in Redcape Hotel Group's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Redcape Hotel Group Management Ltd (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Stapled Group Special Purpose Financial Statements and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of Redcape Hotel Group Management Ltd (the Responsible Entity) are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



KPMG



Cameron Roan
Partner
Sydney
28 August 2019

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Stapled Security Holders information
30 June 2019**

The stapled security holder's information set out below was applicable as at 13 August 2019.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary stapled securities | Number of holders of options over ordinary stapled securities |
|---------------------------------------|--|---|
| 1 to 1,000 | 251 | 213,908 |
| 1,001 to 5,000 | 90 | 342,798 |
| 5,001 to 10,000 | 388 | 3,347,024 |
| 10,001 to 100,000 | 1,646 | 74,040,677 |
| 100,001 and over | 444 | 473,501,525 |
| | <u>2,891</u> | <u>551,445,932</u> |
| Holding less than a marketable parcel | <u>-</u> | <u>-</u> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Number held | Ordinary stapled securities % of total stapled securities issued |
|---|--------------------|--|
| THE TRUST COMPANY (AUSTRALIA) LIMITED | 113,881,938 | 20.65 |
| WESTERN FUNDS MANAGEMENT PTY LTD | 51,541,700 | 9.35 |
| MOELIS AUSTRALIA ASSET MANAGEMENT LTD | 46,770,651 | 8.48 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 39,507,068 | 7.16 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 34,610,919 | 6.28 |
| CARPE DIEM ASSET MANAGEMENT PTY LTD | 10,000,000 | 1.81 |
| CITICORP NOMINEES PTY LIMITED | 8,261,537 | 1.50 |
| NATIONAL NOMINEES LIMITED | 7,288,943 | 1.32 |
| BARANA CAPITAL PTY LTD | 5,205,537 | 0.94 |
| RHINO TRADE PTY LTD | 5,000,000 | 0.91 |
| TPIC PTY LTD | 5,000,000 | 0.91 |
| PETERS MEATS (EXPORT) PTY LTD | 4,629,630 | 0.84 |
| TOP 4 PTY LTD | 4,522,192 | 0.82 |
| NETWEALTH INVESTMENTS LIMITED | 3,961,526 | 0.72 |
| AUSTRALIAN BRANDS PTY LTD | 3,940,000 | 0.71 |
| CHAO DUAN | 3,120,000 | 0.57 |
| ONE MANAGED INVESTMENT FUNDS LIMITED | 2,935,000 | 0.53 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP | 2,582,139 | 0.47 |
| LIANGROVE MEDIA PTY LIMITED | 2,394,547 | 0.43 |
| NDPM PTY LTD | 1,806,163 | 0.33 |
| | <u>356,959,490</u> | <u>64.73</u> |

Unquoted equity securities

There are no unquoted equity securities.

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Stapled Security Holders information
30 June 2019**

Substantial holders

Substantial holders in Redcape are set out below:

| | Securities held at date of notice | Percentage of securities held at date of notice | Date of notice |
|---|--|--|-----------------------|
| Substantial Holders | | % | |
| Moelis Australia Limited (including its related bodies corporate) | 213,953,331 | 38.8 | 4 December 2018 |
| Moelis & Company Group LP, Moelis & Company International Holdings LLC, Kenneth Moelis and each of their related bodies corporate | 213,953,331 | 38.8 | 4 December 2018 |
| Redcape Hotel Group Management Limited in its capacity as responsible entity of Redcape Hotel Trust I and Redcape Hotel Trust II | 51,500,000 | 9.34 | 4 December 2018 |
| MAGIC TT Pty Ltd and Andrew Pridham | 220,043,766 | 39.9 | 4 December 2018 |

Voting rights

The voting rights attached to ordinary stapled securities are set out below:

Ordinary stapled securities

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each stapled security shall have one vote.

There are no other classes of equity securities.

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
Appendix - Special Purpose Financial Statements ("SPFS")
30 June 2019**

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II

**ASRN Redcape Hotel Trust I (ASRN 629 354 614) and Redcape Hotel Trust II
(ASRN 629 354 696)**

Special Purpose Annual Report - 30 June 2019

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
SPFS - Statement of profit or loss and other comprehensive income
30 June 2019

| | | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|----|---|---------------------------------------|
| Revenue | 6 | 285,215 | 242,885 |
| Cost of sales | | (133,021) | (117,110) |
| Expenses | | | |
| Operating costs | 7 | (32,162) | (27,122) |
| Management fees | 8 | (14,166) | (13,139) |
| Net finance costs | 9 | (17,324) | (14,911) |
| Employment costs | | (38,720) | (29,608) |
| Depreciation and amortisation expense | 15 | (11,360) | (9,036) |
| Gain/(loss) on disposal of non-current assets | | 502 | 1,348 |
| Loss on asset revaluation | 15 | (17,998) | - |
| Business acquisition costs | 35 | (7,631) | (31,509) |
| Operating profit | | 13,335 | 1,798 |
| Listing costs and performance fee | 10 | (20,562) | - |
| Profit/(loss) before income tax benefit | | (7,227) | 1,798 |
| Income tax benefit | 11 | 2,297 | 230 |
| Profit/(loss) after income tax benefit for the year | | (4,930) | 2,028 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Gain on the revaluation of land | | 37,573 | 127,840 |
| <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 | | (3,216) | (272) |
| Other comprehensive income for the year, net of tax | | 34,357 | 127,568 |
| Total comprehensive income for the year | | <u>29,427</u> | <u>129,596</u> |
| Profit/(loss) for the year is attributable to: | | | |
| Unitholders of Redcape Hotel Trust I | | 10,691 | - |
| Unitholders of Redcape Hotel Trust II | | (15,621) | 2,028 |
| | | <u>(4,930)</u> | <u>2,028</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Unitholders of Redcape Hotel Trust I | | 45,048 | - |
| Unitholders of Redcape Hotel Trust II | | (15,621) | 129,596 |
| | | <u>29,427</u> | <u>129,596</u> |
| Basic earnings per share (cents) | 39 | (0.93) | |
| Diluted earnings per share (cents) | 39 | (0.93) | |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
SPFS - Statement of financial position
30 June 2019

| | | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|----|---|---------------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 12 | 16,981 | 35,055 |
| Trade and other receivables | 13 | 3,936 | 1,416 |
| Inventories | | 5,130 | 5,104 |
| Other current assets | 14 | 3,319 | 7,286 |
| Total current assets | | <u>29,366</u> | <u>48,861</u> |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 486,601 | 396,565 |
| Intangible assets | 16 | 590,757 | 509,590 |
| Deferred tax | 17 | 15,645 | 12,674 |
| Total non-current assets | | <u>1,093,003</u> | <u>918,829</u> |
| Total assets | | <u>1,122,369</u> | <u>967,690</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 18 | 38,749 | 29,460 |
| Employee benefits | 19 | 1,708 | 1,430 |
| Distribution payable | 20 | 12,030 | 10,243 |
| Total current liabilities | | <u>52,487</u> | <u>41,133</u> |
| Non-current liabilities | | | |
| Other payables | 21 | 430 | 474 |
| Borrowings | 22 | 436,561 | 366,284 |
| Derivative financial instruments | 23 | 3,489 | 272 |
| Employee benefits | 24 | 255 | 240 |
| Total non-current liabilities | | <u>440,735</u> | <u>367,270</u> |
| Total liabilities | | <u>493,222</u> | <u>408,403</u> |
| Net assets | | <u>629,147</u> | <u>559,287</u> |
| Equity | | | |
| Contributed equity | 25 | 235,545 | 467,307 |
| Reserves | | - | 127,568 |
| Accumulated losses | | (43,293) | (35,588) |
| Equity attributable to the stapled security holders of RHT II | | <u>192,252</u> | <u>559,287</u> |
| Non-controlling interest | 26 | 436,895 | - |
| Total equity | | <u>629,147</u> | <u>559,287</u> |
| Equity attributable to RHT I (non-controlling interest) | | | |
| Contributed equity | | 318,469 | - |
| Reserves | | 161,923 | - |
| Accumulated losses | | (43,497) | - |
| Total equity attributable to unitholders of RHT I (non-controlling interest) (a) | | <u>436,895</u> | <u>-</u> |

(a) Aggregated comparative hence no parent entity or non-controlling interest, therefore the balance reflected is zero.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
SPFS - Statement of changes in equity
30 June 2019

| Aggregated | Contributed equity \$'000 | Asset revaluation reserve \$'000 | Cash flow hedge reserve \$'000 | Accumulated losses \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
|--|--------------------------------------|---|---|--------------------------------------|--|--------------------------------|
| Balance at 1 July 2017 | - | - | - | - | - | - |
| Profit after income tax benefit for the year | - | - | - | 2,028 | - | 2,028 |
| Other comprehensive income for the year, net of tax | - | 127,840 | (272) | - | - | 127,568 |
| Total comprehensive income for the year | - | 127,840 | (272) | 2,028 | - | 129,596 |
| <i>Transactions with stapled security holders in their capacity as stapled security holders:</i> | | | | | | |
| Contributions of equity, net of transaction costs (note 25) | 467,307 | - | - | - | - | 467,307 |
| Distributions paid (note 27) | - | - | - | (37,026) | - | (37,026) |
| Adjustments | - | - | - | (590) | - | (590) |
| Balance at 30 June 2018 | <u>467,307</u> | <u>127,840</u> | <u>(272)</u> | <u>(35,588)</u> | - | <u>559,287</u> |
| Stapled Consolidated | Issued capital \$'000 | Asset revaluation reserve \$'000 | Cash flow hedge reserve \$'000 | Accumulated losses \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
| Balance at 1 July 2018 | 467,307 | 127,840 | (272) | (35,588) | - | 559,287 |
| Arising due to stapling arrangement | (267,758) | (127,840) | 272 | 7,916 | 387,410 | - |
| Profit/(loss) after income tax benefit for the year | - | - | - | (15,621) | 10,691 | (4,930) |
| Other comprehensive income for the year, net of tax | - | - | - | - | 34,357 | 34,357 |
| Total comprehensive income for the year | - | - | - | (15,621) | 45,048 | 29,427 |
| <i>Transactions with stapled security holders in their capacity as stapled security holders:</i> | | | | | | |
| Contributions of equity, net of transaction costs (note 25) | 35,996 | - | - | - | 50,708 | 86,704 |
| Distributions paid (note 27) | - | - | - | - | (46,271) | (46,271) |
| Balance at 30 June 2019 | <u>235,545</u> | <u>-</u> | <u>-</u> | <u>(43,293)</u> | <u>436,895</u> | <u>629,147</u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
SPFS - Statement of cash flows
30 June 2019

| | | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|----|---|---------------------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 311,559 | 267,530 |
| Payments to suppliers and employees (inclusive of GST) | | <u>(257,638)</u> | <u>(213,764)</u> |
| | | 53,921 | 53,766 |
| Interest received | | 259 | 257 |
| Interest and other finance costs paid | | (18,183) | (13,126) |
| Income taxes paid | | <u>-</u> | <u>(1,632)</u> |
| Net cash from operating activities | 38 | <u>35,997</u> | <u>39,265</u> |
| Cash flows from investing activities | | | |
| Payment for purchase of business, net of cash acquired | 35 | (153,349) | (794,378) |
| Business acquisition transaction costs | | (7,631) | (31,509) |
| Payments for property, plant and equipment | 15 | (25,182) | (14,761) |
| Payments for intangibles | 16 | - | (1,329) |
| Proceeds from disposal of business | | 20,430 | 20,412 |
| Proceeds from disposal of investment property | | - | 2,646 |
| Proceeds from disposal of property, plant and equipment | | <u>112</u> | <u>724</u> |
| Net cash used in investing activities | | <u>(165,620)</u> | <u>(818,195)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of stapled securities | 25 | 89,757 | 474,068 |
| Proceeds from borrowings | | 119,000 | 390,072 |
| Repayment of borrowings | | (49,000) | (23,372) |
| Stapled Securities issue transaction costs | | (3,724) | - |
| Distributions paid | 27 | <u>(44,484)</u> | <u>(26,783)</u> |
| Net cash from financing activities | | <u>111,549</u> | <u>813,985</u> |
| Net increase/(decrease) in cash and cash equivalents | | (18,074) | 35,055 |
| Cash and cash equivalents at the beginning of the financial year | | <u>35,055</u> | <u>-</u> |
| Cash and cash equivalents at the end of the financial year | 12 | <u><u>16,981</u></u> | <u><u>35,055</u></u> |

Note 1. General Information

(a) Reporting Entity

The Redcape Hotel Trust II ("RHT II") and Redcape Hotel Trust I ("RHT I") were stapled on 2 July 2018 such that the securities are effectively dealt with as a stapled security.

The stapled securities of RHT I and RHT II (collectively "Redcape Hotel Group" or "Redcape") commenced trading as a single stapled security on the ASX on 30 November 2018 under the ticker code "RDC".

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 year.

(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.

(d) First-year report

Redcape has consulted with ASIC in relation to the period for its financial year ended 30 June 2019. In accordance with ASIC's view, Redcape's financial year ended 30 June 2019 was the 12-month period commencing on 1 July 2018.

Redcape's General Purpose Financial Statements (as required by Chapter 2M of the *Corporations Act*) set out Redcape's financial information for its financial year being the 12 months to 30 June 2019. The comparative numbers for the 12 months to 30 June 2018 are the numbers for Redcape Hotel Trust II only. The trusts were not stapled in during this period, hence only the comparatives of the parent entity can be used.

Redcape has provided this Special Purpose full year financial report for the 12-month period ending 30 June 2019 with full year aggregated comparatives.

Note 2. Basis of preparation

The Responsible Entity has prepared a Special Purpose consolidated financial statements for the year ended 30 June 2019 for the purpose of meeting the listing requirements of the Australian Securities Exchange ("ASX").

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
SPFS - Notes to the financial statements
30 June 2019

(a) Compliance Statement

The consolidated financial statements are Special Purpose financial statements which have been prepared in accordance with the recognition, measurement and classification aspects of the Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB). The Special Purpose consolidated financial statements include those disclosures considered necessary by the directors of the Responsible Entity to meet the needs of users. The Special Purpose consolidated financial statements comply with all disclosure requirements of the AASBs except for the comparatives not complying with:

- AASB 10 Consolidated financial statements

Stapling of the entities occurred on 2 July 2018 hence Redcape's FY18 accounts were prepared on an aggregated basis as there was no single parent entity. Under AASB 10 aggregation of Redcape is not a consolidation. To comply with AASB 10, the comparative financials to be included in the 30 June 2019 consolidated financial statements are those of RHT II (the parent entity in the FY18 accounts). As RHT I and RHT II were not stapled during the twelve months to 30 June 2018, AASB 10 would require that the financials of RHT I would be wholly excluded from the comparative numbers in the 30 June 2019 consolidated financial statements.

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 year ended 30 June 2019 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 30 June 2019 financial statements have been prepared as a Special Purpose accounts.

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

The Special Purpose consolidated financial report as at and for the year ended 30 June 2019 was approved by the directors of the Responsible Entity on 28 August 2019

(b) 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

(c) Functional and presentation currency

The 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.

(e) Going Concern

The Special Purpose 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 30 June 2019, Redcape had current assets of \$29.4 million and current liabilities of \$52.5 million leaving a net deficit of working capital of \$23.1 million. The directors of the Responsible Entity believe Redcape will continue to generate operating cash flows sufficient to meet current liability obligations.

Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 adoption of these Accounting Standards and Interpretations did not have any material impact on the financial performance or position of Redcape.

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

AASB 9 Financial Instruments

From 1 July 2018, Redcape has applied AASB 9 prospectively. The resulting accounting policies for Redcape's financial instruments are explained in further detail in Note 3.

AASB 15 Revenue from Contracts with Customers

From 1 July 2018, Redcape has applied AASB 15 prospectively. The resulting accounting policies for Redcape's revenue are explained in further detail in Note 3 Revenue Recognition.

Principles of consolidation

The consolidated Special Purpose financial statements incorporate the assets and liabilities of all subsidiaries of RHT II as at 30 June 2019 and the results of all subsidiaries for the year then ended. RHT II and its subsidiaries together are referred to in these financial statements as the 'Redcape'.

Subsidiaries are all those entities over which Redcape has control. Redcape controls an entity when Redcape is exposed to, or has rights to, variable returns from its involvement with the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Redcape. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in Redcape are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries align with the policies adopted by Redcape.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where Redcape loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. Redcape recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). Redcape operates wholly within one business segment being the ownership and operation of hotels in Australia.

Revenue recognition

Redcape recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which Redcape is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, Redcape: identifies the contract with a customer, identifies the performance obligations in the contract, determines the transaction price which takes into account estimates of variable consideration and the time value of money, allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered, and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration is not material in the context of Redcape's 'total revenue'.

Gaming Revenue

Gaming revenue is the net difference between gaming wins and losses and is recognised upon the outcome of the game at the close of business.

Food and beverage revenue (On-Premise and Off-Premise)

Food and beverage revenue is recognised at the point in time the goods are provided and payment is collected.

Accommodation and other revenues

Accommodation and other revenues are recognised at the point in time services are performed.

Interest

Interest income is recognised using the effective interest method.

Income tax

RHT I

Under current income tax legislation, RHT I is not liable for income tax provided unit holders are presently entitled to all of RHT I's income at 30 June each year.

RHT II

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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RHT II and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime, effective July 2017 and are taxed as a single entity from that date. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group. These are recognised as amounts payable to or receivable from other entities in the tax consolidated group in conjunction with any tax funding arrangement amount.

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.

In determining the amount of current and deferred tax RHT II takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. RHT 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 RHT 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

Redcape has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to hedge Redcape's interest rate risk exposures. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Cash flow hedges are tested for effectiveness on a regular basis prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Property, plant and equipment

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.

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 Redcape, 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.

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 Redcape will obtain ownership by the end of the lease term.

The estimated useful lives are as follow:

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to Redcape. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Revaluation

Land is recognised at fair value based on periodic valuations by external independent valuers and/or 6-month director valuations. A revaluation surplus is credited to other reserves in securityholders' equity.

Increases in the carrying amounts arising on revaluation of land are recognised in other comprehensive income and accumulated in other reserves in securityholders' 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.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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.

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.

Impairment

Non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Financial assets

Redcape recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost. Redcape has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables. These provisions are considered representative across all customers of Redcape based on recent sales experience, historical collection rates and forward-looking information that is available.

Trade and other payables

These amounts represent liabilities for goods and services provided to Redcape prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost, are unsecured and are not discounted.

Loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs are expensed in the period in which they are incurred. Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions.

Provisions

Provisions are recognised when Redcape has a present (legal or constructive) obligation as a result of a past event, it is probable Redcape will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary stapled securities are classified as equity.

Incremental costs directly attributable to the issue of new stapled securities or options are shown in equity as a deduction, net of tax, from the proceeds.

Distributions

Distributions are recognised when declared during the financial year and no longer at the discretion of the trust.

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the trust, on or before the end of the financial year but not distributed at the reporting date.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at the proportionate share of the identifiable net assets of the acquiree. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, Redcape assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, Redcape's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, Redcape remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by Redcape for the annual reporting period ended 30 June 2019. Redcape's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to Redcape, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 and its impact on adoption is expected to result in total lease assets increasing by approximately \$23.8 million and total lease liabilities increasing approximately \$25.6 million. Deferred tax asset that arises as a result of both the internal and external leases that will not be eliminated on consolidation is by approximately \$9.5 million.

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, which management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. Judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Valuation of land

The fair value of land is reviewed regularly by management with reference to external independent valuations, recent offers and market conditions existing at reporting date, using generally accepted market practices. Then critical assumptions underlying management's estimates of fair value are those relating to the capitalisation rate and adopted earnings. If there is any change in these assumptions or economic conditions, the fair value of the land may differ.

Fair value measurement hierarchy

Redcape is required to classify all assets and liabilities, measured 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; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

Goodwill and other indefinite life intangible assets

Redcape tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

Redcape assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to Redcape and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Note 5. Operating segments

Identification of reportable operating segments

Redcape operates as one business segment being the owner and/or operator of pubs, 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 each period end.

Note 6. Revenue

Disaggregation of revenue

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

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|------------------------------|---|---------------------------------------|
| <i>Major revenue streams</i> | | |
| Gaming revenue | 179,099 | 153,846 |
| On-premise revenue | 56,877 | 39,998 |
| Off-premise revenue | 48,022 | 48,126 |
| Corporate and other revenue | 1,217 | 915 |
| | <u>285,215</u> | <u>242,885</u> |

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

Note 7. Operating costs

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|------------------------------------|---|---------------------------------------|
| Administrative expenses | 3,287 | 2,348 |
| Advertising and marketing expenses | 5,082 | 3,825 |
| Operating expenses | 11,771 | 9,668 |
| Repairs and maintenance expenses | 2,161 | 1,858 |
| Property outgoing expenses | 8,613 | 7,209 |
| Rental expenses | 1,248 | 2,214 |
| | <u>32,162</u> | <u>27,122</u> |

Note 8. Management fees

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|----------------------|---|---------------------------------------|
| Hotel operating fee | 9,138 | 9,389 |
| Asset management fee | 5,028 | 3,750 |
| | <u>14,166</u> | <u>13,139</u> |

Note 9. Net finance costs

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|----------------|---|---------------------------------------|
| Finance income | (259) | (257) |
| Finance costs | 17,583 | 15,168 |
| | <u>17,324</u> | <u>14,911</u> |

Note 10. Listing costs and performance fee

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| Listing costs (a) | 6,762 | - |
| Performance fee (b) | 13,800 | - |
| Total listing costs and performance fee | <u>20,562</u> | <u>-</u> |

(a) Expensed costs associated with listing Redcape on the ASX.

(b) 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 11. Income tax benefit

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| <i>Income tax benefit</i> | | |
| Deferred tax - origination and reversal of temporary differences | (2,297) | (230) |
| Aggregate income tax benefit | <u>(2,297)</u> | <u>(230)</u> |
| Deferred tax included in income tax benefit comprises: | | |
| Increase in deferred tax assets (note 17) | (2,297) | (230) |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i> | | |
| Profit/(loss) before income tax benefit | (7,227) | 1,798 |
| Tax at the statutory tax rate of 30% | (2,168) | 539 |
| Trust loss not subject to tax | (787) | (941) |
| Non-deductible expenses | 658 | 172 |
| Income tax benefit | <u>(2,297)</u> | <u>(230)</u> |
| | | |
| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
| <i>Amounts credited directly to equity</i> | | |
| Deferred tax assets (note 17) | (674) | (1,843) |

Note 12. Current assets - cash and cash equivalents

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---------------------------|---|---------------------------------------|
| Cash and cash equivalents | <u>16,981</u> | <u>35,055</u> |

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less.

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Note 13. Current assets - trade and other receivables

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|-----------------------|---|---------------------------------------|
| Trade receivables | 514 | 81 |
| Other receivables (a) | 3,422 | 1,335 |
| | <u>3,936</u> | <u>1,416</u> |

(a) Includes receivables from supplier rebates.

Note 14. Current assets - other current assets

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--------------------------------------|---|---------------------------------------|
| Prepayments | 2,760 | 2,321 |
| Acquisition costs | - | 4,632 |
| Capitalised loan establishment costs | 559 | 333 |
| | <u>3,319</u> | <u>7,286</u> |

Note 15. Non-current assets - property, plant and equipment

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| Land - at valuation | 351,648 | 292,260 |
| | <u>351,648</u> | <u>292,260</u> |
| Buildings - at cost | 59,505 | 47,607 |
| Less: Accumulated depreciation | (2,033) | (803) |
| | <u>57,472</u> | <u>46,804</u> |
| Property improvements - at cost | 37,189 | 24,957 |
| Less: Accumulated depreciation | (2,615) | (1,420) |
| | <u>34,574</u> | <u>23,537</u> |
| Furniture, fittings & equipment - at cost | 41,869 | 29,945 |
| Less: Accumulated depreciation | (9,691) | (4,530) |
| | <u>32,178</u> | <u>25,415</u> |
| Work in progress - at cost | 10,729 | 8,549 |
| | <u>486,601</u> | <u>396,565</u> |

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Reconciliations

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

- (a) Note 35 details treatment of business combination and disposal.
(b) Net revaluation uplift of \$20.5 million includes gain of \$38.5 million recognised in the asset revaluation reserve offset by a loss of \$18.0 million recognised in the income statement. Gain on revaluation of land of \$37.6 million in other comprehensive income includes the reserve released on the sale of Belrose Hotel.

Valuations of land

The basis of the valuations of land is fair value. The land was last revalued 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 do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

Land stated under the historical cost convention

If land and buildings were stated under the historical cost convention, the amounts would be as follows:

| | Land | Building | Property improvement | Furniture, fittings & equipment | Work in progress | Total |
|---------------------------------------|---------|----------|----------------------|---------------------------------|------------------|----------|
| Stapled Consolidated | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2017 | - | - | - | - | - | - |
| Disposals | - | - | (225) | (640) | (22) | (887) |
| Disposals - business | (6,293) | (1,038) | (199) | (573) | (30) | (8,133) |
| Additions | - | 22 | 689 | 5,091 | 8,959 | 14,761 |
| Additions - business acquisitions | 170,713 | 48,634 | 22,529 | 26,704 | 3,440 | 272,020 |
| Revaluation increments | 127,840 | - | - | - | - | 127,840 |
| Transfers in/(out) | - | - | 2,305 | 1,493 | (3,798) | - |
| Depreciation expense | - | (814) | (1,562) | (6,660) | - | (9,036) |
| Balance at 30 June 2018 | 292,260 | 46,804 | 23,537 | 25,415 | 8,549 | 396,565 |
| Disposals | - | - | (839) | (132) | - | (971) |
| Disposals - business (a) | (1,821) | (4,841) | (264) | (710) | (114) | (7,750) |
| Additions | - | 86 | 3,518 | 6,513 | 15,065 | 25,182 |
| Additions - business acquisitions (a) | 40,756 | 16,751 | - | 6,975 | - | 64,482 |
| Revaluation increments (b) | 20,453 | - | - | - | - | 20,453 |
| Transfers in/(out) | - | - | 10,634 | 2,137 | (12,771) | - |
| Depreciation expense | - | (1,328) | (2,012) | (8,020) | - | (11,360) |
| Balance at 30 June 2019 | 351,648 | 57,472 | 34,574 | 32,178 | 10,729 | 486,601 |

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|----------------|----------------------------------|------------------------|
| Land - at cost | 204,233 | 164,421 |
| | 204,233 | 164,421 |

Note 16. Non-current assets - intangible assets

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--------------------------------------|---|---------------------------------------|
| Goodwill - at cost | 327,714 | 278,461 |
| Gaming and liquor licences - at cost | 263,043 | 231,129 |
| | <u>590,757</u> | <u>509,590</u> |

Reconciliations

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

| Aggregated | Goodwill \$'000 | Gaming and liquor licences \$'000 | Total \$'000 |
|---|----------------------------|--|-------------------------|
| Balance at 1 July 2017 | - | - | - |
| Additions | - | 1,329 | 1,329 |
| Disposals | (4,942) | (5,700) | (10,642) |
| Additions - business acquisitions | 283,403 | 235,500 | 518,903 |
| | <u>283,403</u> | <u>235,500</u> | <u>518,903</u> |
| Stapled Consolidated | | | |
| Balance at 30 June 2018 | 278,461 | 231,129 | 509,590 |
| Disposals (a) | (7,022) | (5,509) | (12,531) |
| Additions - business acquisitions (note 35) | 56,275 | 37,423 | 93,698 |
| | <u>56,275</u> | <u>37,423</u> | <u>93,698</u> |
| Balance at 30 June 2019 | <u>327,714</u> | <u>263,043</u> | <u>590,757</u> |

(a) Relates to disposal of Belrose hotel. Refer to commentary in note 35.

Impairment testing

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.

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:

| | 2019 % | 2018 % |
|----------------------------|-------------------|-------------------|
| Discount rate (pre-tax) | 8.1% | 8.7% |
| EBITDAR growth rate | 3.0% | 3.0% |
| Terminal value growth rate | 3.0% | 3.0% |

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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.

| | Terminal value % | Pre-tax discount rate % |
|--|---------------------------------|--|
| Assumptions used in value in use calculation | 3.0% | 8.1% |
| Rate required for recoverable amount to equal carrying value (a) | 1.7% | 9.2% |

(a) Each rate is determined in isolation.

Note 17. Non-current assets - deferred tax

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|---|---------------------------------------|
| <i>Deferred tax asset comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 4,975 | 1,770 |
| Property, plant and equipment | 1,249 | 1,002 |
| Employee benefits | 589 | 501 |
| Accrued expenses | 163 | 584 |
| Straight-line lease liability | 1,659 | 1,763 |
| Over market rent liability | 2,360 | 2,928 |
| Transaction costs | 4,636 | 4,092 |
| Other items | 14 | 34 |
| Deferred tax asset | <u>15,645</u> | <u>12,674</u> |
| <i>Movements:</i> | | |
| Opening balance | 12,674 | - |
| Credited to profit or loss (note 11) | 2,297 | 230 |
| Credited to equity (note 11) | 674 | 1,843 |
| Additions through business combinations | - | 10,601 |
| Closing balance | <u>15,645</u> | <u>12,674</u> |

Note 18. Current liabilities - trade and other payables

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|------------------------|---|---------------------------------------|
| | Stapled Consolidated 2019 | Aggregated 2018 |
| Trade payables | 3,972 | 3,055 |
| Accrued interest | 1,944 | 2,595 |
| Performance fee | 6,400 | - |
| Other payables | 8,125 | 7,489 |
| State government taxes | 18,308 | 16,321 |
| | <u>38,749</u> | <u>29,460</u> |

Note 19. Current liabilities - employee benefits

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--------------------|---|---------------------------------------|
| Annual leave | 1,453 | 1,206 |
| Long service leave | 255 | 224 |
| | <u>1,708</u> | <u>1,430</u> |

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since Redcape does not have an unconditional right to defer settlement. However, based on past experience, Redcape does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| Employee benefits obligation expected to be settled after 12 months | <u>255</u> | <u>240</u> |

Note 20. Current liabilities - distribution payable

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---------------|---|---------------------------------------|
| Distributions | <u>12,030</u> | <u>10,243</u> |

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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 year but not distributed at the reporting date.

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|---|---------------------------------------|
| Carrying amount at the start of the year | 10,243 | - |
| Additional provisions recognised | 46,271 | 37,026 |
| Payments relating to prior period | (10,243) | - |
| Payments relating to current period | (34,241) | (26,783) |
| | <u>12,030</u> | <u>10,243</u> |

Note 21. Non-current liabilities - other payables

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|-------------------------------|---|---------------------------------------|
| Straight-line lease liability | <u>430</u> | <u>474</u> |

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Redcape as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Note 22. Non-current liabilities - borrowings

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--------------------------------------|---|---------------------------------------|
| Bank loans | 436,700 | 366,700 |
| Capitalised loan establishment costs | (139) | (416) |
| | <u>436,561</u> | <u>366,284</u> |

Total secured liabilities

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

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|------------|---|---------------------------------------|
| Bank loans | <u>436,700</u> | <u>366,700</u> |

Syndicated Bank Facility

The total facility amount is \$477.0 million (excluding \$3.0 million ancillary facility) and expires on 23 September 2020.

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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 year ended 30 June 2019.

Restrictions on distributions

There have been no breaches of the restrictions on distributions in the year ended 30 June 2019.

Financing arrangements

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

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|------------------------------|---|---------------------------------------|
| Total facilities | | |
| Bank loans | 477,000 | 427,000 |
| Used at the reporting date | | |
| Bank loans | 436,700 | 366,700 |
| Unused at the reporting date | | |
| Bank loans | 40,300 | 60,300 |

Note 23. Non-current liabilities - derivative financial instruments

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| Interest rate swap contracts - cash flow hedges | 3,489 | 272 |

Refer to note 28 for further information on financial instruments.

Refer to note 29 for further information on fair value measurement.

Note 24. Non-current liabilities - employee benefits

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--------------------|---|---------------------------------------|
| Long service leave | 255 | 240 |

Note 25. Equity - contributed equity

| | Stapled Consolidated 2019 Stapled Securities | Aggregated 2018 Stapled Securities | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|--|---|--|------------------------------|
| Contributed equity | 551,445,932 | 470,312,074 | 235,545 | 467,307 |
| | June 2019 No of securities '000 | June 2019 \$'000 | June 2018 No of securities '000 | June 2018 \$'000 |
| Details | | | | |
| RHT II Consolidated | | | | |
| Balance at beginning of the period | 470,312 | 199,549 | - | - |
| Securities issued | 81,134 | 37,569 | 470,312 | 203,849 |
| Equity raising costs | - | (2,247) | - | (6,143) |
| Deferred tax asset | - | 674 | - | 1,843 |
| Balance at end of the period | 551,446 | 235,545 | 470,312 | 199,549 |
| | June 2019 No of securities '000 | June 2019 \$'000 | June 2018 No of securities '000 | June 2018 \$'000 |
| Details | | | | |
| RHT I Consolidated (non-controlling interest) | | | | |
| Balance at beginning of the period | 470,312 | 267,758 | - | - |
| Securities issued | 81,134 | 52,188 | 470,312 | 270,219 |
| Equity raising costs | - | (1,477) | - | (2,461) |
| Balance at end of the period | 551,446 | 318,469 | 470,312 | 267,758 |

Ordinary stapled securities

The Ordinary securities of RHT II are stapled to the securities of RHT I. Each stapled security entitles the holder to participate in distributions and the proceeds on the winding up of the trust in proportion to the number of and amounts paid on the securities held. The fully paid stapled ordinary securities have no par value and the trust does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each stapled security shall have one vote.

Stapled Securities buy-back

As disclosed in the PDS, the Responsible Entity may in its sole discretion proceed with an on-market buy-back of up to 5% of Redcape stapled securities. The timing of and conduct of the buy-back will be in accordance with the Listing Rules and all applicable laws. No buy-back of Redcape stapled securities has been undertaken by the Responsible Entity.

Voluntary Escrow

There are currently 51.5 million shares subject to a voluntary escrow arrangement. The escrow period ends in February 2020 in line with Redcape's FY20 HY results release.

Capital risk management

Redcape's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for stapled security holders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

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Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, Redcape may adjust the amount of distributions paid to stapled security holders, return capital to stapled security holders, issue new stapled securities or sell assets to reduce debt.

Redcape would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current trust's stapled securities price at the time of the investment.

Redcape is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the previous reporting period.

Note 26. Equity - non-controlling interest

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--------------------|---|---------------------------------------|
| Contributed equity | 318,469 | - |
| Reserves | 161,923 | - |
| Accumulated losses | (43,497) | - |
| | <u>436,895</u> | <u>-</u> |

Aggregated comparative with no parent entity or non-controlling interest, therefore the balance reflected is zero.

| | Contributed equity \$'000 | Hedging reserve \$'000 | Revaluation reserve \$'000 | Retained earnings/ (Accumulate d losses) \$'000 | Total \$'000 |
|--|--|---------------------------------------|---|--|-------------------------|
| RHT I Consolidated | | | | | |
| Profit for the year | - | - | - | 10,691 | 10,691 |
| Total other comprehensive income | - | (3,216) | 37,573 | - | 34,357 |
| Arising on stapling | 267,758 | (272) | 127,838 | (7,917) | 387,407 |
| Issue of securities | 52,188 | - | - | - | 52,188 |
| Equity raising costs | (1,477) | - | - | - | (1,477) |
| Interim distributions paid to unitholders | - | - | - | (34,241) | (34,241) |
| Provisions for distribution to unitholders | - | - | - | (12,030) | (12,030) |
| Balance at 30 June 2019 | <u>318,469</u> | <u>(3,488)</u> | <u>165,411</u> | <u>(43,497)</u> | <u>436,895</u> |

Note 27. Equity - distributions

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

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|---|---------------------------------------|
| Final distribution for the quarter ended 30 September 2018 of 2.205 cents (FY18: 2.205 cents) per unit | 10,795 | 7,839 |
| Final distribution for the quarter ended 31 December 2018 of 2.205 cents (FY18: 2.205 cents) per unit | 11,548 | 9,032 |
| Final distribution for the quarter ended 31 March 2019 of 2.158 cents (FY18: 2.158 cents) per unit | 11,898 | 9,912 |
| Final distribution for the quarter ended 30 June 2019(a) of 2.182 cents (FY18: 2.182 cents) per unit | 12,030 | 10,243 |
| | <u>46,271</u> | <u>37,026</u> |

- (a) On 24 June 2019 the directors declared a final dividend for the quarter ended 30 June 2019 of 2.182 cents per unit to be paid on 30 August 2019.

Distributions prior to the listing on the ASX as at 30 November 2018 were calculated on a pro rata basis for days held.

Note 28. Financial instruments

Financial risk management objectives

Redcape's activities expose it to interest rate risks, credit risk and liquidity risk. Redcape's overall risk management program seeks to minimise potential adverse effects on the financial performance of Redcape. Redcape uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk exposure. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. Redcape uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the directors of the Responsible Entity. These policies include identification and analysis of the risk exposure of Redcape and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within Redcape's operations. Finance reports to the directors on a monthly basis.

Market risk

Foreign currency risk

Redcape is not exposed to any foreign currency risk.

Price risk

Redcape is not exposed to any significant price risk.

Interest rate risk

Redcape's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose Redcape to interest rate risk. Borrowings obtained at fixed rates expose Redcape to fair value interest rate risk. The policy is to maintain approximately 50% of current borrowings at fixed rates using interest rate swaps to achieve this when necessary.

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As at the reporting date, Redcape had the following variable rate borrowings and interest rate swap contracts outstanding:

| Stapled Consolidated | Stapled Consolidated 2019 | | Aggregated 2018 | |
|---|---|-----------------------|---|-----------------------|
| | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| Bank loans | 2.98% | 436,700 | 2.84% | 366,700 |
| Interest rate swaps (notional principal amount) | - | <u>(238,500)</u> | - | <u>(215,000)</u> |
| Net exposure to interest rate risk | | <u>198,200</u> | | <u>151,700</u> |

For Redcape the bank loans outstanding, totalling \$436.7 million (2018: \$366.7 million), are interest payment loans. Monthly cash outlays of approximately \$1.1 million (2018: \$0.8 million) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (2018: 100) basis points would have an adverse/favourable effect on profit before tax of \$4.4 million (2018: \$3.7 million) per annum.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Redcape. Redcape has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount. Redcape does not hold any collateral or have any expected credit losses.

Liquidity risk

Redcape manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Redcape has a voluntary working capital deficiency based on its capital management strategy of paying down debt with excess cash.

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|------------|---|-------------------------------|
| Bank loans | <u>40,300</u> | <u>60,300</u> |

Remaining contractual maturities

The following tables detail Redcape's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Stapled Consolidated 2019 | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|------------------------------------|---|------------------------------|-------------------------------------|-------------------------------------|----------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 3,972 | - | - | - | 3,972 |
| Other payables | - | 34,777 | - | - | - | 34,777 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Bank loans | 2.98% | 17,386 | 468,102 | - | - | 485,488 |
| Total non-derivatives | | <u>56,135</u> | <u>468,102</u> | - | - | <u>524,237</u> |

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| Aggregated 2018 | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|------------------------------------|---|------------------------------|-------------------------------------|-------------------------------------|----------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 3,055 | - | - | - | 3,055 |
| Other payables | - | 26,405 | - | - | - | 26,405 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Bank loans | 2.84% | 16,345 | 17,970 | 380,691 | - | 415,006 |
| Total non-derivatives | | 45,805 | 17,970 | 380,691 | - | 444,466 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above. Redcape is in the process of refinancing its debt facilities which, when approved, will extend the repayments by another four years. The extension of the bank loans is not reflected in the above contractual maturities.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 29. 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

| Stapled Consolidated 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 |

Liabilities

| | | | | |
|--------------------------|----------|----------|--------------|--------------|
| Interest rate swaps | - | - | 3,489 | 3,489 |
| Total liabilities | - | - | 3,489 | 3,489 |

| Aggregated 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| <i>Assets</i> | | | | |
| Land | - | - | 292,260 | 292,260 |
| Total assets | - | - | 292,260 | 292,260 |
| <i>Liabilities</i> | | | | |
| Interest rate swaps | - | - | 272 | 272 |
| Total liabilities | - | - | 272 | 272 |

There were no transfers between levels during the financial year.

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.

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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. The land was last revalued 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, and internal valuations performed by Redcape's internal property team. All internal valuations have been reviewed and approved by the Board to form Directors valuation. All internal valuations have been reviewed and approved by the Board. The directors do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

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 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the trust:

| | Stapled Consolidated 2019 \$ | Aggregated 2018 \$ |
|--|---|-----------------------------------|
| <i>Audit services - KPMG</i> | | |
| Audit or review of the financial statements | 349,075 | 299,534 |
| <i>Other services - KPMG</i> | | |
| IPO related services including due diligence | 799,914 | 20,000 |
| | <u>1,148,989</u> | <u>319,534</u> |

Note 31. Contingent liabilities

Redcape has provided bank guarantees to a supplier and landlord as at 30 June 2019 of \$1,800,000 (2018: \$1,800,000).

Note 32. Commitments

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| <i>Capital commitments</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | - | 1,296 |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,322 | 1,274 |
| One to five years | 5,803 | 4,117 |
| More than five years | 25,993 | - |
| | <u>33,118</u> | <u>5,391</u> |

Note 33. Related party transactions

Parent entity

Redcape Hotel Trust II is the parent entity.

Transactions with related parties

(a) Responsible entity

| | Transaction values for the year ended 30 June 2019 \$ | Balance outstanding as at 30 June 2019 \$ | Transaction values for the year ended 30 June 2018 \$ | 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 | - | 3,750,064 | 358,656 |
| Debt arrangement fee | 250,000 | - | 321,500 | - |
| Acquisition fee | 1,080,000 | - | 1,231,500 | - |
| Disposal fee | 210,000 | - | 237,500 | - |
| | <u>3,006,532</u> | <u>-</u> | <u>9,390,564</u> | <u>358,656</u> |
| Redcape Hotel Group Management Ltd (ii) | | | | |
| Asset management fee | 3,561,614 | 435,667 | - | - |
| Acquisition fee | 500,000 | - | - | - |
| Performance fee (iii) | 14,400,000 | 6,400,000 | - | - |
| | <u>18,461,614</u> | <u>6,835,667</u> | <u>-</u> | <u>-</u> |

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

(b) Other related party transactions

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

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| Related Entity | Transaction | Transaction values for the year ended 30 June 2019 \$ | Balance outstanding as at 30 June 2019 \$ | Transaction values for the year ended 30 June 2018 \$ | Balance outstanding as at 30 June 2018 \$ |
|---|-------------------------|---|---|---|---|
| Moelis Australia Advisory Pty Limited | Underwriting fee | 2,375,000 | - | 8,115,597 | - |
| Moelis Australia Advisory Pty Limited | Transaction fee | 3,115,670 | - | - | - |
| Moelis Australia Hotel Management Pty Ltd | Hotel operating fee (a) | 9,137,915 | (409,473) | 9,389,155 | 655,924 |
| Moelis Australia Hotel Management Pty Ltd | Project development fee | 743,851 | 73,822 | 329,205 | 53,715 |
| | | <u>15,372,436</u> | <u>(335,651)</u> | <u>17,833,957</u> | <u>709,639</u> |

(a) Includes the \$1.45 million waiver of the Hotel Operator Fee by the Trust manager.

Note 34. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|--------------------------------|-----------------------|-----------------------|
| | 2019 \$'000 | 2018 \$'000 |
| Profit/(loss) after income tax | (12,815) | 6,154 |
| Total comprehensive income | (12,815) | 6,154 |

Statement of financial position

| | Parent | |
|--|-----------------------|-----------------------|
| | 2019 \$'000 | 2018 \$'000 |
| Total current assets | 191,798 | 168,297 |
| Total assets | 232,443 | 205,971 |
| Total current liabilities | 3,559 | 268 |
| Total liabilities | 3,559 | 268 |
| Equity | | |
| Contributed equity | 235,545 | 199,549 |
| Retained profits/ (Accumulated losses) | (6,661) | 6,154 |
| Total equity | <u>228,884</u> | <u>205,703</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The subsidiaries of RHT II are the initial guarantors of the syndicated bank facility of Redcape Hotel Property Trust, a subsidiary of RHT I. Redcape Hotel Fund Pty Ltd, a subsidiary of RHT II also has in placed a Deed of Cross Guarantees in relation to the debts of the trading subsidiaries.

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Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

The accounting policies of the parent entity are consistent with those of Redcape, as disclosed in note 3, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 35. Business combinations and disposals

Business combination to form Redcape Hotel Group
Stapling

In accordance to the stapling deed, securities 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 Redcape and acquirer of RHT I with the acquisition accounted for as a change in ownership without a loss of control. The issued securities of RHT I are not owned by RHT II and are presented as non-controlling interests in Redcape even though securities in RHT I are held directly by the unitholders of the Trust. Additionally, no goodwill has been recognised on acquisition of RHT I because no direct ownership interest was acquired by Redcape in RHT I.

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.

Redcape was admitted to the official list of the ASX as a stapled group and consequently, ASX reserves the right (but without limiting its absolute discretion) to remove any or both of RHT I and RHT II from the official list of ASX if any of the securities in RHT I or RHT II comprising Redcape stapled securities cease to be stapled together or any equity securities are issued by either RHT I or RHT II which are not stapled to the equivalent securities in the other of RHT I or RHT II.

Details of the acquisition arising from stapling are as follows:

| | Fair value \$'000 |
|--|------------------------------|
| Cash and cash equivalents | 14,519 |
| Related party loan | 136,625 |
| Other current assets | 5,184 |
| Investment property | 611,873 |
| Trade and other payables | (3,900) |
| Distribution payable | (10,243) |
| Loans and borrowings | (366,376) |
| Derivative financial instruments | (272) |
| Net assets acquired | 387,410 |
| Goodwill | - |
| Acquisition-date fair value of the total consideration transferred | <u>387,410</u> |

Accumulated losses

Accumulated losses are losses attributable to RHT II.

Movement in accumulated losses were as follows:

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| | Stapled Consolidated 2019 \$'000 |
|--|---|
| Balance at 1 July 2018 | (1,156) |
| Net loss for the year attributable to RHT II | (15,621) |
| Arising from stapling (a) | <u>(26,516)</u> |
| | <u><u>(43,293)</u></u> |

- (a) RHT I holds the Freehold assets which are recognised collectively as investment properties in the RHT I balance sheet. On consolidation, where Redcape holds the Freehold 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.

Other business acquisitions

Redcape has settled on the acquisition of 6 hotels during the year ended 30 June 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 | 229 |
| Inventories | 263 |
| Prepayments | 105 |
| Property, plant and equipment (Note 15) | 64,482 |
| Gaming and liquor licences (Note 16) | 37,423 |
| Trade and other payables | (698) |
| Employee benefits | <u>(149)</u> |
| Net assets acquired | 101,655 |
| Goodwill | <u>56,275</u> |
| Acquisition-date fair value of the total consideration transferred | <u><u>157,930</u></u> |
| Representing: | |
| Cash paid or payable to vendor | <u><u>157,930</u></u> |
| Acquisition costs expensed to profit or loss | <u><u>7,631</u></u> |

| | Stapled Consolidated 2019 \$'000 |
|--|---|
| Cash used to acquire businesses; net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 157,930 |
| Add: payments made for future period acquisition | - |
| Less: cash and cash equivalents | (229) |
| Less: payments made in prior periods | (4,352) |
| Less: payments of equity raising fee as part of acquisition | <u>-</u> |
| Net cash used | <u><u>153,349</u></u> |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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Acquisition related costs

Business acquisition costs of \$7.6 million include stamp duty, legal fees and due diligence costs were included in Redcape's consolidated statement of profit or loss and other comprehensive income.

Disposals

Redcape has disposed 1 hotel during the year ended 30 June 2019 resulting in a gain on disposal of \$1.0 million. The carrying amount of property plant and equipment at the date of disposal amounted to \$7.8 million and 2018 investment property \$2.3 million. The value of intangibles at the date of disposal amounted to \$12.5 million

Note 36. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 3:

| | 2019 | 2018 |
|---------------------------------|-------------|-------------|
| | % | % |
| Subsidiaries of RHT II | | |
| (All incorporated in Australia) | | |
| Redcape Hotel Fund Pty Ltd | 100.00% | 100.00% |
| MAHF Custodian Pty Ltd | 100.00% | 100.00% |
| MAHPT TT Pty Ltd | 100.00% | - |
| Redcape Group Limited | 100.00% | 100.00% |
| Redcape Hotel Group Pty Ltd | 100.00% | 100.00% |
| RHG Operations Pty Ltd | 100.00% | 100.00% |
| Redcape Services Pty Ltd | 100.00% | 100.00% |
| RGM TT Pty Ltd | 100.00% | - |

Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
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| | 2019 % | 2018 % |
|---|-----------|-----------|
| Subsidiaries of RHT I | | |
| (All incorporated in Australia) | | |
| Redcape Hotel Property Trust | 100.00% | 100.00% |
| St George Hotel Trust | 100.00% | 100.00% |
| Doonside Hotel Trust | 100.00% | 100.00% |
| El Cortez Hotel Trust | 100.00% | 100.00% |
| Keighery Hotel Trust | 100.00% | 100.00% |
| Lakeview Hotel Motel Trust | 100.00% | 100.00% |
| Prospect Hotel Trust | 100.00% | 100.00% |
| Royal Hotel Trust | 100.00% | 100.00% |
| St Marys Hotel Trust | 100.00% | 100.00% |
| Belrose Hotel Trust | 100.00% | 100.00% |
| Red Lantern Hotel Trust | 100.00% | 100.00% |
| Campbelltown Hotel Trust | 100.00% | 100.00% |
| Eastwood Hotel Trust | 100.00% | 100.00% |
| Leumeah Hotel Trust | 100.00% | 100.00% |
| Mount Annan Hotel Trust | 100.00% | 100.00% |
| Revesby Pacific Hotel Trust | 100.00% | 100.00% |
| Willoughby Hotel Trust | 100.00% | 100.00% |
| Eastern Creek Tavern Hotel Trust | 100.00% | 100.00% |
| Landmark Hotel Trust | 100.00% | 100.00% |
| Crown Revesby Hotel Trust | 100.00% | 100.00% |
| Minskys Hotel Trust | 100.00% | 100.00% |
| Shamrock Hotel Trust | 100.00% | 100.00% |
| Hermit Park Hotel Trust | 100.00% | 100.00% |
| Wattle Hotel Trust | 100.00% | 100.00% |
| Carrington Hotel Trust | 100.00% | 100.00% |
| Andergrove Tavern Hotel Trust | 100.00% | 100.00% |
| Cabramatta Hotel Trust | 100.00% | 100.00% |
| Crescent Hotel Trust | 100.00% | 100.00% |
| Wattle Grove Hotel Trust | 100.00% | 100.00% |
| Sun Hotel Trust - Acquired on 2 July 2018 | 100.00% | - |
| Vauxhall Hotel Trust - Acquired on 13 August 2018 | 100.00% | - |
| Australian Hotel & Brewery Trust - Acquired on 20 August 2018 | 100.00% | - |
| Central Hotel Trust - Acquired on 4 December 2018 | 100.00% | - |
| Unanderra Hotel Trust - Acquired on 4 December 2018 | 100.00% | - |
| Figtree Hotel Trust - Acquired on 4 December 2018 | 100.00% | - |

Note 37. Events after the reporting period

Subsequent to 30 June 2019, Redcape refinanced its debt facilities resulting in an increased facility of \$503.0 million (including \$3.0 million ancillary facility) with a weighted average term of 4 years. As a result of the refinancing, in FY20 the hedge position of the existing finance facility will be closed out at a cost of approximately \$4.0 million. Capitalised loan establishment costs of \$0.5 million will be written off upon activation of the new facility in FY20.

Post the end of the financial year, Redcape exchanged contracts to acquire the Eden Brewhouse Redbank Plains Queensland as part of the ongoing portfolio optimisation program.

No other material matter or circumstance has arisen since 30 June 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 38. Reconciliation of profit/(loss) after income tax to net cash from operating activities

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|---|---|---------------------------------------|
| Profit/(loss) after income tax benefit for the year | (4,930) | 2,028 |
| Adjustments for: | | |
| Depreciation and amortisation expense | 11,360 | 9,036 |
| Loss on asset revaluation | 17,998 | - |
| Net loss/(gain) on disposal of non-current assets | (502) | (1,348) |
| Business acquisition costs | 7,631 | 31,509 |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | (2,520) | 119 |
| Decrease/(increase) in inventories | 237 | (175) |
| Increase in deferred tax assets | (2,297) | (185) |
| Increase in prepayments | (2) | (287) |
| Increase in trade and other payables | 8,880 | 1,501 |
| Decrease in provision for income tax | - | (1,632) |
| Increase/(decrease) in employee benefits | 142 | (709) |
| Decrease in other operating liabilities | - | (592) |
| Net cash from operating activities | <u>35,997</u> | <u>39,265</u> |

Note 39. Earnings per stapled securities

| | Stapled Consolidated 2019 \$'000 | Aggregated 2018 \$'000 |
|--|---|---------------------------------------|
| Loss after income tax | <u>(4,930)</u> | <u>-</u> |
| Weighted average number of ordinary stapled securities used in calculating basic and diluted earnings per stapled securities | 528,811,312 | - |
| Basic and diluted earnings per stapled unit (cents) | (0.93) | - |

**Redcape Hotel Group comprising Redcape Hotel Trust I and Redcape Hotel Trust II
SPFS - Independent auditor's report to the members of Redcape Hotel Group
30 June 2019**

Directors' declaration

In the opinion of the directors, acting in their capacity as Management for the Redcape Hotel Group ('the Group'):

- the financial statements and notes:
 - (i) present fairly the financial position of the Group as at 30 June 2019 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Notes 1 and 2; and
 - (ii) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Notes 1 and 2; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

In respect of the year ended 30 June 2019 the Group has:

- kept such accounting records as correctly record and explain its transactions and financial position;
- kept its accounting records that financial statements of the Group that are presented fairly can be prepared from time to time; and
- kept its accounting records so that the financial statements of the Group can be conveniently and properly audited

Signed in accordance with a resolution of the directors:

On behalf of the directors



Nicholas Roland Collishaw
Chairman



Daniel John Brady
Executive Director

28 August 2019
Sydney



Independent Auditor's Report

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

Opinion

We have audited the **Special Purpose Financial Statements** of Redcape Hotel Group (the Stapled Group Special Purpose Financial Statements).

In our opinion, the accompanying Stapled Group Special Purpose Financial Statements present fairly, in all material respects, the financial position of the **Stapled Group** as at 30 June 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the basis of preparation described in Notes 1, 2 and 3 to the financial statements.

The **Special Purpose Financial Statements** of the Stapled Group comprise:

- Statement of financial position as at 30 June 2019
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies

The **Stapled Group** consists of Redcape Hotel Trust II and the entities it controlled at the year-end or from time to time during the financial year and Redcape Hotel Trust I and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Special Purpose Financial Statements* section of our report.

We are independent of the Stapled Group and Redcape Hotel Group Management Ltd (the Responsible Entity) in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Special Purpose Financial Statements in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use

We draw attention to Notes 1 and 2 to the Special Purpose Financial Statements, which describes the basis of preparation.

The preparation of the comparative aggregation involved allocations of income, expenses, assets and liabilities. Consequently, the Stapled Group's comparative aggregation may not necessarily be indicative of the financial position, performance and cash flows that would have been achieved if the Stapled Group had operated as an independent entity in that year, nor may they be indicative of the results of the position, operations and cash flows of the Stapled Group for any future period.

The Special Purpose Financial Statements have been prepared to assist the Directors of Redcape Hotel Group Management Ltd, as Responsible Entity of the Stapled Group, for the purpose of meeting the listing requirements of the Australian Securities Exchange ("ASX"). As a result, the Special Purpose Financial Statements and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



Our report is intended solely for the Directors of Redcape Hotel Group Management Ltd, as Responsible Entity of the Stapled Group and should not be used by parties other than the Directors of Redcape Hotel Group Management Ltd, as Responsible Entity of the Stapled Group. We disclaim any assumption of responsibility for any reliance on this report, or on the Special Purpose Financial Statements to which it relates, to any person other than the Directors of Redcape Hotel Group Management Ltd, as Responsible Entity of the Stapled Group, or for any other purpose than that for which they were prepared.

Other Matter

The Stapled Group has prepared a Financial Report using a general purpose framework issued and approved by the Directors of the Responsible Entity on 28 August 2019. We issued an audit report thereon on 28 August 2019. The Special Purpose Financial Statements, subject of this audit opinion are separate and distinct from those prepared using a general purpose framework.

Other Information

Other Information is financial and non-financial information in Redcape Hotel Group's annual reporting which is provided in addition to the Special Purpose Financial Statements and the Auditor's Report. The Directors of Redcape Hotel Group Management Ltd (the Responsible Entity), acting in their capacity as Management for the Redcape Hotel Group (Management), are responsible for the Other Information.

Our opinion on the Special Purpose Financial Statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Stapled Group Financial Report and our related assurance opinion.

In connection with our audit of the Special Purpose Financial Statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Special Purpose Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Management for the Special Purpose Financial Statements

The Directors of Redcape Hotel Group Management Ltd (the Responsible Entity), acting in their capacity as Management for the Redcape Hotel Group (Management), are responsible for:

- the preparation and fair presentation of the Special Purpose Financial Statements and have determined that the basis of preparation described in Notes 1 and 2 to the financial statements are appropriate to meet the needs of the Directors of the Responsible Entity.
- implementing necessary internal control to enable the preparation of Special Purpose Financial Statements that are free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

The Directors of Redcape Hotel Group Management Ltd, as Responsible Entity of the Stapled Group are responsible for overseeing the Stapled Group's Financial Reporting process.

Auditor's responsibilities for the audit of the Special Purpose Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the Special Purpose Financial Statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Special Purpose Financial Statements.

As part of an audit in accordance with the *Australian Auditing Standards*, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Special Purpose Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Stapled Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Stapled Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Special Purpose Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Stapled Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Special Purpose Financial Statements, including the disclosures, and whether the Special Purpose Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the Special Purpose Financial Statements of the entities or business activities within the Stapled Group to express an opinion on the Stapled Group Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.

We communicate with Management and the Directors of the Responsible Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.



We also provide Management and the Directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Cameron Roan'.

Cameron Roan
Partner
Sydney
28 August 2019

Redcape
HOTEL GROUP