# Appendix 4D
## Half-year report 31 December 2009

**Entity Details:**

REDCAPE PROPERTY FUND

(FORMERLY HEDLEY LEISURE & GAMING PROPERTY FUND)

**Comprising:**

REDCAPE PROPERTY FUND LIMITED (ABN 44 124 753 733)

REDCAPE PROPERTY TRUST (ARSN 125 526 016)

**Details of reporting period:**

| | |
|---|---|
| Current period: | 1 July 2009 — 31 December 2009 |
| Previous corresponding period: | 1 July 2008 — 31 December 2008 |

**Results for announcement to the market:**

Redcape Property Fund ("RPF") comprises Redcape Property Trust (the "Trust"), Redcape Property Fund Limited (the "Company") and their controlled entities. The units in the Trust and the shares in the Company are stapled and cannot be traded or dealt with separately. The stapled securities were first listed on the Australian Securities Exchange ("ASX") on 2 August 2007, under the code HLG, and are now traded under the code RPF.

| | 6 months to 31-December-2009 A$'000 | 6 months to 31-December-2008 A$'000 | % of change from corresponding half year |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Rent from investment properties | 38,912 | 37,123 | up 4.82% |
| Outgoings recovered | 2,871 | 2,362 | up 21.55% |
| Interest from cash deposits | 26 | 179 | down 85.47% |
| Straight - line lease adjustment | 11,252 | 12,649 | down 11.04% |
| Distributions - ALE securities | 387 | 484 | down 20.04% |
| **Total** | 53,448 | 52,797 | up 1.23% |
| Profit from operations before fair value adjustments and other non-operating income and expense | 3,999 | 4,871 | down 17.9% |
| Profit/(loss) attributable to stapled security holders | 34,329 | (173,992) | up 119.73% |

| Distributions | Record Date | Payment Date | Amount per stapled security |
|---|---|---|---|
| December 2009 total interim distribution | N/A | N/A | Nil |
| December 2008 total interim distribution | 4 February 2009 | 3 March 2009 | 4.00 cents |

REDCAPE PROPERTY FUND

# Appendix 4D
## Half-year report 31 December 2009

**Brief Explanation of results**

- During the six months ended 31 December 2009, RPF posted a total comprehensive income of $34.6m. This result included the following significant items:

  · an improvement in the value of investment properties by $9.8m;
  · an improvement in the carrying value of liquor and gaming licences of $2.5m;
  · an improvement in the value of interest rate swaps of $14.6m, from a liability of $84.4m at 30 June 2009 to a liabilty $69.8m at 31 December 2009;
  · profit on the sale of assets of $3.5m;
  · an underlying operating profit of $4.0m.

- The improvement in investment properties was the result of higher rental income due to the fixed increases in all of RPF's leases, and capitalisation rates maintaining their 30 June 2009 levels.

- The improvement in the value of RPF's interest rate swaps reflects a change in the mark-to-market valuation of the swaps due to an upward movement in the forward interest rate curve.

- RPF has commenced the divestment of certain assets in order to reduce its debt to more acceptable levels. During the six months ended 31 December 2009, RPF negotiated the sale of 11 properties, with four of these completed during the period for a net consideration of $29.3m and a profit on sale of $3.5m, or 13.8% above book value.

- The normal underlying activities of the business, namely managing properties and collecting rents continued, with rents from all tenants continuing to be collected in accordance with the leases. During the six months ended 31 December 2009, RPF advanced the extension of its loan facilities with its bank syndicate to extend the facilities beyond their current maturity of August 2010, until 31 October 2012.

**Net tangible assets per security:**

| | Current period | Previous corresponding period (December 2008) | **% of change from corresponding half year** |
|---|---|---|---|
| Net tangible assets (NTA) per security | A$0.32 | (A$0.02) | up 1,700% |

REDCAPE PROPERTY FUND

# Appendix 4D
## Half-year report 31 December 2009

**Details of any individual and total dividends or distribution payments:**

Refer to Note 5: Distributions in the attached financial statements.

To preserve capital, no distributions have been proposed by the directors for the period ended 31 December 2009. The Distribution Reinvestment Plan ("DRP') has also been suspended until further notice.

**Audit status:**

Independent auditor KPMG has completed a review of the half-year financial statements on which this Appendix is based. There is no review dispute or review qualification.

A copy of the RPF half-year report with KPMG's review conclusion is attached.

# Redcape Property Fund
# Half-Year Report
# For The Six Months Ended 31 December 2009

**Comprising Redcape Property Trust (ARSN 125 526 016) and Redcape Property Fund Limited (ABN 44 124 753 733) and their controlled entities**

**(formerly Hedley Leisure & Gaming Property Fund)**

Registered Office:

312 St Kilda Rd
Melbourne Victoria 3004

REDCAPE PROPERTY FUND

# Half-Year Report for the six months ended 31 December 2009
## Directors' report

The directors of Permanent Investment Management Limited ("PIML"), the Responsible Entity for the Redcape Property Trust (the "Trust"), present their report together with the financial report of the Redcape Property Fund ("RPF") for the half-year ended 31 December 2009.

RPF comprises Redcape Property Trust, Redcape Property Fund Limited (the "Company") and their controlled entities. The units in the Trust and the shares in the Company are stapled and cannot be traded or dealt with separately. The stapled securities were first listed on the Australian Securities Exchange ("ASX") on 2 August 2007, under the code HLG, and are now traded under the code RPF.

The names of the Trust, Company and RPF changed during the period. RPF was formerly Hedley Leisure & Gaming Property Fund.

### Directors

The Responsible Entity and the Company each entered into separate, but materially similar, services agreements with HLG Services Pty Limited (the "Manager"). The Manager provides all investment, asset management and general administrative services to RPF (other than certain compliance and supervisory services which are provided by the Responsible Entity). The Manager is also responsible for pursuing all acquisitions and any divestments.

RPF and the Manager have appointed an Investment Committee, which is comprised of the directors of the Company. The Investment Committee is an advisory committee, which liaises between the Manager and the Responsible Entity, and the Company and the Manager. The Investment Committee reviews the Manager's advice for compliance with the law, the Trust Deed, the Company Constitution, RPF's investment criteria, the services agreements and the interests of the security holders. Assuming compliance, the Responsible Entity and the Company will follow the Manager's advice.

The following persons were directors of the Responsible Entity at any time during or since the end of the half-year. Unless otherwise stated the directors have held their position for the whole of this period:

| *Directors of the Responsible Entity* | | *Directors of the Company* | |
|---|---|---|---|
| John Atkin | appointed January 2009 | Colin J Henson | appointed June 2007 |
| David Grbin | appointed July 2008 | Nerolie Withnall | appointed June 2007 |
| Vicki Allen | appointed June 2007 | Greg Kern | appointed April 2007 |
| Michael Britton | appointed July 2003 | Peter Armstrong | appointed February 2009 |

### Principal activities

The principal activity of RPF consists of investment in the pub freehold sector. There has been no significant change in the nature of this activity during the half-year.

### Review and results of operations

During the six months ended 31 December 2009, RPF posted a total comprehensive income of $34.6m. This result included the following significant items:

- an improvement in the value of investment properties by $9.8m;
- an improvement in the carrying value of liquor and gaming licences of $2.5m;
- an improvement in the value of interest rate swaps of $14.6m from a liability of $84.4m at 30 June 2009 to a liability of $69.8m at 31 December 2009;
- profit on the sale of assets of $3.5m;
- an underlying operating profit of $4.0m.

The improvement in investment properties was the result of higher rental income due to the fixed increases in all of RPF's leases, and capitalisation rates maintaining their 30 June 2009 levels.

The improvement in the value of RPF's interest rate swaps reflects a change in the mark-to-market valuation of the swaps due to an upward movement in the forward interest rate curve.

RPF has commenced the divestment of certain assets in order to reduce its debt to more acceptable levels. During the six months ended 31 December 2009, RPF negotiated the sale of 11 properties, with four of these completed during the period for a net consideration of $29.3m and a profit on sale of $3.5m, or 13.8% above book value.

The normal underlying activities of the business, namely managing properties and collecting rents continued, with rents from all tenants continuing to be collected in accordance with the leases. During the six months ended 31 December 2009, RPF advanced the extension of its loan facilities with its bank syndicate to extend the facilities beyond their current maturity of August 2010, until 31 October 2012.

The underlying profit from operations during the six months ended 31 December 2009 is shown on the following table:

## Half-Year Report for the six months ended 31 December 2009

## Directors' report (continued)

### Review and results of operations (continued)

| | 31-December 2009 $'000 | Restated 31-December 2008 $'000 |
|---|---|---|
| Rent from investment properties | 38,912 | 37,123 |
| Finance costs | (30,927) | (29,242) |
| Other income/(expense) | 26,570 | (181,873) |
| **Total comprehensive income/(loss) for the period** | **34,555** | **(173,992)** |
| *(Less)/ add non-operating items* | | |
| Net present value adjustment - prepaid interest rate swap interest | - | (651) |
| Consulting fees re sale of assets | - | 349 |
| Fair value adjustments to interest rate swaps | (14,586) | 174,839 |
| (Gain)/loss on sale of investment properties | (3,520) | 864 |
| Net change in fair value of investment properties | (9,846) | - |
| Impairment of ALE stapled securities | - | 3,260 |
| Reversal of impairment of gaming and liquor licences | (2,505) | - |
| Other property acquisition costs | - | 62 |
| Borrowing costs | - | 140 |
| Profit from discontinued operations | (99) | - |
| **Profit from operations as adjusted** | **3,999** | **4,871** |

| | 31-December 2009 $ | 30-June 2009 $ |
|---|---|---|
| Net assets per stapled security - including fair value adjustment to interest rate swaps | 1.03 | 0.84 |
| Net assets per stapled security - excluding fair value adjustment to interest rate swaps | 1.46 | 1.41 |

### After balance date events

As noted above, RPF has advanced the extension of its loan facilities with its bank syndicate and in February 2010, RPF signed a Term Sheet received from the banking syndicate to extend the term of the loan facility beyond the current maturity of August 2010 until 31 October 2012. This is a positive step towards final completion of the loan facility extension. The new loan agreements will however include higher interest rates, restrictions on distributions, and a requirement for RPF to significantly reduce its loan and interest rate swap balances over the period to October 2012.

As noted above, RPF has negotiated the sale of 11 properties, with four of these having settled in December 2009. A further five were settled during January and February 2010 and the final two are scheduled to settle in March and April 2010; the total sale value of the seven properties is $63.9m.

### Likely developments

As noted above, RPF is advancing the extension of its loan facilities with its bank syndicate, and completion of the formal loan documents is expected in the near future.

In accordance with RPF's lease agreements with its tenants, RPF will continue to receive fixed rate rental increases on its investment properties.

The directors are not aware of any other future developments likely to materially affect the results of RPF.

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Directors' report (continued)

### Significant changes in state of affairs

Other than the issues noted elsewhere in this report, there has been no significant change in the state of affairs of RPF since 30 June 2009.

### Distributions

To preserve capital, there will be no distributions for the half year ended 31 December 2009. Trust distributions payable to stapled security holders of RPF at 31 December 2009 were:

| | 31-Dec 2009 ¢ per security | 31-Dec 2008 ¢ per security | 31-Dec 2009 $'000 | 31-Dec 2008 $'000 |
|---|---|---|---|---|
| Half-year distribution paid and payable | Nil | 4.00 | Nil | 6,106 |

No provisions for or payments of Company dividends have been made during the half-year.

### Rounding of amounts

RPF is an entity of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest one thousand dollars, or in certain cases, to the nearest dollar in accordance with that Class Order.

### Lead auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4, and forms part of the directors' report for the half-year ended 31 December 2009.

This report is made in accordance with a resolution of the directors of Permanent Investment Management Limited.

Michael John Britton

Director

Dated this 24th day of February 2010

Sydney

KPMG

## Lead auditor's independence declaration

**Under section 307C of the *Corporations Act 2001* to the directors of Permanent Investment Management Limited, the Responsible Entity for the Redcape Property Trust**

I declare that, to the best of my knowledge and belief, in relation to the review of the Redcape Property Fund for the half-year ended 31 December 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Coporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Graham Coonan
*Partner*

Cairns

24 February 2010

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Consolidated interim statement of comprehensive income

| | Note | Consolidated 31-December 2009 $'000 | Restated Consolidated 31-December 2008 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Rent from investment properties | | 38,912 | 37,123 |
| Outgoings recovered | | 2,871 | 2,362 |
| Distributions | | 387 | 484 |
| Straight-line lease adjustment | 11 | 11,252 | 12,649 |
| Interest from cash deposits | | 26 | 179 |
| **Total revenue from operating activities** | | **53,448** | **52,797** |
| **Operating expenses** | | | |
| Investment property outgoings and expenses | | 4,180 | 2,780 |
| Management costs | 2 | 669 | 1,594 |
| Directors' remuneration | | 209 | 190 |
| Finance costs | 4 | 30,927 | 29,421 |
| Other expenses | 6 | 2,438 | 1,130 |
| **Total expenses from operating activities** | | **38,423** | **35,115** |
| **Profit from operating activites** | | **15,025** | **17,682** |
| **Non operating income / (expense)** | | | |
| Change in fair value of investment properties | | 9,846 | - |
| Other property acquisition costs | | - | (62) |
| Gain / (loss) on sale of investment properties and licences | | 3,520 | (864) |
| (Impairment)/ reversal of impairment of assets | | 2,505 | (3,260) |
| Change in fair value of derivative financial instruments | 15 | 14,586 | (174,839) |
| Impact of straight-line lease adjustment on fair value of investment properties | 11 | (11,252) | (12,649) |
| **Total non operating income / (expense)** | | **19,205** | **(191,674)** |
| **Profit / (loss) from continuing operations** | | **34,230** | **(173,992)** |
| **Discontinued operation** | | | |
| Profit from discontinued operation (net of income tax) | | 99 | - |
| **Profit / (loss) for the period** | | **34,329** | **(173,992)** |
| **Other comprehensive income** | | | |
| Change in fair value of ALE stapled securities | | 226 | - |
| **Total comprehensive income / (loss) for the period** | | **34,555** | **(173,992)** |
| **Profit attributable to:** | | | |
| Unitholders of the Trust | | 34,448 | (173,933) |
| Shareholders of the Company (minority interest) | | (119) | (59) |
| **Profit / (loss) for the period** | | **34,329** | **(173,992)** |
| **Total comprehensive income attributable to:** | | | |
| Unitholders of the Trust | | 34,674 | (173,933) |
| Shareholders of the Company (minority interest) | | (119) | (59) |
| **Total comprehensive income / (loss) for the period** | | **34,555** | **(173,992)** |
| | | cents | cents |
| Basic and diluted earnings/(loss) per security | 3 | 21.54 | (118.31) |
| Distribution paid or payable per security | 5 | 0.00 | 4.00 |

The accompanying notes form part of these interim financial statements

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Consolidated interim statement of financial position

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 30,281 | 10,258 |
| Trade and other receivables | 8 | 1,250 | 1,853 |
| Other current assets | 9 | 1,708 | 40 |
| Non-current assets held for sale | 10 | 72,521 | - |
| **Total current assets** | | **105,760** | **12,151** |
| **Non-current assets** | | | |
| Property, plant and equipment | | 110 | - |
| Investment property | 11 | 665,385 | 743,494 |
| Other non-current assets | 12 | 76,689 | 65,437 |
| Intangible assets | 13 | 115,280 | 134,143 |
| Other investments | 14 | 7,326 | 7,100 |
| **Total non-current assets** | | **864,790** | **950,174** |
| **TOTAL ASSETS** | | **970,550** | **962,325** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 7,781 | 5,609 |
| Current tax payable | | - | 23 |
| Loans and borrowings | 16 | 725,309 | 740,752 |
| Derivative financial instruments | 15 | 69,809 | 84,395 |
| **Total current liabilities** | | **802,899** | **830,779** |
| **TOTAL LIABILITIES** | | **802,899** | **830,779** |
| **NET ASSETS** | | **167,651** | **131,546** |
| **EQUITY** | | | |
| Contributed equity | | 461,513 | 459,965 |
| Reserves | | 288 | 62 |
| Accumulated losses | | (294,119) | (328,567) |
| **Total equity attributable to equity holders of the Trust** | | **167,682** | **131,460** |
| Minority interest equity | | (31) | 86 |
| **TOTAL EQUITY** | | **167,651** | **131,546** |

| | $ | $ |
|---|---|---|
| Net assets per stapled security - including fair value adjustment to swap | 1.03 | 0.84 |
| Net assets per stapled security - excluding fair value adjustment to swap | 1.46 | 1.41 |

The accompanying notes form part of these interim financial statements

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Consolidated interim statement of changes in equity

| | Note | Contributed equity $'000 | Accumulated losses $'000 | Reserves $'000 | Minority Interest $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Restated** | | | | | | |
| **Balance at 1 July 2008** | | 450,231 | (144,006) | 62 | 290 | 306,577 |
| **Total comprehensive income for the period** | | | | | | |
| Loss for the period | | - | (173,933) | - | (59) | (173,992) |
| Total comprehensive income for the period | | - | (173,933) | - | (59) | (173,992) |
| ***Transactions with owners, recorded directly in equity*** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Stapled securities issued during the period | | 8,402 | - | - | 12 | 8,414 |
| Capital raising costs recognised directly against capital raised | | (17) | - | - | - | (17) |
| Total transactions with owners | | 8,385 | - | - | 12 | 8,397 |
| **Balance at 31 December 2008** | | **458,616** | **(317,939)** | **62** | **243** | **140,982** |
| **Balance at 1 July 2009** | | 459,965 | (328,567) | 62 | 86 | 131,546 |
| **Total comprehensive income for the period** | | | | | | |
| Profit/(loss) for the period | | - | 34,448 | - | (119) | 34,329 |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of ALE stapled securities | 14 | - | - | 226 | - | 226 |
| Total comprehensive income for the period | | - | 34,448 | 226 | (119) | 34,555 |
| ***Transactions with owners, recorded directly in equity*** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Stapled securities issued during the period | | 1,554 | - | - | 2 | 1,556 |
| Capital raising costs recognised directly against capital raised | | (6) | - | - | - | (6) |
| Total transactions with owners | | 1,548 | - | - | 2 | 1,550 |
| **Balance at 31 December 2009** | | **461,513** | **(294,119)** | **288** | **(31)** | **167,651** |

The accompanying notes form part of these interim financial statements

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Consolidated interim statement of cash flows

| | Note | Consolidated 31-December 2009 $'000 | Restated Consolidated 31-December 2008 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Rent and outgoings from investment properties | | 45,621 | 43,936 |
| ALE Property Group distributions | | 484 | 2,860 |
| Interest receipt from Junior lender | | 706 | - |
| Payments to suppliers | | (10,627) | (9,373) |
| Interest received – bank deposits | | 26 | 180 |
| Interest paid | | (28,186) | (30,312) |
| Receipts from interest rate swaps | | - | 2,493 |
| **Net cash from operating activities** | | **8,024** | **9,784** |
| **Cash flows from investing activities** | | | |
| Payments for investment properties | | - | (312) |
| Payment for development deed properties to developer | | - | (1,701) |
| Proceeds from disposal of investment properties | | 22,773 | 9,881 |
| Proceeds from disposal of licences | | 6,285 | 1,634 |
| Proceeds from discontinued operation | | 211 | - |
| Payment for property, plant and equipment | | (115) | - |
| Payment for contract terminations | | - | (4,080) |
| Proceeds from disposal of development deed properties | | - | 1,701 |
| **Net cash from investing activities** | | **29,154** | **7,123** |
| **Cash flows from financing activities** | | | |
| Payment of borrowing establishment costs | | - | (479) |
| Payment of distribution | | - | (9,854) |
| Proceeds from borrowings | | - | 277 |
| Repayments of borrowings | | (17,155) | (7,886) |
| **Net cash from financing activities** | | **(17,155)** | **(17,942)** |
| **Net increase/(decrease) in cash held** | | **20,023** | **(1,035)** |
| Cash and cash equivalents at the beginning of the period | | 10,258 | 10,862 |
| **Cash and cash equivalents at the end of the period** | 7 | **30,281** | **9,827** |

The accompanying notes form part of these interim financial statements

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

**Contents of the notes to the financial statements**

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

### 1 Summary of significant accounting policies

#### (a) Reporting entity

The consolidated interim financial report of Redcape Property Fund ("RPF") as at and for the six months ended 31 December 2009 comprises Redcape Property Trust (the "Trust"), Redcape Property Fund Limited (the "Company") and their controlled entities. Redcape Property Trust is a registered managed investment scheme under the *Corporations Act 2001*. Redcape Property Fund Limited is a company limited by shares under the *Corporations Act 2001*. The responsible entity of the Trust is Permanent Investment Management Limited (the "Responsible Entity").

The units of the Trust and the shares of the Company are stapled such that the units and shares cannot be traded separately.

#### (b) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report does not include all the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of RPF (formerly Hedley Leisure & Gaming Property Fund) as at and for the year ended 30 June 2009, and any public announcements made by RPF during the interim reporting period in accordance with the continuous disclosure requirements and the *Corporations Act 2001*.

The financial report was approved by the directors of the Responsible Entity on 24 February 2010.

#### (c) Basis of preparation - Going concern

The consolidated interim financial statements have been prepared on a going concern basis but the following issues should be noted.

RPF's existing loan facility agreements with its bank syndicate are due to mature in August 2010.

RPF's current loan facilities are subject to a number of covenants. As reported in the 2009 Annual Report, RPF had breached certain of its loan conditions at 30 June 2009, and whilst the bank syndicate has given no indication that it will exercise its right under the loan agreements, it has not waived the breaches. These breaches result in the bank syndicate having the right to require immediate repayment of the entire outstanding debt which would also result in the need to pay out any balance due at the time on the interest rate swaps. Accordingly, 100% of the loan facility balance and the interest rate swap liability have been classified as current at reporting date.

Discussions with RPF's bank syndicate commenced in April 2009 for the extension of RPF's loan facilities beyond the August 2010 maturity date. As at 31 December 2009 commercial terms were substantially agreed and syndicate members had sought credit approval from their respective credit committees. Subsequent to reporting date, in February 2010 RPF signed a Term Sheet received from the bank syndicate to extend the term of the loan facilities beyond their current expiry of August 2010 to 31 October 2012. The directors of the Manager of RPF, HLG Services Pty Limited, know of no reason why the proposed extension would not occur.

The new loan agreements will however include higher interest rates, restrictions on distributions, and a requirement for RPF to significantly reduce its loan and interest rate swap balances over the period to October 2012.

Notwithstanding the comments above, there is however significant risk that if refinancing does not occur prior to the expiry of the current loan debt facilities in August 2010, immediate repayment of those facilities may be required. In this event, it would be unlikely that RPF could continue as a going concern, impacting RPF's ability to realise its assets and settle its liabilities in the normal course of operations and at the amounts stated in the interim financial report. In the circumstances, no adjustments have been made in the financial report as at and for the six months ended 31 December 2009 in relation to the recoverability and classification of recorded asset amounts that might be necessary should the Trust and/or RPF not continue as a going concern.

#### (d) Significant accounting policies

Except as described below, the accounting policies applied by RPF in this consolidated interim financial report are the same as those applied by RPF in its consolidated financial report as at and for the year ended 30 June 2009.

*Change in accounting policy*

*(i) Presentation of financial statements*

RPF applied revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, RPF presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these interim financial statements as at and for the half-year ended 31 December 2009. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per stapled security.

*(ii) Determination and presentation of operating segments*

As of 1 January 2009 RPF determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer ("CEO"), who is RPF's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. Adoption of AASB 8 did not have any effect on the financial position or performance of RPF, however it has caused RPF to revise its consideration of segment reporting. The new accounting policy in respect of segment operating disclosures is presented as follows:

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

### 1 Summary of significant accounting policies (continued)

**(d) Significant accounting policies (continued)**

*(ii) Determination and presentation of operating segments (continued)*

An operating segment is a component of RPF that engages in business activities from which it may earn revenues and incur expenses. RPF has a single operating segment. Revenue from external customers is derived from the rental of freehold hotels and bottle shops located in one geographical area – Australia.

Since RPF also had a single operating segment under the previous standard, AASB 114, there is no impact on RPF's presentation of segment financial information.

*Restatment of comparative financial information*

As reported in the 2009 Annual Report, liquor and gaming licences are now recognised separately from investment properties as intangible assets and measured at cost. Liquor and gaming licences have been assessed as having indefinite useful lives and are not amortised but are tested for impairment each reporting period. Previously liquor and gaming licences were included in investment properties and measured using the fair value model, with all gains and losses arising from changes in fair values of the investment property recognised in income in the period in which they arose. The change in accounting policy recognises the different risks attached to intangible assets and investment property.

This change in accounting policy was made in the financial statements for the year ended 30 June 2009 and the comparatives for the year ended 30 June 2008 were restated. The impact on the financial statements was as set out in the 2009 Annual Report. Accordingly, the comparative information for the six months ended 31 December 2008 has also been restated in these half-year financial statements.

**(e) Critical accounting estimates**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying RPF's accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 11 - investment property, Note 13 - intangible assets and Note 15 - derivative financial instruments.

### 2 Related party information

There has been no change to the nature of the related party transactions disclosed in the 2009 Annual Financial Report, except for the issue of 5,420,747 stapled securities to HLG Management Pty Ltd to settle the management fee liability accrued at 30 June 2009 ($1,556,838).

**Management costs**

Effective from 1 July 2009 RPF terminated the management services agreement, for nil costs, with HLG Management Pty Ltd and established internal management within RPF with the creation of HLG Services Pty Limited (the "Manager"), which provides the same services as provided by the previous manager under a new services agreement with the Responsible Entity. The initial term of this agreement is 8 years.

The previous manager provided transitional services during July 2009.

| | Consolidated 31-December 2009 | Restated Consolidated 31-December 2008 |
|---|---|---|
| **3 Earnings per stapled security** | | |
| Net profit / (loss) after tax attributable to stapled security holders | $34,328,867 | ($173,992,000) |
| Total stapled securities on issue at 31 December | 162,452,601 | 152,642,832 |
| Weighted average stapled securities - basic | 159,371,958 | 147,061,560 |
| Weighted average stapled securities - diluted | 159,371,958 | 147,061,560 |
| Basic and diluted earnings/(loss) per security - cents | 21.54 | (118.31) |

There have been no dilutive transactions involving stapled securities or potential stapled securities during the half-year or since the reporting date.

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

| | Note | Consolidated 31-December 2009 $'000 | Restated Consolidated 31-December 2008 $'000 |
|---|---|---|---|
| **4 Finance costs** | | | |
| **(a) Finance costs – cash** | | | |
| Senior Debenture Subscription Facility ("SDSF") interest expense | (i) | 14,685 | 25,726 |
| Junior Debenture Subscription Facility ("JDSF") interest expense | (ii) | 1,465 | 2,445 |
| Other interest expense | (iii) | 15 | 23 |
| Net payments from interest rate swaps | (iv) | 13,005 | (80) |
| | | **29,170** | **28,114** |
| **(b) Finance costs – non-cash** | | | |
| Amortised costs – SDSF and JDSF | (v) | 1,712 | 1,712 |
| Net present value adjustment – prepaid interest rate swap interest | | - | (651) |
| Other borrowing costs | | 45 | 246 |
| | | **1,757** | **1,307** |
| **Total finance costs** | | **30,927** | **29,421** |

(i) Variable rate interest expense for the Senior Debt Subscription Facility ("SDSF") issued in August 2007 with a scheduled termination on 7 August 2010. The interest rate is the monthly BBSY (Bank Bill Swap Bid Rate) plus 0.8% interest margin.

(ii) Variable rate interest expense for the Junior Debt Subscription Facility ("JDSF") issued in August 2007 with a scheduled termination on 7 August 2010. The interest rate is the monthly BBSY plus 1.5% margin.

(iii) Interest expense for bank overdraft facilities and bridging facilities.

(iv) RPF's interest rate exposures from SDSF and JDSF borrowings totalling $725 million as at 31 December 2009 are 100% hedged by 10 year fixed index swaps with indexation occurring on 1 July each year.

(v) Establishment costs of SDSF and JDSF facilities are being amortised over three years on an effective interest rate basis.

### 5 Distributions

No distribution was proposed by the directors in respect of the half-year ended 31 December 2009. No dividend was paid or declared by the Company for the half-year ended 31 December 2009.

### 6 Other expenses

| | | |
|---|---|---|
| Legal fees | 1,569 | 30 |
| Consultancy fees | 481 | 648 |
| Responsible Entity fees | 109 | 125 |
| Directors' insurance | 51 | 55 |
| ASX CHESS charges | 66 | 90 |
| All other expenses | 162 | 182 |
| | **2,438** | **1,130** |

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **7 Cash and cash equivalents** | | | |
| Interest reserve account | | 5,010 | 5,000 |
| Cash at bank | | 25,271 | 5,258 |
| | | **30,281** | **10,258** |

In the event of a loan repayment default by RPF, its lender has the right to use the funds from the interest reserve account to cover any shortfall. These funds are restricted and are not available for general use.

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **8 Trade and other receivables** | | | |
| Trade receivables | | 804 | 1,473 |
| Less allowance for impairment | | (243) | (433) |
| Net trade receivables | | 561 | 1,040 |
| Other receivables | | 689 | 813 |
| | | **1,250** | **1,853** |
| **9 Other current assets** | | | |
| Prepayments | | 1,708 | 40 |
| | | **1,708** | **40** |
| **10 Non-current assets held for sale** | | | |
| Investment properties held for sale | | 57,438 | - |
| Licences relating to investment properties held for sale | | 15,083 | - |
| | | **72,521** | - |

As at 31 December 2009, eight hotels were being actively marketed for sale (30 June 2009: Nil). The fair values of these properties have been taken to be the expected contract prices for the properties. The total carrying values of these properties and their associated liquor and gaming licences have been shown as non-current assets held for sale at reporting date.

**Movements**

| | Note | Consolidated 31-December 2009 $'000 |
|---|---|---|
| Carrying amount at 1 July 2009 | | - |
| Transfer from investment property | 11 | 57,438 |
| Transfer from intangibles/licences | 13 | 15,083 |
| Carrying amount at 31 December 2009 | | **72,521** |

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **11 Investment property** | | | |
| Investment property and licences at fair value | | 876,283 | 962,394 |
| Straight - line lease adjustment | 12 | (76,689) | (65,437) |
| Component of valuations attributable to licences (shown separately as intangible assets restated at cost - Note 13) | | (134,209) | (153,463) |
| | | **665,385** | **743,494** |

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

| | Note | Consolidated 31-December 2009 $'000 |
|---|---|---|
| **11 Investment property (continued)** | | |
| **Movements** | | |
| Carrying amount at 1 July 2009 | | 743,494 |
| Reclassify to non-current assets held for sale | 10 | (57,438) |
| Disposals | | (19,265) |
| Fair value gain | | 9,846 |
| Straight-line lease adjustment | | (11,252) |
| Carrying amount at 31 December 2009 | | **665,385** |

**Investment properties**

All investment properties are freehold and 100% owned by the Trust and are comprised of land, buildings and fixed improvements. Plant and equipment is held by the tenants.

**Leasing arrangements**

The investment properties are each leased inclusive of liquor and gaming licences attached to these properties to a single tenant under long-term operating leases, with rentals payable monthly either on the 1st or the 15th of the month depending on the lease. RPF has incurred no lease incentive costs to date. The remaining lease terms for all properties vary between 12 and 28 years excluding lease extension options.

**Valuation of investment properties**

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

At each reporting date, the component of each valuation considered to relate to licences is assessed and deducted to arrive at the value of RPF's investment properties, exclusive of licences. Licences are separately disclosed as intangible assets at cost less impairment losses (Note 13). In determining the component of property valuations relating to licences, RPF has had regard to the following:

- Liquor licences are seldom traded. The component value of a property's liquor licence is considered to approximate the current cost of obtaining a similar licence.
- RPF holds no gaming licences in Victoria. In respect of its gaming licences in Queensland, NSW and South Australia, RPF assesses their component values on an individual property basis based on the proportion of the rent that management estimates is attributable to the property because those licences are in place.

**Fair value adjustments at 31 December 2009**

In line with RPF's policy to independently value one third of its property portfolio annually, independent valuations were obtained for 34 properties in June 2009. At 30 June 2009, the directors assessed the carrying values of all properties after consideration of the results of those independent valuations and any recent developments in respect of the properties and market evidence available for similar properties.

As at 31 December 2009, although no further independent valuations were obtained, the directors have reassessed the carrying values of each property on the same basis as set out above, i.e. based on the June 2009 independent valuations and after consideration of recent developments and market evidence available for similar properties.

Yields applied in the valuations at 31 December 2009 fall in the following ranges for RPF's tenants:

| | December 2009 Yields | June 2009 Yields |
|---|---|---|
| Coles | 6.45% - 7.35% | 6.45% - 7.46% |
| NLG | 8.00% - 11.81% | 8.00% - 15.68% |
| Hedz / Other | 6.51% - 10.00% | 6.81% - 9.37% |

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **12 Other non-current assets** | | | |
| Straight-line lease adjustment | 11 | **76,689** | **65,437** |

The majority of lease agreements include fixed annual increases in rents charged. Under AASB 118 *Revenue*, RPF is required to recognise lease income on a straight-line basis. This has the effect of increasing income above rental receipts in the early years, and reducing income below rental receipts in later years.

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **13 Intangible assets** | | | |
| Liquor and gaming licences at cost | | **115,280** | **134,143** |
| **Movements** | | | |
| Carrying amount at 1 July 2009 | | 134,143 | |
| Disposals | | (6,285) | |
| Transfer to non-current assets held for sale | 10 | (15,083) | |
| Writeback of allowance for impairment | | 2,505 | |
| Carrying amount at 31 December 2009 | | **115,280** | |

All of RPF's liquor and gaming licences are held by the tenants and revert back to the lessor upon completion of the leases.

Liquor and gaming licences are intangible assets with an indefinite useful life and are stated at cost less any impairment losses. Liquor and gaming licences are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

The recoverable amount is assessed at the cash generating unit ("CGU") level, which is the smallest group of assets generating cash flows independent of other CGUs that benefit from the use of the respective intangible assets. Each hotel property is considered to be a CGU.

The recoverable amount is determined based on the fair value less costs to sell which is calculated at the individual hotel property level as the value of the property inclusive of licences less the component of that value which has been allocated to the property itself (i.e. exclusive of the licences). Refer to Note 11 for details of the methodology and key assumptions used in valuing the hotel properties and their components being the freehold and the licences.

| | Note | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|---|
| **14 Other investments** | | | |
| Listed stapled securities in ALE Property Group | | **7,326** | **7,100** |

The listed securities held are valued as per the quoted market price at balance date, being $2.27 per security. As a result the 3% increase in the fair value of the ALE Property Group securities from 1 July 2009 to 31 December 2009 has been recognised as other comprehensive income in the statement of comprehensive income.

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

| | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|
| **15 Derivative financial instruments** | | |
| Derivative financial instruments - current liability | **69,809** | **84,395** |
| | | |
| **Movements** | | |
| Interest rate swaps at fair value at 1 July 2009 | 84,395 | |
| Fair value adjustment for the period | (14,586) | |
| Interest rate swaps at fair value at 31 December 2009 | **69,809** | |

The mark-to-market valuation of RPF's interest rate swaps was performed by the ANZ Banking Group Limited. Due to breaches of RPF's loan conditions, as previously reported in the 2009 Annual Report, 100% of the loan facility balance and interest rate swap liability have been classified as current at reporting date.

| | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|
| **16 Loans and borrowings** | | |
| Bank loans - current | 725,309 | 740,752 |
| Bank loans - non current | - | - |
| | **725,309** | **740,752** |
| Bank loans consist of: | | |
| ANZ Junior Debenture Subscription Facility ("JDSF") | 59,768 | 59,627 |
| ANZ Senior Debenture Subscription Facility ("SDSF") | 665,541 | 681,125 |
| | **725,309** | **740,752** |
| | | |
| **JDSF** | | |
| JDSF issued August 2007 | 60,000 | 60,000 |
| Prepaid borrowing establishment costs capitalised | (893) | (893) |
| Amortisation of prepaid borrowing costs | 661 | 520 |
| | **59,768** | **59,627** |

**Half-Year Report for the six months ended 31 December 2009**
**Notes to the consolidated interim financial statements**

| | Consolidated 31-December 2009 $'000 | Consolidated 30-June 2009 $'000 |
|---|---|---|
| **16 Loans and borrowings (continued)** | | |
| **SDSF** | | |
| SDSF issued August 2007 | 668,226 | 685,381 |
| Prepaid borrowing establishment costs capitalised | (10,199) | (10,199) |
| Amortisation of prepaid borrowing costs | 7,514 | 5,943 |
| | **665,541** | **681,125** |

*Assets pledged as security*

ANZ has first security by way of fixed and floating charge over all of the assets of each entity in the RPF group, a registered mortgage over each property and a fixed charge over each licence.

*Classification of debt as current*

RPF's debt facilities are subject to a number of covenants. As previously reported in the 2009 Annual Report, RPF had breached certain of its loan conditions at 30 June 2009, and whilst the bank syndicate has given no indication that it will exercise its right under the loan agreements, it has not waived the breaches. These breaches result in the bank syndicate having the right to require immediate repayment of the entire outstanding debt which would also result in the need to pay out any balance due at the time on the interest rate swaps. Accordingly, 100% of the loan facility balance and the interest rate swap liability have been classified as current at reporting date.

| | Currency | Nominal interest rate | Date of maturity | Face value $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|
| JDSF | AUD | 1 month BBSY + 1.5% | Aug-2010 | 60,000 | 59,768 |
| SDSF | AUD | 1 month BBSY + 0.8% | Aug-2010 | 668,226 | 665,541 |
| | | | | **728,226** | **725,309** |

## 17 Segment information

RPF has a single operating segment. Revenue from external customers is derived from the rental of freehold hotels and bottle shops located in one geographical area – Australia.

# Half-Year Report for the six months ended 31 December 2009
## Notes to the consolidated interim financial statements

### 18 Contingencies

As at 31 December 2009, RPF had a legal claim of $2.6 million against it which relates to four contracts for the acquisition of two freehold pubs and two vacant blocks of land. RPF has denied liability and is defending the claim. The directors are of the opinion that no material loss will arise as a result of this action.

### 19 Subsequent events

As indicated in Note 1(c), RPF has advanced the extension of its loan facilities with its bank syndicate. In February 2010 RPF signed a Term Sheet received from the banking syndicate to extend the term of the bank facility beyond the current maturity of August 2010 until 31 October 2012. The new loan agreements will however include higher interest rates, restrictions on distributions and a requirement for RPF to significantly reduce its loan and interest rate swap balances over the period to October 2012.

Since 30 June 2009, RPF negotiated the sale of 11 properties, with four of these having settled in December 2009. A further five were settled during January and February 2010, and the final two are scheduled to settle in March and April 2010; the total sale value of the seven properties is $63.9m.

### 20 Fund information

*Registered office of the Responsible Entity of the Trust*

Permanent Investment Management Limited

Level 4

35 Clarence Street

Sydney 2000

New South Wales

*Registered office and principal place of business of the Company*

Redcape Property Fund Limited

Ground Floor, 312 St Kilda Road

Melbourne 3004

Victoria

REDCAPE PROPERTY FUND

## Half-Year Report for the six months ended 31 December 2009
## Directors' declaration

In the opinion of the directors of Permanent Investment Management Limited, the Responsible Entity of the Redcape Property Trust:

1. the financial statements and notes, set out on pages 5 to 18, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the financial position of the Redcape Property Trust and the Redcape Property Fund as at 31 December 2009 and of its performance for the six months ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

2. there are reasonable grounds to believe that the Redcape Property Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of Permanent Investment Management Limited.

Michael John Britton

Director

Dated this 24th day of February 2010

Sydney

## Independent auditor's review report to the security holders of the Redcape Property Fund

We have reviewed the accompanying half-year financial report of Redcape Property Fund (the "Fund"), which comprises the consolidated interim statement of financial position as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of accounting policies and other explanatory notes and the directors' declaration set out on pages 5 to 19. The Fund comprises Redcape Property Trust and Redcape Property Fund Limited and the entities each controlled at the half-year's end or from time to time during the half-year.

*Directors' responsibility for the half-year financial report*

The directors of Permanent Investment Management Limited ("the Responsible Entity") are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of the Redcape Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

*Independence*

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

*Conclusion*

Whilst we draw attention to the material uncertainty noted below, based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Redcape Property Fund is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Fund's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

KPMG

## Independent auditor's review report to the security holders of the Redcape Property Fund (continued)

*Material uncertainty regarding continuation as a going concern*

Without qualification to the conclusion expressed above, we draw attention to Note 1(c) Basis of preparation – Going concern in the financial statements. The Fund is critically dependent on the debt facilities provided by its bank syndicate to be able to continue to operate as a going concern. The Fund's existing loan facility agreements with its bank syndicate are due to mature in August 2010. Also, as at 31 December 2009, the Fund was in breach of loan conditions and to date, the bank syndicate has not waived the breaches.

As manager of the Fund, HLG Services Pty Limited ("the Manager") is in discussions with the bank syndicate in order to re-negotiate and extend the facilities until October 2012. As outlined in Note 1(c), the Manager knows of no reason why the proposed extension would not occur and accordingly, the half-year financial report has been prepared on a going concern basis. However, the outcome of these negotiations cannot presently be determined with certainty. The existence of this uncertainty may cast significant doubt about the Fund's ability to continue as a going concern and therefore whether the Fund will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

Graham Coonan
*Partner*

Cairns

24 February 2010