

ASX Announcement

28 February, 2012

The Manager

Australian Securities Exchange Limited
Corporate Announcement Office
Level 4, 20 Bridge St
Sydney NSW 2000

Redcape Property Fund (ASX code: RPF) Financial results for the 6 months ended 31 December, 2011

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

The financial results for Redcape for the 6 months ended 31 December 2011 and for the corresponding period last year are as follows:

1. Financial Summary

	<u>2011</u>	<u>2010</u>
	<u>(\$'000)</u>	<u>(\$'000)</u>
Rent From Investment Property	31,730	34,243
Other Income (incl. SL Lease Adj)	11,522	11,215
Total Income	43,252	45,458
Finance Costs	(44,788)	(44,140)
Management Costs	(1,034)	(757)
Other Costs (incl. SL Lease Adj)	(9,293)	(13,870)
Total Cost	(55,115)	(58,767)
Underlying (Loss) / Profit from Operations	(11,863)	(13,309)
Fair Value & Other Adj's Increase/(Decrease)	(34,078)	26,501
Total Comprehensive Income for the Period	(45,941)	13,192
Operating Cashflow	3,205	2,371
Total Distribution for Period	Nil	Nil
Interim Distribution per stapled security	Nil	Nil

2. Summary of Business and Financial Results:

During the 6 months ended 31 December 2011, Redcape continued its normal operations as pub owner and lessor.

- Total revenue of \$43.2 million (2010: \$45.5 million)
- Operating cash flow \$3.2 million (2010: \$2.4 million)
- Loss of \$45.9 million (2010: Profit \$13.2 million) including a reduction in the fair value of investment properties of \$12.4 million, and a realised loss on the close out of derivative financial instruments (interest rate swaps) of \$69.6 million.
- When excluding fair value & other adjustments a loss from operations of \$11.9 million (2010: loss \$13.3 million) which includes non-cash financing charges of \$21.3 million.
- Loans and Borrowings of \$745.2 million at 31 December 2011 (2010: \$654.3 million)
- No Distribution was paid or declared to stapled security holders during the half year;
- NA per stapled security of \$0.04 (June 2011 \$0.33)
- Senior Lender Loan to Valuation Ratio (LVR) of 78.8% (2010: 75.12%)

3. Property Valuations:

External valuations have been recently obtained for whole investment property portfolio and the Accounts as at 31 December 2011 reflect the changes advised by the valuers. As a result of these valuations, property values in the Accounts of the company have been reduced by \$12.4 million.

4. Interest rate Swap Contracts:

Prior to its ASX Listing in 2007 Redcape entered into a series of interest rate swap contracts. These contracts effectively “fixed” the interest rate Redcape would pay on its loan facilities. In the 4 months ended 31 October, 2011 the average interest rate paid as a consequence of these contracts was approximately 7.1% before interest margins.

Falls in variable interest rates over the last 3 years resulted in Redcape paying an average interest rate higher than the variable rate and as such, the mark-to-market value of the swap position became negative to a significant extent. In order to avoid further deterioration in value, the directors decided in December 2011 to close out the Interest Rate Swap Contracts therefore incurring a realised loss on the transaction of \$69.6 million.

5. Breaches of Bank Covenants:

As previously announced to the ASX, Redcape's Secured Lenders have notified Redcape of certain events of default under its finance documents. These events of default are subsisting and cannot be remedied and, subject to the terms of the finance documents, entitle the secured lenders to accelerate the repayment of all outstanding loan monies, enforce repayment of the same and charge interest at penalty rates.

In order to facilitate implementation of the proposed Schemes (referred to below), the secured lenders have agreed to forebear from taking any action against Redcape in relation to the events of default for a period until 1 May 2012 or until the proposed Schemes are terminated.

6. Agreement for the Implementation of Schemes of Arrangement and Recapitalisation ("SIA")

Details of an Implementation Agreement for Schemes and Recapitalisation (**SIA**) were the subject of Announcements to the Australian Securities Exchange in October and December 2011. The SIA was executed in December 2011 with special purpose entities associated with members of the Consortium (**Investor Group**). The Consortium Investors comprise affiliates of York Capital Management, Varde Partners, Inc and Goldman Sachs Group Inc.

Under the SIA, if the Schemes are approved by security holders, the Investor Group will:

- acquire all of the existing Redcape stapled securities at a price of \$0.0259 per stapled security;
- purchase all of the Redcape senior debt and junior debt that it does not hold (at a discount to its face value) and then convert a portion of this debt to Units in the Redcape Trust and refinance the remaining portion with a new refinancing facility;
- in order to recapitalise Redcape, contribute additional cash consideration to the Trust in return for a further subscription of Units in Redcape Trust (which will, together with the conversion of the debt referred to above, result in a subscription for Units in the Trust at a price of \$0.0259 per Unit for a total amount of up to \$234,767,930).

PriceWaterhouse Securities Limited has been commissioned to provide an Independent Expert Report commenting on the proposed schemes.

7. Consequences of failure to approve the Schemes:

As previously advised, if the Schemes are not implemented, the Secured Lenders will likely accelerate the repayment of their debt and take enforcement action, such as appointment of a receiver to the assets and undertaking of Redcape. The purpose of this enforcement action will be to conduct a sale of Redcape's assets to recover all monies owed to the Secured Lenders, being approximately \$745million (as at 31 December, 2011).

8. Progress on the Implementation of the Schemes:

The scheme booklet and the Independent Experts report have now been completed. At the First Hearing in the Supreme Court of NSW the Court has authorised issue of the scheme booklet and the convening of respective meetings of securityholders.

Subject to the resolutions being passed at the securityholders meetings, to be held on 30 March 2012, the Schemes are expected to be implemented on 20 April 2012.

Further information will be provided in the near future.

Colin Henson
Executive Chairman
Redcape Property Fund Limited