

## Chairman's review

Dear Unitholders,

On behalf of the Board of Directors of Reef Corporate Services Limited, Responsible Entity of the Reef Casino Trust (the Trust), I present my review of the Reef Casino Trust for the financial year ended 31 December 2013.

### Key points

#### A truly excellent year

- The Trust performed strongly in 2013 to report a 28.7% increase in Trust distributable profit\* compared to last year due to good rental income growth of 14.1% from the Reef Hotel Casino.
- Trust distributable profit\* was \$13.9 million, compared to \$10.8 million last year. Unitholders' distributions classified as "finance costs" were \$7.0 million resulting in a net profit of \$7.0 million, compared to \$5.4 million last year.
- First half year Trust distributable profit\* was \$5.0 million, an increase of 29% compared to the same period last year; the second half year Trust distributable profit\* was \$8.9 million, an increase of 28.5% compared to the same period last year.
- Unit distribution of 17.5 cents per unit for the six months from July to December 2013 (last year 12 cents). Earnings per unit from July to December 2013 were 18.0 cents (last year 14.2 cents).
- Total unit distribution for the year from January to December 2013 was 28.0 cents per unit (last year 21.0 cents).
- Operating costs at the Reef Casino Trust and the Reef Hotel Casino were well controlled.
- In November 2013, the Trust announced that a takeover proposal for the Trust had been received.

### Trust distributable profit

Trust distributable profit\* was \$13.9 million for the year ended 31 December 2013. This compares with \$10.8 million in 2012.

Total Trust revenue (comprising mainly of rental income from the Reef Hotel Casino) was \$24.3 million (last year \$21.3 million). This is due to good rental growth from the Reef Hotel Casino.

All key casino revenue generating segments of the Reef Hotel Casino posted growth. Hotel operation revenues were slightly lower because of a refurbishment of all hotel rooms in the first half of 2013 which resulted in fewer rooms available for sale.

Trust operating expenses were well controlled.

*\* Basis of preparation: Distributable profit is a non-IFRS measure that is determined in accordance with the Trust Constitution and used as the basis for determining distributions to unitholders. Distributable profit is determined as net profit for the year, adding back distributions to unitholders which have been treated as finance costs in accordance with IFRS. The distributable profit has been audited by KPMG. Refer to the auditor's report on page 38 of the Annual Report for the year ended 31 December 2013.*

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## Chairman's review (continued)

	2013 \$'000	2012 \$'000	
<b>Revenue and other income</b>			
Rental revenue	24,071	21,089	14.1%
Other revenue and income	213	216	
<b>Total revenue and other income</b>	<b>24,284</b>	<b>21,305</b>	<b>14.0%</b>
<b>Expenses</b>			
Operating expenses	5,877	6,033	2.6%
Depreciation and amortisation	4,483	4,454	
<b>Total expenses</b>	<b>10,360</b>	<b>10,487</b>	<b>1.2%</b>
<b>Profit before finance costs<sup>1</sup> attributable to unitholders (distributable profit*)</b>	<b>13,924</b>	<b>10,818</b>	<b>28.7%</b>
Finance costs <sup>1</sup> attributable to unitholders	6,962	5,409	
<b>Profit for the period</b>	<b>6,962</b>	<b>5,409</b>	<b>28.7%</b>
	<b>cents per unit</b>	<b>cents per unit</b>	
Earnings per unit	28.0	21.7	
Distribution per unit	28.0	21.0	

<sup>1</sup> "Finance costs" relate to 50% of distributable profit payable to unitholders.

### Unit distribution

The Trust has declared a distribution of 17.5 cents per unit or a total of \$8.7 million for the six months from 1 July to 31 December 2013.

A distribution of 10.5 cents per unit was paid for the six months from 1 January to 30 June 2013. For the 2013 financial year, the total distribution declared was 28.0 cents per unit. The distributable earnings per unit for the 2013 financial year were 28.0 cents.

The actual distribution for the 2013 financial year is consistent with the Trust's distribution policy to pay out "100% of distributable profits".

The undistributed income account now stands at 13.91 cents per unit or \$6.9 million.

### Trust balance sheet

The Trust's overall financial position remains strong and healthy. The Trust's cash flows remain positive and the Trust continues to have adequate working capital. The Trust's interest only loan facility remains unchanged at \$16.5 million. This term loan extends to December 2015. As at 31 December 2013, the Trust has drawn down \$5.6 million. The Trust also has an overdraft facility of \$2 million which has not been used to date.

## Chairman's review (continued)

### Capital investment

The Trust continues to invest in its main asset, the Reef Hotel Casino complex in Cairns to improve its facilities. In 2013, all hotel guest rooms were refurbished at a cost of \$1.6 million. This followed a \$2.6 million investment in a brand new Casino Sports Arena which opened in July 2012 and a \$0.6 million investment in refurbishing the main ballroom and adjoining conference area in the complex in late 2011.

### New independent director

The board welcomed Mr Richard Haire as an independent director of the responsible entity. Mr Haire was appointed by the Chairman as an independent director on 1 October 2013 to fill a vacancy in accordance with the Trust's Constitution.

### Takeover proposal

On 13 November 2013, the Trust announced that it had received a non-binding indicative, conditional takeover proposal from Aquis Casino Acquisitions Pty Ltd (Aquis).

The Board has established an Independent Board Committee (IBC) comprising independent directors, Mr DeLacy and Mr Haire, to consider the takeover proposal. In the event that Aquis satisfactorily completes all its due diligence and proceeds with its takeover proposal, it is envisaged that a bid implementation agreement will be entered into between Reef Corporate Services Limited in its capacity as responsible entity and Aquis.

This takeover proposal is supported by all the directors (both independent directors and non-independent directors) in the absence of a superior proposal and provided that the independent expert does not determine that the takeover offer is neither fair nor reasonable. The Trust's major unit holders Casinos Austria International and Accor have also indicated their support for the proposal if it proceeds in the absence of a superior proposal.

The takeover, if it proceeds, will be subject to regulatory approvals and other conditions.

As is usual with acquisitions of gaming businesses, the probity review and approval process is expected to take some time. In this respect, the Trust expects that the takeover, if successful, would take not less than 6 – 9 months to complete.

### Review of performance and strategy at Reef Hotel Casino

The CEO of the Reef Hotel Casino, Allan Tan has provided his report as follows.

#### *CEO's report*

#### Trading conditions

- In its first full year of operation, the casino's brand new level 2 sports arena and gaming floor attracted increased casino visitations.
- Despite the direct flights from Shanghai into Cairns becoming seasonal, the China tourist market continued to grow.
- As with previous years, the first half year was the low tourist season in Cairns and the second half year was again the high season.
- Complex operations posted record casino revenues even though the local economy including tourism remained flat in general.

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## Chairman's review (continued)

### *CEO's report (continued)*

#### Key strategies

- **"Locals strategy" – The Only Place to Play**

The new Casino Sports Arena successfully opened in July 2012. Occupying level 2 of the casino, it offers a range of gaming and entertainment options. Combined with food and beverage products and service, our "locals strategy" is aimed at the local, regional and tourist markets and successfully contributed to increased visitations and revenues growth.

- **"China strategy" – Reef by Day, Reef by Night**

Some key elements of this strategy include being a Cairns' pioneer in being 'China-ready', having the right gaming products and service and the best and largest Chinese restaurant in Cairns for a Chinese tourist friendly venue. Our "China strategy" is aimed at the growing number of Chinese tourists who visit Cairns and has also successfully contributed to increased visitations and revenues growth.

- **The best hotel in Cairns**

Work commenced in January 2013 to refurbish all guest rooms in our Pullman Reef Hotel Casino. This exciting project was successfully completed in July 2013 on budget, on time and on specification. This project which is aimed at strengthening our hotel's position as the best 5 star hotel in Cairns has already received good feedback from the industry and our guests.

- **Cost control throughout complex**

Tight cost control in each of our hotel, casino and administration departments will continue as will initiatives directed towards better management and staff outcomes.

#### Complex performance

##### Casino

- *Casino visitations*

Casino visitations were up 4.4% on last year with both our "Locals strategy" and "China strategy" contributing to this growth.

- *Table games*

Total revenues were up 15.2% on last year with growth from local, domestic and especially international tourist (mainly China) markets. Premium play performed very well with an excellent "above theoretical" win rate. The Reef Casino achieved a record level of table games revenue in 2013.

- *Electronic gaming*

Electronic gaming machine turnover was up 6.2% on last year and revenues were up 4.1% on last year. Patron support from local and domestic markets was strong throughout the year. The Reef Casino achieved a record level of electronic gaming machine turnover and revenue in 2013.

## Chairman's review (continued)

### *CEO's report (continued)*

#### Hotel

- *Rooms*  
Rooms revenues were 4.5% lower compared to last year, an expected outcome because of the refurbishment of all hotel guest rooms throughout the first half of 2013 which reduced the number of rooms available for sale.
- *Food and beverage*  
Beverage revenues were up 2.5% on last year reflecting increased casino visitations with regular special promotions throughout the year. Food revenues were lower by 4.6% compared to last year due to lower banquet/conferencing activity.

#### Complex cost control, Trust rental

- Due to continuing excellent cost control outcomes throughout the complex and growth in complex revenues, the overall rental paid to the Trust was up 14.1% on last year.

### *Chairman's review continues*

#### Trust outlook

The board endorses the key strategies of the management of the Reef Hotel Casino.

#### Takeover offer

- The Board understands that Aquis, the bidder of the proposed takeover offer for the Trust, is seeking government and other approvals in order to complete the takeover. As is usual with acquisitions of gaming businesses, the probity review and approval process is expected to take some time. In this respect, the Trust expects that the takeover, if successful, would take not less than 6 – 9 months to complete. In the meantime until completion, it is "business as usual" for the Trust and the Reef Hotel Casino, subject to customary obligations which may be agreed in relation to the operation of the business in the bid implementation agreement and other transaction documents relevant to the proposal.

#### Economic background

- Post the federal elections in 2013, business and consumer confidence in Cairns and the region has improved, however, this is still not at pre global financial crisis levels.
- A lower Australian dollar should assist tourism generally and continued growth in the Chinese tourist market can be expected but the pace is not so clear.

#### Reef Hotel Casino outlook

- *Electronic gaming*  
With a reduction in government red tape, the planned introduction of new games and additional fully automatic table games, the outlook is positive.
- *Table games*  
Chinese tourists to Australia continue to grow and Cairns remains a popular destination. The Chinese New Year holiday season in January/February 2014 has produced another excellent "busy" season. Direct flights from Shanghai to Cairns which have reverted to being seasonal and new travel legislation in China could have a dampening impact on growth rate. Short term fluctuations in premium win rate are not unusual. Overall, the outlook is still slightly optimistic.

## Chairman's review (continued)

- *Best 5 star hotel in Cairns*

Following the successful room refurbishment project in 2013, our Pullman Reef Hotel Casino remains the best 5 star hotel in Cairns. With a full inventory of hotel rooms available for sale, the overall outlook is for an improvement in rooms revenues.

The Trust's balance sheet is expected to remain strong and the Reef Hotel Casino business is expected to continue to generate strong cash flows. Subject to the completion of the takeover offer, The Trust still expects to distribute 100% of its distributable profits of each half yearly financial period.

The Trust has maintained its profitability and distributions throughout the global financial crisis. 2014 is expected to be no different.



**Ben Macdonald**  
Chairman  
Reef Corporate Services Limited  
Responsible Entity of Reef Casino Trust

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