

## 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 2012.

### Key points

- Trust continued to do well in 2012 during the on-going global financial crisis
- Trust distributable profit\* was \$10.8 million, compared to \$11.6 million in 2011. Unitholders' distributions classified as "finance costs" were \$5.4 million resulting in a net profit of \$5.4 million, compared to \$5.8 million last year.
- First half year Trust distributable profit\* was \$3.9 million; the second half year was \$6.9 million.
- Unit distribution of 12 cents per unit for the six months from July to December 2012 (last year 11 cents). Earnings per unit were 14 cents (last year 14.2 cents).
- Total unit distribution of 21 cents per unit for the year from January to December 2012 (last year 20 cents).
- Casino level 2 at the Reef Hotel Casino was closed throughout the first half year for extensive renovations. A new Casino Sports Arena reopened successfully in July 2012. Direct flights from Shanghai, China into Cairns, which commenced at the end of October 2012, contributed to the continued growth of the Chinese tourist market.
- Otherwise, trading conditions in Cairns and the region continued to be challenging but manageable.
- Operating costs at the Reef Hotel Casino and the Reef Casino Trust were held under tight control with savings made wherever possible.

### Trust distributable profit

Trust distributable profit\* was \$10.8 million for the year ended 31 December 2012. This compares with \$11.6 million in 2011.

Total Trust revenue (comprising mainly of rental income from the Reef Hotel Casino) was \$21.3 million (last year \$22.0 million). This is due to a lower premium play win in 2012 compared to 2011.

Premium play aside, all key revenue generating segments of the Reef Hotel Casino posted growth despite the closure of level 2 of the casino for half a year.

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 37 of the Annual Report for the year ended 31 December 2012.*

# REEF CASINO TRUST

## Chairman's Review

	2012 \$'000	2011 \$'000	
<b>Revenue and other income</b>			
Rental revenue	21,089	21,808	-3.3%
Other revenue and income	216	218	
<b>Total revenue and other income</b>	<b>21,305</b>	<b>22,026</b>	<b>-3.3%</b>
<b>Expenses</b>			
Operating Expenses	6,033	5,949	1.4%
Depreciation and amortisation	4,454	4,439	
<b>Total expenses</b>	<b>10,487</b>	<b>10,388</b>	<b>1.0%</b>
<b>Profit before finance costs<sup>1</sup> attributable to unitholders (Distributable Profit*)</b>	<b>10,818</b>	<b>11,638</b>	<b>-7.0%</b>
Finance costs <sup>1</sup> attributable to unitholders	5,409	5,819	
<b>Profit for the period</b>	<b>5,409</b>	<b>5,819</b>	<b>-7.0%</b>
	<b>cents per unit</b>	<b>cents per unit</b>	
Earnings per unit	21.7	23.4	
Distribution per unit	21.0	20.0	

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

## Unit distribution

The Trust has declared a distribution of 12 cents per unit or a total of \$5.98M million for the six months from 1 July to 31 December 2012. A portion of this distribution will be paid on a "tax deferred" basis and the balance may be taxable in the hands of the unitholders. This will depend on the unitholders' individual tax circumstances. The Trust had paid a distribution of 9 cents per unit for the six months from 1 January to 30 June 2012.

For the 2012 financial year, the total distribution declared was 21 cents per unit compared to the distributable earnings per unit of 21.7 cents. 0.7 cents per unit (total of \$360K) has been transferred to the undistributed income account which now stands at 13.95 cents per unit or \$6.9 million.

The actual distribution for the 2012 financial year is close to the Trust's policy to pay out "100% of distributable profits".

## Trust balance sheet

The overall 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 2012, the Trust has drawn down \$8.75 million. The Trust also has an overdraft facility of \$2 million which has not been used to date.

## Chairman's Review

### 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

- The first half year is traditionally the low tourist season in Cairns with the second half year being the high season.
- The local economy including tourism remained flat in general. However, the China tourist market continued to grow. Overall, trading conditions were challenging but manageable.
- The casino's level 2 gaming floor was temporarily closed throughout the first half year for extensive renovations. As expected, this has affected casino visitations and complex revenues in general in the first half year.
- Putting premium play which experienced a lower win rate compared to last year aside, all key revenue generating segments posted growth in 2012 compared to last year.

#### 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.

- **"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. Our "China strategy" is aimed at the growing number of Chinese tourists who visit Cairns.

- **The best hotel in Cairns**

All guest rooms in our Pullman Reef Hotel Casino will be refurbished commencing in January 2013. This will strengthen our hotel's position as the best 5 star hotel in Cairns. Work is expected to be completed around the middle of 2013.

- **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.

## Chairman's Review

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

#### Complex performance

##### Casino

- *Casino visitations*  
These were 7.9% lower in the first half and was anticipated due to the temporary closure of casino level 2 for extensive renovations, however visitations were up 4.5% in second half year such that overall visitations for the year held up well.
- *Table games*  
Main floor revenues were up 5.8% compared to last year while premium revenues were lower due to a lower level of win by the casino with the win rate lower than last year.
- *Electronic Gaming*  
Electronic gaming machine revenues were up 0.6% despite the temporary closure of casino level 2 in the first half year.

##### Hotel

- *Rooms*  
Rooms revenues were up 6% compared to last year.
- *Food and beverage*  
Overall revenues were just 1.6% lower than last year due to the temporary closure of casino level 2 in the first half year and special bar promotions following the opening of the new Casino Sports Arena.

#### Complex cost control, Trust rental

- Due to continuing excellent cost control outcomes throughout the complex, the overall rental paid to the Trust held up well compared to last year. Contributions from main floor table games, electronic gaming and hotel operations all grew. The actual rental paid to the Trust was just 3.3% lower than last year mainly because of a lower premium play win by the casino.

### *Chairman's review continues*

#### Trust outlook for 2013

##### Global and local economies

- The global economy is expected to remain flat and the Australian dollar is expected to remain strong. These are likely to have a bearing on the local Cairns economy which is dependent on tourism and is expected to remain subdued.

#### Some positives for the Trust and Reef Hotel Casino

- *New Casino Sports Arena*  
The new Casino Sports Arena located on casino level 2 successfully reopened on 3 July 2012 and is designed to increase our share of the local and regional gaming market. So far, its contribution to the complex's performance is encouraging. Management will continue to build on the momentum generated to date.

## Chairman's Review

- *Chinese tourist market*  
Chinese tourists to Australia continue to grow and Cairns is a popular destination. Direct flights from China to Cairns commenced in October last year. The Chinese New Year holiday season in February 2013 is expected to bring the largest ever number of Chinese tourists into Cairns. These exciting developments will allow the Reef Hotel Casino to consolidate and expand its existing Chinese casino tourist market and to develop its Chinese premium player market further.
- *Best 5 star hotel in Cairns*  
The refurbishment of all the guest rooms in our Pullman Reef Hotel Casino in the first half of 2013 will enable us to strengthen our hotel's leading position as the best 5 star hotel in Cairns.
- *Strong balance sheet and cash flows*  
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. 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. It is well placed to continue to do so.



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