# 1 TAX IMPLICATIONS OF CAPITAL REALLOCATION

## 1.1 Overview of the Capital Reallocation

Ardent Leisure Group (**ALG**) reallocated capital from Ardent Leisure Trust (**ALT**) to Ardent Leisure Limited (**ALL**) on 1 December 2014.

This was achieved by a return of capital from ALT to all Securityholders of $0.28 per ALT unit. The return of trust capital was compulsorily applied on behalf of each Securityholder as a further capital contribution to existing shares in ALL in the order of $0.28 per ALL share.

This transaction is referred to in this document as the “Capital Reallocation”.

The purpose for undertaking the Capital Reallocation is to support the increase in demand for capital on the ALL side of the ALG stapled structure and to ensure that capital is best deployed in the interest of Securityholders in general.

The Capital Reallocation was approved by Securityholders at the Annual General Meeting held on 30 October 2014.

Set out below is a summary of the general Australian income tax implications of the Capital Reallocation for Securityholders.

## 1.2 Tax implications of the Capital Reallocation

The comments below are of a general nature only and do not constitute tax advice and should not be relied upon as such. The examples provided assume the Securityholder is an Australian resident individual who holds the ALG securities on capital account.

Securityholders should obtain independent advice as to the tax consequences to them of the Capital Reallocation.

The Australian Taxation Office (**ATO**) has also issued a Class Ruling (CR 2014/98) confirming the tax implications set out below. A copy of the Class Ruling can be found here: http://law.ato.gov.au/pdf/pbr/cr2014-098.pdf.

A summary of the income tax consequences of the Capital Reallocation is as follows:

*Non-assessable capital return to Securityholders*

Securityholders will not be required to include the value of the capital return from ALT in their ordinary assessable income. However to the extent the capital return results in a capital gain the amount of the capital gain will be included in the Securityholders assessable income.

*Cost Base of ALT unit*

Securityholders will be required to reduce the cost base or reduced cost base (**Cost Base**) of each of their ALT units by the amount of the capital return, being $0.28 per ALT unit.

If the capital return in respect of an ALT unit is less than the Securityholder’s Cost Base in the unit, the Cost Base of the unit is reduced by that amount (refer to example 1 below).

If the capital return in respect of an ALT unit is more than the Securityholder’s Cost Base in the unit, then the Cost Base of the unit will be reduced to nil. In addition, the Securityholder will make a capital gain equal to the amount that the capital return exceeds the Securityholder’s Cost Base in the unit (refer to example 2 below).

*Cost base of ALL share*

A Securityholder’s Cost Base in an ALL share will increase by the amount of the capital contribution, being $0.28 per ALL share.

## 1.3 Examples

*Example 1 – Securityholder reduces Cost Base of ALT unit*

Jack purchased 10 ALG securities for $30 on 1 July 2014 (ie, Jack paid $3 per ALG security). As each ALG security comprises of 1 ALL share and ALT unit, Jack will need to allocate Cost Base to each ALL share and ALT unit based on the relative net tangible asset value of ALT and ALL as compared to the total value of ALG at the time he purchased the ALG securities.

A table setting out the allocation of Cost Base can be found at the following link: http://www.ardentleisure.com.au/Investor-Centre/MIT-Statement--Tax-Info.aspx#cost

Based on the information available, Jack determines that his Cost Base in each ALL share is $0.50 and his Cost Base in each ALT unit is $2.50.

Following the Capital Reallocation:

- Jack's Cost Base in each ALT unit of $2.50 will be reduced by the capital return of $0.28. That is, Jack's new Cost Base in each ALT unit will be $2.22; and
- Jack's Cost Base in each ALL share of $0.50 will be increased by the capital return of $0.28. That is, Jack's new Cost Base in each ALL share will be $0.78.

*Example 2 – Securityholder makes a capital gain*

Jill purchased 10 ALG securities for a relatively low price in 2010.

Jill has determined that her Cost Base in each ALL share is $0.10 and her Cost Base in each ALT unit is $0.20.

Following the Capital Reallocation:

- Jill's Cost Base in each of her ALT units of $0.20 will be reduced by the capital return of $0.28. As the capital return of $0.28 is greater than her Cost Base of $0.20 per ALT unit, Jill's new Cost Base in each ALT unit will be reduced to nil;
- in addition, Jill will need to include the amount that the capital return of $0.28 exceeds the original Cost Base of $0.20 as a capital gain in her 2015 income tax return. That is, Jill will need to include a capital gain of $0.08 per ALT unit in her 2015 income tax return; and
- Jill's cost base in each of her ALL shares of $0.10 will be increased by the capital return of $0.28. That is, Jill's new Cost Base in each ALL share will be $0.38.