ALE PROPERTY GROUP

Appendix 4D

Half-year Report
Six Months Ended 31 December 2016

Name of entity

ALE PROPERTY GROUP

ABN or equivalent company reference

Australian Leisure and Entertainment Property Management Limited ABN 45 105 275 278 and Australian Leisure and Entertainment Property Trust ARSN 106 063 049

Half yearly (tick)	Preliminary final (tick)	Half-year ended ('current period'):
✓		**31 December 2016** (previous corresponding period 31 December 2015)

Results for announcement to the market

	6 months to 31 December 2016 A$'000	6 months to 31 December 2015 A$'000	Variance %
Rental revenue	**28,370**	27,951	1.50%
Total income	**60,047**	81,521	(26.34%)
Profit / (Loss) from ordinary activities after income tax, attributable to security holders	**45,521**	63,076	(27.83%)
Profit before income tax, fair value adjustments, amortisation of prepaid costs and other non-cash items	**15,080**	14,831	1.68%
Total available for distribution	**15,080**	14,831	1.68%
Distribution payable for the half-year	**19,871**	19,381	2.53%
Available and under/(over) distributed at the half-year(paid from accumulated undistributed profits from prior periods)	**(4,791)**	(4,550)	-

Dividends (distributions)

	6 months to 31 December 2016 Cents	6 months to 31 December 2015 Cents	Variance %
December half-year interim distribution	**10.15**	9.90	2.53%
Franked amount per share	**0.00**	0.00	-
Record date for distribution entitlement	31 December 2016		
Interim distribution will be paid	6 March 2017		
The distribution will be 100.00% tax deferred			

ALE PROPERTY GROUP

Net tangible assets per security

	6 months to 31 December 2016	6 months to 31 December 2015	Variance %
Net tangible assets per security	**$2.66**	$2.49	6.83%

Explanation of results

Brief explanation of results

- Rental Revenue increased by 1.50% due to the weighted average portfolio gross rent (exclusive of Queensland land tax) increases of 1.43% in November 2016 and 1.47% in November 2015;
- Total income has decreased by 26.34% due to a lower increment in property fair values. Property values increased by $13.89 million compared to $53.02 million for the half year to 31 December 2015.
- Profit after income tax for the period decreased by $17.56 million due to:
    - Lower increment to property fair values of $39.13 million;
    - Increment to derivatives of $17.40 million in the current period compared to a decrement of $3.37 million in the prior period as a result of higher long term interest rates;
    - Cash finance costs were consistent with the prior period; and
    - Management costs remained stable during the period and ALE's management expense ratio continues to be one of the lowest in the A-REIT sector.
- Total available for distribution is higher due to the higher rental income as noted above.
- The distribution of 10.15 cents per security represents an increase of 2.53% from the previous comparable period and is in line with the full year guidance provided by the Board in October 2016.

Reconciliation of profit after tax to total available for distribution

	A$'000
Profit after income tax for half-year	**$45,521**
Plus / (Less)	
Fair value increment to investment properties	(13,895)
Fair value increment to derivatives	(17,399)
Employee security based payments	108
Finance costs – non cash	740
Income tax expense / (benefit)	5
Total available for distribution	**15,080**
Distribution payable	19,871
Available and under / (over) distributed at the half-year	**(4,791)**

Audit Status

Independent auditor KPMG has completed a review of the accounts on which this report is based and provided an unqualified opinion.

A copy of the ALE Property Group 31 December 2016 Half-Year Financial Report with KPMG review opinion is attached.

ALE PROPERTY GROUP

ALE Property Group

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities

ABN 92 648 441 429

Half-Year Report 31 December 2016

ALE Property Group

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities
Report For the half-year ended 31 December 2016

ABN 92 648 441 429

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FINANCIAL STATEMENTS

31 December 2016

ALE Property Group (ASX: LEP)

ALE Property Group is the owner of Australia's largest portfolio of freehold pub properties. Established in November 2003, ALE owns a portfolio of 86 pub properties across the five mainland states of Australia. All the properties are leased to Australian Leisure and Hospitality Group Pty Limited (ALH) for an average remaining initial lease term of 11.8 years plus options for ALH to extend.

WWW.ALEGROUP.COM.AU

DIRECTORS' REPORT

The ALE Property Group ("ALE") comprises Australian Leisure and Entertainment Property Trust ("Trust") and its controlled entities including ALE Direct Property Trust ("Sub-Trust"), ALE Finance Company Pty Limited ("Finance Company") and Australian Leisure and Entertainment Property Management Limited ("Company") as the responsible entity of the Trust.

The registered office and principal place of business of ALE is level 10, 6 O'Connell Street, Sydney NSW 2000.

The directors of the Company present their report, together with the consolidated half-year financial statements of ALE, for the half-year ended 31 December 2016.

1. DIRECTORS

The following persons were directors of the Company during the half-year and up to the date of this report unless otherwise stated:

Name	Type	Appointed	Resigned
P H Warne (Chairman)	Independent non-executive	8 September 2003	
P J Downes	Independent non-executive	26 November 2013	
N J Milne	Independent non-executive	6 February 2015	
P G Say	Independent non-executive	24 September 2014	
R W Mactier	Independent non-executive	28 November 2016	
A F O Wilkinson (Managing Director)	Executive	16 November 2004	
J T McNally	Executive	26 June 2003	

2. PRINCIPAL ACTIVITIES

The principal activities of ALE consist of investment in property and property funds management. There has been no significant change in the nature of those activities during the half-year.

3. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL HALF-YEAR

In the opinion of the Directors of the Company, no transaction or event of a material and unusual nature has occurred between the end of the financial half year and the date of this report that may significantly affect the operations of ALE, the results of those operations or the state of affairs of ALE in future financial years.

4. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

ALE will continue to maintain its defined strategy of identifying opportunities to increase the profitability of ALE and its value to its stapled securityholders.

Disclosed in the financial statements are current borrowings relating to $110 million of Australian Medium Term Notes (AMTN) that mature in August 2017. ALE is already well advanced in preparations for this refinancing with a range of options available to it.

In accordance with the leases of its investment properties over the medium term, ALE expects to receive annual increases in rental income in line with increases in the consumer price index until the first major market rent review in November 2018.

Apart from the above matters, the directors are not aware of any other future development likely to significantly affect the operations and/or results of ALE.

5. DISTRIBUTIONS AND DIVIDENDS

Trust distributions paid out and payable to stapled securityholders, based on the number of stapled securities on issue at the respective record dates, for the half-year were as follows:

	December 2016 cents	December 2015 cents	December 2016 $'000	December 2015 $'000
Interim Trust income distribution for the year ending 30 June 2017 to be paid on 6 March 2017	10.15	9.90	19,871	19,381
Interim Trust distribution	**10.15**	**9.90**	**19,871**	**19,381**

No provisions for or payments of Company dividends have been made during the half-year (2015: nil).

6. OPERATIONAL AND FINANCIAL REVIEW

Background

ALE Property Group is the owner of Australia's largest portfolio of freehold pub properties. Established in November 2003, ALE owns a portfolio of 86 pub properties across the five mainland states of Australia. All of the properties in the portfolio are leased to Australian Leisure and Hospitality Group Pty Limited (ALH) for an average remaining initial lease term of 11.8 years plus options for ALH to extend.

ALE's high quality freehold pubs have long term leases that include a number of unique features that add to the security of net income and opportunity for rental growth. Some of the significant features of the leases (for 83 of the 86 properties) are as follows:

- For most of the properties the leases commenced in November 2003 with an initial term of 25 years and four options of 10 years for ALH to extend;
- The leases are triple net which require ALH to take responsibility for rates, insurance and essentially all structural repairs and maintenance, as well as land tax in all states except Queensland (three of the 86 properties are double net);
- Annual CPI rent increases are not subject to any cap and rents do not decline with negative CPI;
- There is a market rent review in November 2018 that is capped and collared within 10% of the 2017 rent; and
- There is a full open market rent review (no cap or collar) in November 2028 at which time ALH has four options of 10 years to extend the leases.

Significant changes in the state of affairs

In the opinion of the directors, the following significant changes in the state of affairs of ALE occurred during the year:

- The 86 individual property values increased by an average of 1.4% to $1,004.5 million; and
- Net Assets increased by 5.1% to $521.4 million and net borrowings (total borrowings less cash) as a percentage of assets (total assets less cash, derivatives and deferred tax assets) dropped from 44.9% to 44.7%.

Current year performance

ALE produced a profit after tax of $45.5 million for the half-year ended 31 December 2016 compared to a profit of $63.1 million for the half-year ended 31 December 2015. The decrease is primarily due to:

- Fair value adjustments to investment properties decreased from $53.0 million in December 2015 to $13.9 million in the current period as capitalisation rates remained stable;
- Fair value adjustments to net derivatives changed from a decrement of $3.4 million in December 2015 to an increment of $17.4 million in the current period as long term interest rates increased;
- Rental income increased by 1.5% due to the full period impact of the November 2015 rent review of 1.5% and the part period impact of the November 2016 rent review of 1.4%;
- Interest income was lower due to decreasing interest rates and lower cash balances;
- Cash finance costs were consistent with the prior period; and
- Management costs remained stable during the period and ALE's management expense ratio continues to be one of the lowest in the A-REIT sector.

ALE has a policy of paying distributions which are subject to the minimum requirement to distribute taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE. Distributable Profit excludes items such as unrealised fair value adjustments arising from the effect of revaluing derivatives and investment properties, non-cash expenses and non-cash financing costs.

During the half-year ALE produced a distributable profit of $15.1 million compared to $14.8 million in the previous half year. The table below separates the cash components of ALE's profit that are available for distribution from the non-cash components. The directors believe this will assist stapled securityholders in understanding the results of operations and distributions of ALE. Distributable Profit was impacted by the same cash items that affected Operating Profit, namely increased rent.

	December 2016 $'000	December 2015 $'000
Profit after income tax for the half-year	**45,521**	**63,076**
Plus / (Less): Adjustments for non-cash items		
Fair value increments to investment properties and derivatives	(31,294)	(49,653)
Employee share based payments	108	96
Finance costs - non-cash	740	1,299
Income tax expense	5	13
Total adjustments for non-cash items	**(30,441)**	**(48,245)**
Total available for distribution	**15,080**	**14,831**
Distribution paid or provided for	19,871	19,381
Over distributed for the half-year	**(4,791)**	**(4,550)**
Distribution funded as follows		
Current year distributable profits	15,080	14,831
Prior year undistributed profits	-	4,550
Capital and surplus cash	4,791	-
	19,871	**19,381**

	Percentage Increase / (Decrease)	December 2016 Cents	December 2015 Cents
Earnings and distribution per stapled security:			
Basic earnings	(27.85%)	23.25	32.23
Earnings available for distribution	1.58%	7.70	7.58
Total distribution	2.53%	10.15	9.90
Current year distributable profits		7.70	7.58
Prior year undistributed profits		-	2.32
Capital and surplus cash		2.45	-
		10.15	9.90

Financial position

ALE's net assets increased by 5.1%, compared with June 2016 which was largely attributable to an increase in property values and decrease in derivative liabilities values during the period.

Investment property revaluations increased the value by 1.4% from $990.5 million to $1,004.5 million during the year. The increase in property valuations was attributable to the November 2016 CPI rent increase with average capitalisation rates remaining constant at 5.53% across the portfolio. When assessing statutory valuations at June 2016 the valuers applied both traditional capitalisation rate and discounted cash flow (DCF) based valuation methods. The average adopted capitalisation rates reflect a combination of these methods but continues to place significant emphasis upon the traditional capitalisation rate approach.

ALE believes that the DCF method can provide a comprehensive view of the quality of the lease and tenant as well as the medium and longer term opportunities for reversion to market based levels of rent. In applying the DCF method the valuers made their own independent assessment of the tenant's current level of EBITDAR and also adopted industry standard market rental ratios. The valuers also used a range of assumptions they deemed appropriate for each of the individual properties. Based upon their assessments and assumptions, the valuers' DCF valuations represented a weighted average capitalisation rate of around 4.8% for the 31 properties valued. This compares to the adopted rate of around 5.53% which was derived using a combination of the DCF and capitalisation rate methods.

Net assets per stapled security increased by 5.1% from $2.53 to $2.66 compared to June 2016.

During the year, net covenant gearing reduced from 44.9% to 44.7%. ALE continues to maintain appropriate headroom to all debt covenants with the nearest equivalent to an average 25.0% fall in property values.

ALE's capital position remains sound. This is evidenced by a steady reduction in gearing and the maintenance of an investment grade credit rating. ALE's next debt maturity of $110 million will occur in August 2017. ALE is already in advanced preparations for this refinancing with a range of options available to it. Key debt market participants have continued to provide ALE with positive encouragement to issue in both the domestic and offshore capital markets.

ALE's debt capital structure continues to be characterised by the following positive features:

- simplified debt structure;
- investment grade rating of Baa2 (stable);
- gearing down to 44.7% provides significant headroom;
- gearing below medium term target of 50% to 55%;
- debt maturities diversified across next 6.9 years;
- base interest rates fully hedged for next 8.7 years; and
- all up cash rate currently fixed at 4.35% pa.

ALE has consistently sought to mitigate against the impact of interest expense volatility on distributions and continues to have long term hedging in place to achieve this objective. During the previous period ALE extended its hedging arrangements to cover forecast debt levels to November 2025.

Business strategies and future prospects

ALE continues to hold a positive outlook for the market rent prospects for the portfolio. In around two years time the first major review will occur for the majority of properties with the fair market rent capped and collared within 10% of the 2017 rent. There is also a full open fair market rent review (no caps or collars) in November 2028.

ALE will continue to seek acquisition opportunities that are of a high quality, meet all specified criteria and represent an accretive value opportunity for securityholders. Even if these opportunities are not available, ALE will continue to work constructively with ALH in seeking to ensure the existing portfolio of properties continues to perform at the profitable levels that currently prevail.

ALE has continued to preserve the quality of the existing property portfolio. The current debt structure and extended hedging position provides significant certainty around a stable distribution profile for the medium term.

ALE's objective is to continue to grow distributions at least in line with increases in the CPI.

Material business risks

ALE is subject to a number of material business risks that may have an impact on the financial prospects of ALE. These risks and how ALE manages them include:

- Property valuation risk - the properties that ALE owns have values that are exposed to movements in the Australian commercial property markets as well as the general levels of long and short term interest rates. ALE is unable to control the market forces that impact ALE's property values however ALE constantly monitors the property market to assess general trends in property values. ALE undertakes on-going condition and compliance audits of our properties and has independent valuers perform valuations on one third of the property portfolio on an annual basis. Declines in ALE's property values would reduce NTA and could also reduce headroom on debt covenants. At 31 December 2016 the closest debt covenant would be triggered by a decline of around 25% in property values and a resultant average capitalisation rate of 7.40%. By way of comparison it should be noted that in the last 10 years the highest average capitalisation rate of ALE properties has been 6.60%.

- Interest rate risk - ALE currently has $480 million of outstanding borrowings and consequently faces the risk of reduced profitability and distributions should interest rates on borrowings increase materially. To mitigate this risk ALE uses fixed base interest rate borrowings and forward start hedges for the medium and long term. Existing hedging arrangements effectively fix ALE's interest expense to November 2025 at average base rates of between 3.26% and 3.54%. Increased credit margins may arise on refinancing. The impact of this risk is mitigated by adopting a diversified debt maturity profile, active engagement and continual communication with debt financiers.

- Debt repayment risk - ALE currently has outstanding borrowings representing a gearing level of 44.7% and has a medium term policy of maintaining gearing within a range of 50% to 55%. ALE consequently faces refinancing risk as and when borrowings mature and require repayment. Failure or delays in refinancing maturing borrowings could subject ALE to a number of risks that could potentially impact future earnings. To mitigate these risks ALE proactively staggers debt maturities, continually monitors debt markets, actively seeks to maintain ALE's current credit rating of Baa2 and maintains relationships with a range of diverse funding markets to ensure multiple funding options are available. ALE has a long track record of consistently approaching debt markets for refinancing well in advance of the scheduled debt maturity dates.

- Single tenant risk - all 86 of ALE's properties are leased to ALH, which is owned by Woolworths Limited (75%) and the Mathieson family (25%). In event of a default in rental payments by the tenant, ALE may be unable to pay interest on borrowings and distributions to securityholders. ALE manages this risk by monitoring the operating performance of each of the hotels and ALH on a regular basis. ALE also has the option of selling properties and/or issuing equity to meet its debt obligations.

7. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

8. ENVIRONMENTAL REGULATION

While ALE is not subject to significant environmental regulation in respect of its property activities, the directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance with various licence requirements and regulations. Further, the directors are not aware of any material breaches of these requirements. At four properties, ongoing testing and monitoring is being undertaken and minor remediation work is required, however, in most cases ALE is indemnified by third parties against any remediation amounts likely to be required. ALE does not expect to incur any material environmental liabilities.

9. ROUNDING OF AMOUNTS

ALE is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with the Instrument to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the directors.

Peter H Warne
Chairman
Sydney

Andrew Wilkinson
Managing Director
Sydney

Dated this 23rd day of February 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Australian Leisure and Entertainment Property Management Limited, the Responsible Entity for Australian Leisure and Entertainment Property Trust

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

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

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

KPMG

John Teer

Partner

Sydney

23 February 2017

FINANCIAL STATEMENTS

Half-Year Report for the period ended 31 December 2016

Notes to the Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

Half-Year Report for the period ended 31 December 2016

	Note	December 2016 $'000	December 2015 $'000
Revenue			
Rent from investment properties		28,370	27,951
Interest from cash deposits		383	546
Total revenue		**28,753**	**28,497**
Other income			
Fair value increments to investment properties	2	13,895	53,024
Fair value increments to derivatives		17,399	
Total other income		**31,294**	**53,024**
Total income		**60,047**	**81,521**
Expenses			
Fair value decrements to derivatives		-	3,371
Finance costs	4.1	11,055	11,637
Queensland land tax expense		1,109	1,073
Other expenses		2,357	2,351
Total expenses		**14,521**	**18,432**
Profit before income tax		**45,526**	**63,089**
Income tax expense		5	13
Profit after income tax expense		**45,521**	**63,076**
Other comprehensive income		**-**	**-**
Other comprehensive income for the period after income tax		**-**	**-**
Total comprehensive income for the period		**45,521**	**63,076**
Profit attributable to:			
Members of ALE		45,521	63,076
Profit for the period		45,521	63,076
Total comprehensive income attributable to:			
Members of ALE		45,521	63,076
Total comprehensive income for the period		45,521	63,076
		Cents	**Cents**
Basic earnings per stapled security	4.3	23.25	32.19

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

Half-Year Report for the period ended 31 December 2016

	Note	December 2016 $'000	June 2016 $'000
Current assets			
Cash and cash equivalents	3.5	32,103	37,919
Receivables		230	278
Other		1,297	218
Total current assets		**33,630**	**38,415**
Non-current assets			
Investment properties	2	1,004,450	990,480
Plant and equipment		38	36
Deferred tax asset		285	288
Total non-current assets		**1,004,773**	**990,804**
Total assets		**1,038,403**	**1,029,219**
Current liabilities			
Payables		7,688	7,457
Borrowings	3.1	109,883	-
Distribution payable		19,871	19,773
Employee entitlements		193	169
Total current liabilities		**137,635**	**27,399**
Non-current liabilities			
Borrowings	3.1	370,434	479,528
Derivatives	3.2	8,950	26,349
Total non-current liabilities		**379,384**	**505,877**
Total liabilities		**517,019**	**533,276**
Net assets		**521,384**	**495,943**
Equity			
Contributed equity	3.3	258,118	258,118
Reserve		753	807
Retained profits		262,513	237,018
Total equity		**521,384**	**495,943**
		$	$
Net assets per stapled security		**$2.66**	**$2.53**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

Half-Year Report for the period ended 31 December 2016

	Share Capital $'000	Share based payments reserve $'000	Retained Earnings $'000	Total $'000
31 December 2016				
Total equity at the beginning of the half-year	**258,118**	**807**	**237,018**	**495,943**
Total comprehensive income for the period				
Profit/(Loss) for the period	-	-	45,521	45,521
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	45,521	45,521
Employee security based payments	-	108	-	108
Employee security based payments - securities purchased	-	(162)	(155)	(317)
Distribution paid or payable	-	-	(19,871)	(19,871)
Total equity at the end of the half-year	**258,118**	**753**	**262,513**	**521,384**
31 December 2015				
Total equity at the beginning of the half-year	**257,870**	**735**	**185,132**	**443,737**
Total comprehensive income for the period				
Profit/(Loss) for the period	-	-	63,076	63,076
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	63,076	63,076
Employee security based payments	-	96	-	96
Employee security based payments - securities issued	248	(110)	(138)	-
Distribution paid or payable	-	-	(19,381)	(19,381)
Total equity at the end of the half-year	**258,118**	**721**	**228,689**	**487,528**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

Half-Year Report for the period ended 31 December 2016

	Note	December 2016 $'000	December 2015 $'000
Cash flows from operating activities			
Receipts from tenant and others		31,290	30,822
Payments to suppliers and employees		(7,432)	(7,519)
Interest received		437	547
Interest received - interest rate hedges		245	203
Borrowing costs paid		(10,546)	(10,507)
Net cash inflow from operating activities		**13,994**	**13,546**
Cash flows from investing activities			
Payments for plant and equipment		(11)	(20)
Payments for investment properties		(75)	(366)
Net cash inflow / (outflow) from investing activities		**(86)**	**(386)**
Cash flows from financing activities			
Borrowing and capital raising costs refunded		49	-
Distributions paid		(19,773)	(16,537)
Net cash inflow / (outflow) from financing activities		**(19,724)**	**(16,537)**
Net increase / (decrease) in cash and cash equivalents held		**(5,816)**	**(3,377)**
Cash and cash equivalents at the beginning of the half-year		37,919	44,812
Cash and cash equivalents at the end of the half-year	3.5	**32,103**	**41,435**

Reconciliation of profit after income tax to net cash inflows from operating activities

	December 2016 $'000	December 2015 $'000
Profit for the year	45,521	63,076
Plus/(less):		
Fair value increments to investment property	(13,895)	(53,024)
Fair value decrements to derivatives	(17,399)	3,371
Finance costs amortisation	175	189
CIB Accumulated indexation	565	1,110
Share based payments expense	108	96
Share based payments securities purchased	(317)	-
Depreciation	9	7
Decrease/(increase) in -		
Receivables	48	88
Deferred tax assets	3	1
Other assets	(1,079)	(1,036)
Increase/(decrease) in -		
Payables	231	(356)
Employee entitlements	24	24
Net cash inflow from operating activities	**13,994**	13,546

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1.
About this report

Reporting Entity
ALE is domiciled in Australia. ALE, the stapled entity, was formed by stapling together the units in the Trust and the shares in the Company. For the purposes of financial reporting, the stapled entity reflects the consolidated entity. The parent entity and deemed acquirer in this arrangement is the Trust. The results reflect the performance of the Trust and its subsidiaries including the Company from 1 July 2016 to 31 December 2016.

The stapled securities of ALE are quoted on the Australian Stock Exchange under the code LEP and comprise one unit in the Trust and one share in the Company. The unit and the share are stapled together under the terms of their respective constitutions and cannot be traded separately. Each entity forming part of ALE is a separate legal entity in its own right under the Corporations Act 2001 and Australian Accounting Standards. The ALE Property Group is a for-profit entity.

The Company is the Responsible Entity of the Trust.

Statement of compliance
This general purpose financial report for the interim half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by ALE during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated financial statements were authorised for issue by the Board of Directors on 22nd February 2017.

Basis of preparation
The Financial Report has been prepared on an historical costs basis, except for the revaluation of investment properties and certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are represented in Australian dollars, unless otherwise noted.

Going concern basis of accounting
The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to meet the mandatory repayment terms of the AMTN tranche due for repayment by August 2017 as disclosed in note 3.1. Current liabilities exceed current assets by $104m. ALE is already well advanced in preparations for refinancing the amount due with a range of options available to it in order the refinance this debt on or prior to maturity and is confident that the Group will be able to meet its debts as and when they fall due.

Rounding of amounts
ALE is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

Accounting estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Accounting estimates and judgements	Note
Investment property	2
Financial instruments	3.2

Significant accounting policies
The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2016.

Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Senior management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as bank valuations or independent valuations, is used to measure fair values then management assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported the to Audit, Compliance and Risk Management Committee.

2. Investment property

This section provides information relating to the investment properties of the Group. ALE has a strong focus on maintaining a quality investment grade portfolio of freehold pub properties.

	December 2016 $'000	June 2016 $'000
Investment properties	1,004,450	990,480
Reconciliation of fair value gains for half-year ending 31 December 2016		
Fair value as at beginning of the half-year	990,480	953,860
Additions during half-year	75	-
Carrying amount before revaluations	**990,555**	953,860
Fair value as at end of the half-year	1,004,450	990,480
Fair value gain for half year	**13,895**	36,620

Recognition and measurement

Properties (including land and buildings) held for long term rental yields and capital appreciation and that are not occupied by ALE are classified as investment properties.

Investment property is initially brought to account at cost which includes the cost of acquisition, stamp duty and other costs directly related to the acquisition of the properties. The properties are subsequently revalued and carried at fair value. Fair value is based on active market prices, adjusted for any difference in the nature, location or condition of the specific asset or where this is not available, an appropriate valuation method which may include discounted cash flow projections and the capitalisation method. The fair value reflects, among other things, rental income from the current leases and assumptions about future rental income in light of current market conditions. It also reflects any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the properties' carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to ALE and the cost of the item can be reliably measured. Maintenance and capital works expenditure is the responsibility of the tenant under the triple net leases in place over 83 of the 86 properties. For the remaining three hotels capital works expenditure and structural maintenance is the responsibility of ALE. ALE undertakes periodic condition and compliance reviews by a qualified independent consultant to ensure properties are properly maintained.

Land and buildings that comprise investment property are not depreciated.

The carrying value of the investment property is reviewed at each reporting date and each property is independently revalued at least every three years. Changes in the fair values of investment properties are recorded in the Statement of Comprehensive Income.

Gains and losses on disposal of a property are determined by comparing the net proceeds on disposal with the carrying amount of the property at the date of disposal. Net proceeds on disposal are determined by subtracting disposal costs from the gross sale proceeds.

Measurement of fair value

The basis of valuation of investment 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. As at 31 December 2016, the weighted average investment property capitalisation rate used to determine the value of all investment properties was 5.53% (June 2016: 5.53%).

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in the Statement of Comprehensive Income. ALE has a valuation process for determining the fair value at each reporting date. An independent valuer, having an appropriate professional qualification and recent experience in the location and category of property being valued, values individual properties every three years on a rotation basis or on a

2. Investment property

Measurement of fair value (continued)

more regular basis if considered appropriate and as determined by management in accordance with the Board's approved valuation policy. These external independent valuations are taken into consideration when determining the fair value of the investment properties. The weighted average lease term of the properties is around 12 years.

In accordance with ALE's policy of independently valuing at least one-third of its property portfolio annually, 31 properties were independently valued as at 30 June 2016. The independent valuations are identified as "A" in the investment property table under the column labelled "Valuation type and date". These valuations were completed by CBRE and Herron Todd White.

The remaining 55 properties were subject to Directors' valuations as at 30 June 2016, identified as "B". The Directors' valuations of the 55 properties were determined by taking each property's net rent as at 30 June 2016 and capitalising it at a rate equal to the prior year capitalisation rate for that property, adjusted by the average change in capitalisation rate evident in the 31 independent valuations completed at 30 June 2016 on a like for like basis. The Directors have received advice from CBRE and Herron Todd White, that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a like for like basis.

Valuations reflect, where appropriate, the tenant in occupation, the credit worthiness of the tenant, the triple-net nature and remaining term of the leases (83 of 86 properties), land tax liabilities (Queensland only), insurance responsibilities between lessor and lessee and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices, have been served validly and within the appropriate time.

The valuations of each independent property are prepared by considering the aggregate of the net annual rental receivable from the individual properties and, where relevant, associated costs. A capitalisation rate, which reflects the specific risks inherent in the net cash flows, is then applied to the net annual rent receivable to arrive at the property valuation. The independent valuer also had regard to discounted cash flows modelling in deriving an adopted capitalisation rate although the capitalisation of income method remains the predominant method used in valuing the properties. A table showing the range of capitalisation rates applied to individual properties for each state in which the property is held is included below.

	December 2016	June 2016	**December 2016**	June 2016
	Adopted capitalisation rates	Adopted capitalisation rates	**Average**	Average
New South Wales	**4.97% - 6.10%**	4.97% - 6.10%	**5.37%**	5.37%
Victoria	**3.80% - 6.38%**	3.80% - 6.38%	**5.54%**	5.54%
Queensland	**3.20% - 6.49%**	3.20% - 6.49%	**5.46%**	5.46%
South Australia	**5.01% - 6.38%**	5.01% - 6.38%	**5.81%**	5.81%
Western Australia	**5.98% - 7.29%**	5.98% - 7.29%	**6.47%**	6.47%

2. Investment property

The fair value measurement for investment property of $1,004.45 million has been categorised as a level 3 fair value based on inputs to the valuation technique used.

Valuation techniques and unobservable inputs

Fair value hierarchy	Class of property	Fair Value December 2016 $000's	Valuation Technique	Inputs Used To Measure Fair Value	Range of Individual Property Unobservable inputs (June 2016 valuations)
Level 3	Pubs	1,004,450	Capitalisation method	Gross rent p.a ($'000's)	$152 - $1,631
				Land tax p.a ($'000's)	$14 - $127
				Capitalisation rate	3.20% - 7.29%
			Discounted cash flow method	Gross rent p.a ($'000's)	$152 - $1,631
				Land tax p.a ($'000's)	$14 - $127
				Discount rates	6.50% - 8.50%
				Terminal capitalisation rates	6.00% - 6.50%
				Consumer price index	2.00% - 2.50%

As noted above the independent valuer had regard to discounted cash flow modelling and the traditional capitalisation rate methodology in determining a final adopted capitalisation rate although the capitalisation of income method remains the predominant method used in valuing the individual properties.

Ownership arrangements

All investment properties are freehold and 100% owned by ALE and comprise land, buildings and fixed improvements. The plant and equipment, liquor and gaming licences, leasehold improvements and certain development rights are held by the tenant.

Leasing arrangements

83 of the 86 properties in the portfolio are leased to ALH on a triple net basis for 25 years, mostly starting in November 2003, with four 10 year options for ALH to renew. The remaining three properties are leased on long term leases to ALH on a double net basis.

	December 2016 $'000	December 2015 $'000
(i) Future minimum lease payments		
The future minimum lease payments in relation to non-cancellable leases are receivable as follows:		
Within one year	57,447	56,654
Later than one year but not later than five years	252,568	249,224
Later than five years	609,070	598,877
	919,085	904,755
(ii) Amount recognised in the profit and loss		
Rental income	28,370	27,951

Put and call options

For most of the investment properties, at the end of the initial lease term of 25 years (2028 for most of the portfolio), and at the end of each of four subsequent ten year terms if the lease in not renewed, there is a call option for ALE (or its nominee) and a put option for the tenant to require the landlord (or its nominee) to buy plant, equipment, goodwill, inventory, all then current consents, licences, permits, certificates, authorities or other approvals, together with any liquor licence, held by the tenant in relation to the premises. The gaming licence is to be included or excluded at the tenant's option. These assets are to be purchased at current value, at that time, as determined by the valuation methodology set out in the leases. ALE must pay the purchase price on expiry of the lease. Any leasehold improvements funded and completed by the tenant will be purchased by ALE from the tenant at each property for an amount of $1.

Valuation type and date

The following tables detail the cost and fair value of each of the Group's investment properties. The valuation type and date is as follows:

A	Independent valuations conducted during June 2016 with a valuation date of 30 June 2016.
B	Directors' valuations conducted during June 2016 with a valuation date of 30 June 2016.
C	Directors valuations conducted during December 2016 with a valuation date of 31 December 2016.

Properties were purchased in November 2003, unless otherwise indicated.

2. Investment property

Property	Cost including additions $'000	Valuation type	Fair value at December 2016 $'000	Fair value at June 2016 $'000	Fair Value gains/ (losses) for December 2016 $'000
New South Wales					
Blacktown Inn, Blacktown	5,472	C, A	12,200	12,000	200
Brown Jug Hotel, Fairfield Heights	5,660	C, B	12,440	12,230	210
Colyton Hotel, Colyton	8,208	C, B	17,510	17,220	290
Crows Nest Hotel, Crows Nest	8,772	C, A	17,990	17,700	290
Melton Hotel, Auburn	3,114	C, B	6,660	6,550	110
Narrabeen Sands Hotel, Narrabeen (Mar 09)	8,945	C, A	14,400	14,400	-
New Brighton Hotel, Manly	8,867	C, B	10,430	10,260	170
Pioneer Tavern, Penrith	5,849	C, B	12,900	12,690	210
Pritchard's Hotel, Mount Pritchard (Oct 07)	21,130	C, B	27,550	26,750	800
Smithfield Tavern, Smithfield	4,151	C, A	9,040	8,900	140
Total New South Wales properties	**80,168**		**141,120**	**138,700**	**2,420**
Queensland					
Albany Creek Tavern, Albany Creek	8,396	C, A	16,050	15,800	250
Alderley Arms Hotel, Alderley	3,303	C, B	6,430	6,320	110
Anglers Arms Hotel, Southport	4,434	C, B	8,990	8,840	150
Balaclava Hotel, Cairns	3,304	C, B	11,840	11,650	190
Breakfast Creek Hotel, Breakfast Creek	11,024	C, A	17,230	16,950	280
Burleigh Heads Hotel, Burleigh Heads (Nov 08)	6,685	C, A	13,920	13,700	220
Camp Hill Hotel, Camp Hill	2,265	C, B	4,310	4,240	70
Chardons Corner Hotel, Annerly	1,416	C, B	3,130	3,070	60
Dalrymple Hotel, Townsville	3,208	C, A	11,730	11,550	180
Edge Hill Tavern, Manoora	2,359	C, B	5,990	5,900	90
Edinburgh Castle Hotel, Kedron	3,114	C, A	6,610	6,500	110
Four Mile Creek, Strathpine (Jun 04)	3,672	C, B	7,290	7,280	10
Hamilton Hotel, Hamilton	6,604	C, B	12,770	12,550	220
Holland Park Hotel, Holland Park	3,774	C, A	12,960	12,750	210
Kedron Park Hotel, Kedron Park	2,265	C, A	4,060	4,000	60
Kirwan Tavern, Townsville	4,434	C, B	10,710	10,540	170
Lawnton Tavern, Lawnton	4,434	C, A	8,080	7,950	130
Miami Tavern, Miami	4,057	C, B	13,000	12,750	250
Mount Gravatt Hotel, Mount Gravatt	3,208	C, B	6,280	6,170	110
Mount Pleasant Tavern, Mackay	1,794	C, B	9,850	9,700	150
Noosa Reef Hotel, Noosa Heads (Jun 04)	6,874	C, B	10,340	10,310	30
Nudgee Beach Hotel, Nudgee	3,020	C, B	5,750	5,880	(130)
Palm Beach Hotel, Palm Beach	6,886	C, B	13,840	13,620	220
Pelican Waters, Caloundra (Jun 04)	4,237	C, A	8,010	7,900	110
Prince of Wales Hotel, Nundah	3,397	C, B	6,740	6,630	110
Racehorse Hotel, Booval	1,794	C, A	6,110	6,000	110
Redland Bay Hotel, Redland Bay	5,189	C, B	10,510	10,320	190
Royal Exchange Hotel, Toowong	5,755	C, A	10,170	10,000	170
Springwood Hotel, Springwood	9,150	C, B	17,420	17,130	290
Stones Corner Hotel, Stones Corner	5,377	C, A	10,160	10,000	160
Vale Hotel, Townsville	5,661	C, A	13,050	12,850	200
Wilsonton Hotel, Toowoomba	4,529	C, A	10,470	10,300	170
Total Queensland properties	**145,619**		**313,800**	**309,150**	**4,650**

2. Investment property

Property	Cost including additions $'000	Valuation type	Fair value at December 2016 $'000	Fair value at June 2016 $'000	Fair Value gains/ (losses) for December 2016 $'000
South Australia					
Aberfoyle Hub Tavern, Aberfoyle Park	3,303	C, B	6,650	6,570	80
Eureka Tavern, Salisbury	3,303	C, B	5,620	5,560	60
Exeter Hotel, Exeter	1,888	C, A	4,150	4,100	50
Finsbury Hotel, Woodville North	1,605	C, B	3,640	3,590	50
Gepps Cross Hotel, Blair Athol	2,171	C, A	5,870	5,800	70
Hendon Hotel, Royal Park	1,605	C, B	3,830	3,790	40
Stockade Tavern, Salisbury	4,435	C, B	5,620	5,550	70
Total South Australian properties	**18,310**		**35,380**	**34,960**	**420**
Victoria					
Ashley Hotel, Braybrook	3,963	C, A	8,870	8,750	120
Bayswater Hotel, Bayswater	9,905	C, B	20,070	19,790	280
Berwick Inn, Berwick (Feb 06)	15,888	C, A	18,700	18,700	-
Blackburn Hotel, Blackburn	9,433	C, B	17,690	17,450	240
Blue Bell Hotel, Wendouree	1,982	C, A	4,870	4,800	70
Boundary Hotel, East Bentleigh (Jun 08)	17,943	C, B	23,220	22,900	320
Burvale Hotel, Nunawading	9,717	C, A	21,280	21,000	280
Club Hotel - FTG, Ferntree Gully	5,095	C, B	11,090	10,940	150
Cramers Hotel, Preston	8,301	C, B	17,500	17,260	240
Deer Park Hotel, Deer Park	6,981	C, B	14,720	14,520	200
Doncaster Inn, Doncaster	12,169	C, B	23,240	22,920	320
Ferntree Gully Hotel/Motel, Ferntree Gully	4,718	C, B	8,230	8,120	110
Gateway Hotel, Corio	3,114	C, B	7,810	7,710	100
Keysborough Hotel, Keysborough	9,622	C, B	19,800	19,530	270
Mac's Melton Hotel, Melton	6,886	C, B	14,050	13,850	200
Meadow Inn Hotel/Motel, Fawkner	7,689	C, B	15,990	15,770	220
Mitcham Hotel, Mitcham	8,584	C, A	16,830	16,600	230
Morwell Hotel, Morwell	1,511	C, B	2,740	2,710	30
Olinda Creek Hotel, Lilydale	3,963	C, B	8,130	8,020	110
Pier Hotel, Frankston	8,019	C, A	15,300	15,100	200
Plough Hotel, Mill Park	8,490	C, A	15,710	15,500	210
Prince Mark Hotel, Doveton	9,810	C, B	19,940	19,660	280
Royal Exchange, Traralgon	2,171	C, A	5,070	5,000	70
Sandbelt Club Hotel, Moorabbin	10,849	C, A	22,320	22,000	320
Sandown Park Hotel/Motel, Noble Park	6,321	C, B	12,550	12,380	170
Sandringham Hotel, Sandringham	4,529	C, A	11,660	11,500	160
Somerville Hotel, Somerville	2,717	C, B	6,600	6,510	15
Stamford Inn, Rowville	12,733	C, A	26,350	26,000	350
Sylvania Hotel, Campbellfield	5,377	C, B	11,820	11,660	160
The Vale Hotel, Mulgrave	5,566	C, B	12,420	12,240	180
Tudor Inn, Cheltenham	5,472	C, B	11,600	11,440	160
Village Green Hotel, Mulgrave	12,546	C, B	24,120	23,790	330
Young & Jackson, Melbourne	6,132	C, B	15,050	14,840	210
Total Victorian properties	**248,196**		**485,340**	**478,960**	**6,305**
Western Australia					
Queens Tavern, Highgate	4,812	C, B	8,340	8,300	40
Sail & Anchor Hotel, Fremantle	3,114	C, B	4,520	4,500	20
The Brass Monkey Hotel, Northbridge (Nov 07)	7,815	C, B	9,450	9,410	40
Balmoral Hotel, East Victoria Park (Jul 07)	6,377	C, B	6,500	6,500	-
Total Western Australian properties	**22,118**		**28,810**	**28,710**	**100**
Total investment properties	**514,411**		**1,004,450**	**990,480**	**13,895**

3.
Capital structure and financing

This section provides information on the Group's capital structure and its exposure to financial risk, how they affect the Group's financial position, and how the risks are managed.

The capital structure of the Group consists of debt and equity. The Directors determine the appropriate capital structure of ALE, specifically how much is raised from securityholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the current and future activities of the Group. The Directors review the Group's capital structure and distribution policy regularly and do so in the context of the Group's ability to continue as a going concern, to invest in opportunities that grow the business and enhance securityholder value.

3.1 Borrowings

	December 2016 $'000	June 2016 $'000
Current borrowings		
Australian Medium Term Notes (AMTN)	109,883	-
	109,883	**-**
Non-current borrowings		
Capital Indexed Bond (CIB)	146,002	145,402
Australian Medium Term Notes (AMTN)	224,432	334,126
	370,434	**479,528**

CIB	December 2016 $'000	June 2016 $'000
Gross value of debt	111,900	111,900
Accumulated indexation	34,810	34,245
Unamortised borrowing costs	(708)	(743)
Net balance	**146,002**	**145,402**

$125 million of CIB was issued in May 2006 of which $111.9 million face value remains outstanding. A fixed rate of interest of 3.40% p.a. (including credit margin) applies to the CIB and is payable quarterly, with the outstanding balance of the CIB accumulating quarterly in line with the national consumer price index. The total amount of the accumulating indexation is not payable until maturity of the CIB in November 2023.

AMTN	December 2016 $'000	June 2016 $'000
Gross value of debt	335,000	335,000
Unamortised borrowing costs	(685)	(874)
Net balance	**334,315**	**334,126**

On 10 June 2014 ALE issued $335 million of AMTNs in two tranches, $110 million with a maturity date of 20 August 2017 and $225 million with a maturity date of 20 August 2020. The AMTNs are fixed rate securities with interest payable semi annually.

Recognition and measurement

Interest bearing liabilities are initially recognised at cost, being the fair value of the consideration received, net of issue and other transaction costs associated with the borrowings.

After initial recognition, interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the financial liability are spread over the expected life of the borrowings on an effective interest rate basis.

Assets pledged as security

The carrying amounts of assets pledged as security as at the balance date for CIB borrowings and certain interest rate derivatives are:

	December 2016 $'000	June 2016 $'000
Current assets		
Cash - CIB borrowings reserves	8,390	8,390
Non-current assets		
Total investment properties	1,004,450	990,480
Less: Properties not subject to mortgages:		
Pritchard's Hotel, NSW	(27,550)	(26,750)
Properties subject to mortgages	976,900	963,730
Total assets pledged as security	**985,290**	972,120

Notes to the financial statements (continued)

Half-Year Report for the period ended 31 December 2016

3. Capital structure and financing

Assets pledged as security (continued)

In the unlikely event of a default by the properties' tenant, Australian Leisure and Hospitality Group Pty Limited (ALH), and if the assets pledged as security are insufficient to fully repay CIB borrowings, the CIB holders are also entitled in certain circumstances to recover certain unpaid amounts from the business assets of ALH.

Terms and Repayment Schedule

	Nominal Interest Rate	Maturity Date[1]	31 December 2016 Face Value $'000	31 December 2016 Carrying Amount $'000	30 June 2016 Face Value $'000	30 June 2016 Carrying Amount $'000
CIB	3.40%[2]	Nov-2023	111,900	146,710	111,900	146,145
AMTN	4.25%	Aug-2017	110,000	110,000	110,000	110,000
AMTN	5.00%	Aug-2020	225,000	225,000	225,000	225,000
			446,900	481,710	446,900	481,145
Unamortised borrowing costs				(1,393)		(1,617)
Total borrowings				480,317		479,528

1. Maturity date refers to the first scheduled maturity date for each tranche of borrowing.
2. Interest is payable on the indexed balance of the CIB at a fixed rate.

3.2 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2016.

Fair Value

The basis for determining fair values is disclosed in Note 1.

The fair value of derivative financial instruments (level 2) is disclosed in the Statement of Financial Position.

The carrying amount of all financial assets and liabilities approximates their fair value with the exception of borrowings which is shown below:

	Carrying Amount	Fair Value
31 December 2016		
CIB	146,002	152,032
AMTN	334,315	341,662
	480,317	**493,694**
30 June 2016		
CIB	145,402	151,370
AMTN	334,126	347,019
	479,528	**498,389**

Both borrowings are classed as Level 3.

Valuation techniques used to derive level 2 fair values

The fair value of derivatives is determined by using counterparty mark-to-market valuation notices, cross checked internally by using a generally accepted pricing model based on discounted cash flow analysis using quoted market inputs (interest rates) adjusted for specific features of the instruments and applying a debit or credit value adjustment based on ALE's or the derivative counterparty's credit worthiness.

Credit value adjustments are applied to mark-to-market assets based on the counterparty's credit risk using the credit default swap curves as a benchmark for credit risk.

Debit value adjustments are applied to mark-to-market liabilities based on the ALE's credit risk using the credit rating of ALE issued by a rating agency for the recent AMTN issue.

3. Capital structure and financing

Interest rate hedges

ALE uses derivative financial instruments, being interest rate hedges, to manage its exposure to interest rate risk on borrowings. As at balance date, ALE has hedged all non CIB net borrowings past the maturity date of the AMTN through nominal interest rate hedges.

	December 2016 $'000	June 2016 $'000
Current assets	-	-
Non current assets	-	-
Total assets	-	-
Current liabilities	-	-
Non current liabilities	(8,950)	(26,349)
Total liabilities	(8,950)	(26,349)
Net assets/ (liabilities)	(8,950)	(26,349)

Fair value adjustments to derivatives

	December 2016 $'000	December 2015 $'000
Fair value increments/ (decrements) to interest rate hedge derivatives	17,399	(3,371)

Recognition and measurement

Interest rate hedges are initially recognised at fair value and are subsequently remeasured to their fair value at each reporting date. Any gains or losses arising from the change in fair value of the interest rate hedges are recognised in the Statement of Comprehensive Income.

ALE documents, at the inception of any hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. ALE also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

To date, ALE has not designated any of its derivatives as cash flow hedges and accordingly ALE has valued them all at fair value with movements recorded in the Statement of Comprehensive Income.

The gain or loss from marking to market the interest rate hedges (derivatives) at fair value is taken directly to the Statement of Comprehensive Income.

At 31 December 2016, the notional principal amounts and periods of expiry of the interest rate hedge contracts are as follows:

	Nominal Interest Rate Hedges		Counter Hedges on Nominal Interest Rate Hedges		Net Derivative Position	
	December 2016 $'000	June 2016 $'000	December 2016 $'000	June 2016 $'000	December 2016 $'000	June 2016 $'000
Less than 1 year	-	-	-	-	-	-
1 - 2 years	-	-	-	-	-	-
2 - 3 years	-	-	-	-	-	-
3 - 4 years	-	-	(30,000)	(30,000)	(30,000)	(30,000)
4 - 5 years	-	-	-	-	-	-
Greater than 5 years	506,000	506,000	-	-	506,000	506,000
	506,000	506,000	(30,000)	(30,000)	476,000	476,000

3. Capital structure and financing

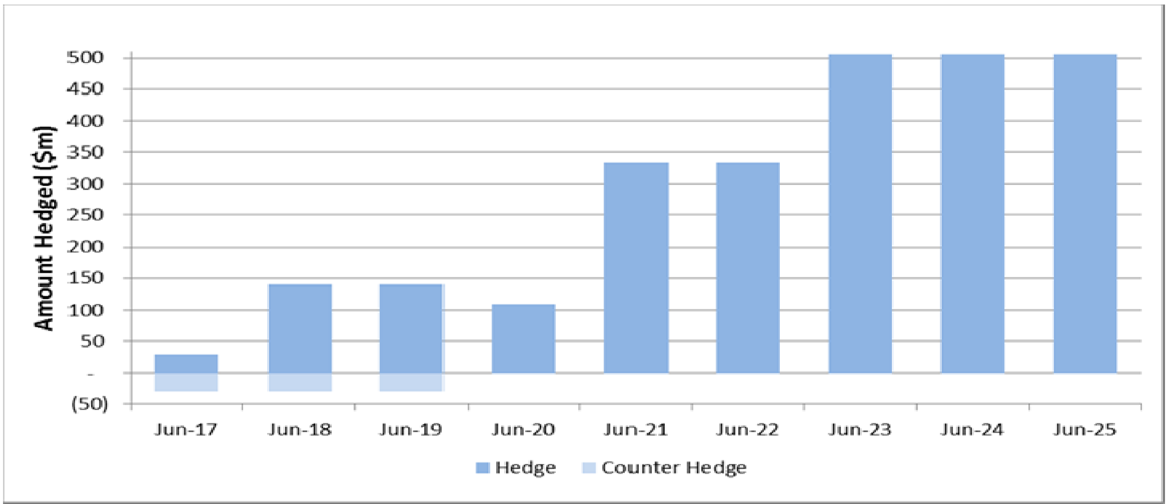
ALE has a forward start hedge in place and a counter hedge that is currently active.

The forward start hedge commences on the date of the maturity of the August 2017 AMTN borrowing and increases on maturity of the August 2020 AMTN borrowings. On 4 February 2016 the term of the hedging was extended to November 2025.

The hedge contracts require settlement of net interest receivable or payable on a quarterly basis. The settlement dates coincide with the dates on which interest is payable on the underlying borrowings. The contracts are settled on a net basis.

The average weighted term of the interest rate hedges and fixed rate securities in relation to the total borrowings of ALE has decreased from 9.4 years at 30 June 2016 to 8.9 years at 31 December 2016.

The following chart shows the hedge balances over the life of the hedges, including the extension done at 4 February 2016.



Financial covenants

ALE is required to comply with certain financial covenants in respect of its borrowing and hedging facilities. The major financial covenants are summarised as follows:

Interest Cover Ratio covenants (ICR)

Borrowing	ICR covenant	Consequence
CIB	ALH EBITDAR to be greater than 7.5 times CIB Interest expense	Stapled security distributions lockup
AMTN	ALE DPT EBITDA to be greater than or equal to 1.5 times ALE DPT interest expense	Note holders may call for notes to be redeemed
Hedging	As per AMTN above	As per AMTN above

Definitions
Interest amounts include all derivative rate swap payments and receipts
EBITDAR - Earnings before Interest, Tax, Depreciation, Amortisation and Rent for ALE owned properties

Rating covenant

Borrowing	Covenant	Consequence
AMTN	AMTN issue rating to be maintained at investment grade. (i.e. at least Baa3/BBB-)	Published rating of Ba1/BB+ or lower results in a step up margin of 1.25% to be added to the interest rate payable

3. Capital structure and financing

Loan to Value Ratio covenants (LVR)

Borrowing	LVR Covenant	Consequence
CIB	The issuance of new CIB is not permitted if the indexed value of the resultant CIB exceeds 25% of the value of properties held as security	Note holders may call for notes to be redeemed
CIB	Outstanding value of CIB not to exceed 66.6% of the value of properties held as security	Note holders may call for notes to be redeemed
AMTN	The new issuance of Net Priority Debt is not permitted to exceed 20% of Net Total Assets	Note holders may call for notes to be redeemed
AMTN	Net Finance Debt not to exceed 60% of Net Total Assets	Stapled Security distribution lockup
AMTN	Net Finance Debt not to exceed 65% of Net Total Assets	Note holders may call for notes to be redeemed
Hedging	As per AMTN above	As per AMTN above

Definitions
All covenants exclude the mark to market value of derivatives

Net Total Assets	Total Assets less Cash less Derivative Assets less Deferred Tax Assets.
Net Priority Debt	ALE Finance Company Pty Limited (ALEFC) borrowings less Cash held against the ALEFC borrowings, divided by Total Assets less Cash less Derivative Assets less Deferred Tax Assets
Net Finance Debt	Total Borrowings less Cash, divided by Total Assets less Cash less Derivative Assets less Deferred Tax Assets.

ALE currently considers that significant headroom exists with respect of all the above covenants. At all times during the periods ended 31 December 2016 and 30 June 2016, ALE and its subsidiaries were in compliance with all the above covenants.

3.3 Equity

	December 2016 $'000	June 2016 $'000
Balance at the beginning of the period	258,118	257,870
Securities issued - ESSS	-	248
	258,118	258,118

Movements in the number of fully paid stapled securities during the year	**Number of Stapled Securities**	**Number of Stapled Securities**
Stapled securities on issue:		
Opening balance	195,769,080	195,702,333
Securities issued - ESSS	-	66,747
Closing balance	195,769,080	195,769,080

Measurement and recognition
Ordinary units and ordinary shares are classified as contributed equity.

Incremental costs directly attributable to the issue of new units, shares or options are shown in Contributed Equity as a deduction, net of tax, from the proceeds.

Stapled securities
Each stapled security comprises one share in the Company and one unit in the Trust. They cannot be traded or dealt with separately. Stapled securities entitle the holder to participate in dividends/distributions and the proceeds on any winding-up of ALE in proportion to the number of, and amounts paid on, the securities held. On a show of hands every holder of stapled securities present at a meeting in person or by proxy, is entitled to one vote. On a poll, each ordinary shareholder is entitled to one vote for each fully paid share and each unit holder is entitled to one vote for each fully paid unit.

No income voting units (NIVUS)
The Trust issued 9,080,010 of no income voting units (NIVUS) to the Company, fully paid at $1.00 each in November 2003. The NIVUS are not stapled to shares in the Company, have an issue and withdrawal price of $1.00, carry no rights to income from the Trust and entitle the holder to no more than $1.00 per NIVUS upon the winding-up of the Trust. The Company has a voting power of 4.43% in the Trust as a result of the issue of NIVUS. The NIVUS are disclosed in the Company and the Trust financial reports but are not disclosed in the ALE Property Group financial report as they are eliminated on consolidation.

3. Capital structure and financing

3.4 Capital management

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board of Directors monitors the return on capital, which ALE defines as distributable income divided by total contributed equity, excluding minority interests. The Board of Directors also monitors the level of gearing.

The Board seeks to maintain a balance between the higher returns that may be achieved with higher levels of borrowings and the advantages and security afforded by a sound capital position. While ALE does not have a specific return on capital target, it seeks to ensure that capital is being most efficiently used at all times. In seeking to manage its capital efficiently, ALE from time to time may undertake on-market buybacks of ALE stapled securities. ALE has also from time to time made ongoing capital distribution payments to stapled securityholders on a fully transparent basis. Additionally, the available total returns on all new acquisitions are tested against the anticipated weighted cost of capital at the time of the acquisition.

ALE assesses the adequacy of its capital requirements, cost of capital and gearing as part of its broader strategic plan.

Gearing ratios are monitored in the context of any increase or decrease from time to time based on existing property value movements, acquisitions completed, the levels of debt financing used and a range of prudent financial metrics, both at the time and on a projected basis going forward.

The outcomes of the ALE strategic planning process plays an important role in determining acquisition and financing priorities over time.

The total gearing ratios (total liabilities as a percentage of total assets) at 31 December 2016 and 30 June 2016 were 49.8% and 51.8% respectively.

The net gearing ratios (total borrowings less cash as a percentage of total assets less cash and derivatives) at 31 December 2016 and 30 June 2016 were 44.7% and 44.9% respectively.

3.5 Cash and cash equivalents

	December 2016 $'000	June 2016 $'000
Cash at bank and in hand	2,640	3,456
Deposits at call	21,073	26,073
Cash reserve	8,390	8,390
	32,103	37,919

Recognition and measurement

For the purposes of the cash flow statement, cash and cash equivalents includes cash at bank, deposits at call and short term money market securities which are readily convertible to cash.

Cash obligations

An amount of $8.39 million is required to be held as a cash reserve as part of the terms of the CIB issue in order to provide liquidity for CIB obligations to their scheduled maturity date of 20 November 2023.

An amount of $2 million is required to be held in a term deposit by the Company to meet minimum net tangible asset requirements of the AFSL licence.

4. Business performance

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

4.1 Finance costs

	December 2016 $'000	December 2015 $'000
Finance costs - cash		
Capital Indexed Bonds (CIB)	2,483	2,456
Australian Medium Term Notes (AMTN)	7,987	7,999
Interest rate derivative payments/(receipts)	(252)	(199)
Other finance expenses	97	82
	10,315	10,338
Finance costs - non-cash		
Accumulating indexation - CIB	565	1,110
Amortisation - CIB	35	31
Amortisation - AMTN	140	158
	740	1,299
Finance costs (cash and non-cash)	**11,055**	11,637

Recognition and measurement

Interest expense is recognised on an accruals basis.

Borrowing costs are recognised using the effective interest rate method.

Amounts represent net cash finance costs after derivative payments and receipts.

Finance cost details

Other borrowing costs such as rating agency fees and liquidity fees.

Establishment costs of the various borrowings are amortised over the period of the borrowing on an effective rate basis.

4.2 Distributable income

Reconciliation of profit after tax to amounts available for distribution:

	December 2016 $'000	December 2015 $'000
Profit after income tax	**45,521**	63,076
Plus /(less)		
Fair value increments to investment properties	(13,895)	(53,024)
Fair value decrements to derivatives	(17,399)	3,371
Employee share based payments expense	108	96
Finance costs - non cash	740	1,299
Income tax expense	5	13
Adjustments for non-cash items	(30,441)	(48,245)
Total available for distribution	15,080	14,831
Distribution paid or provided for	19,871	19,381
Over distributed	(4,791)	(4,550)
Distribution funded as follows		
Current year distributable profits	15,080	14,831
Prior year undistributed profits	-	4,550
Capital and surplus cash	4,791	-
	19,871	**19,381**

4.3 Earnings per security

Basic earnings per stapled security

The calculation of basic earnings per stapled security is based on the profit attributable to ordinary securityholders and the weighted-average number of ordinary stapled securities outstanding.

	December 2016	December 2015
Profit attributable to members of the Group ($000's)	45,521	63,076
Weighted average number of stapled securities	195,769,080	195,725,912
Basic earnings per security (cents)	23.25	32.23

Diluted earnings per stapled security

The calculation of diluted earnings per stapled security is based on the profit attributable to ordinary securityholders and the weighted-average number of ordinary stapled securities outstanding after adjustments for the effects of all dilutive potential ordinary stapled securities.

	December 2016	December 2015
Profit attributable to members of the Group ($000's)	45,521	63,076
Weighted average number of stapled securities	195,992,636	195,964,780
Diluted earnings per security (cents)	23.23	32.19

Distributable profit per security

ALE has a policy of paying distributions which are subject to the minimum requirement to distribute taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs.

The calculation of distributable profit per stapled security is based on the distributable profit attributable to ordinary securityholders and the number of ordinary stapled securities outstanding.

	December 2016	December 2015
Distributable profit attributable to members of the Group ($000's)	15,080	14,831
Number of stapled securities	195,769,080	195,769,080
Distributable profit per security (cents)	7.70	7.58

Distributed profit per security

	December 2016	December 2015
Distributable income per stapled security	7.70	7.58
Distribution paid per stapled security	10.15	9.90
Under/(over) distributed for the half year	(2.45)	(2.32)
Accumulated undistributed income at the end of the period	-	1.01

5.
Other

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements.

5.1 Segment information

Business segment
The results and financial position of ALE's single operating segment, ALE Strategic Business Unit, are prepared for the Managing Director on a quarterly basis. The strategic business unit covers the operations of the responsible entity for the ALE Property Group.

Comparative information has been presented in conformity with the requirements of AASB 8 *Operating Segments.*

All ALE Property Group's properties are leased to members of the ALH Group, and accordingly 100% of the rental income is received from ALH (2015: 100%).

5.2 Investments in controlled entities

The Trust owns 100% of the issued units of the Sub Trust. The Sub Trust owns 100% of the issued shares of the Finance Company. The Trust owns none of the issued shares of the Company, but is deemed to be its "acquirer" under IFRS.

In addition, the Trust owns 100% of the issued units of ALE Direct Property Trust No.3, which in turns owns 100% of the issued shares of ALE Finance Company No.3 Pty Limited. Both of these Trust subsidiaries are dormant.

5.3 Events occurring after reporting date

The directors are not aware of any other matter or circumstance occurring after balance date which may materially affect the state of affairs of ALE and are not aware of any matter or circumstance occurring after balance date which may materially affect ALE's operations or the results of those operations.

Directors Declaration

Half-Year Report for the period ended 31 December 2016

In the directors' opinion:

1. the financial statements and notes set out on pages 8 to 26 are in accordance with the *Corporations Act 2001* including:

    (a) giving a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the six month period ended on that date: and

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

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

This declaration is made in accordance with a resolution of the directors.

Peter H Warne
Chairman
Sydney

Andrew Wilkinson
Managing Director
Sydney

Dated this 23rd day of February 2017

Independent Auditor's Review Report

To the stapled security holders of ALE Property Group

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of ALE Property Group.

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 ALE Property Group ("the Group") is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the ***Group's*** financial position as at 31 December 2016 and of its performance for the Half-year ended on that date; and

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

The ***half-year financial report*** comprises:

- the consolidated statement of financial position as at 31 December 2016
- 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
- notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information
- the Directors' Declaration.

The ***Group*** comprises Australian Leisure and Entertainment Property Trust ("the Trust") and the entities it controlled at the half year's end or from time to time during the half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of Australian Leisure and Entertainment Property Management Limited, the Responsible Entity of the Trust, are responsible for:

- the preparation of the half-year financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

KPMG

Auditor's responsibility for the review of the Half-year Financial Report

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 a Financial Report 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 Group's financial position as at 31 December 2016 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 ALE Property Group, *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*.

KPMG

John Teer

Partner

Sydney

23 February 2017

INVESTOR INFORMATION AND CORPORATE DIRECTORY

INVESTOR INFORMATION

Stock Exchange Listing
The ALE Property Group (ALE) is listed on the Australian Stock Exchange (ASX). Its stapled securities are listed under ASX code: LEP.

Distribution Reinvestment Plan
ALE has established a distribution reinvestment plan. Details of the plan are available on the ALE website.

Distributions
Stapled security distributions are paid twice yearly, normally in March and September.

Electronic Payment of Distributions
Securityholders may nominate a bank, building society or credit union account for payment of distributions by direct credit. Payments are electronically credited on the payment dates and confirmed by mailed advice.

Securityholders wishing to take advantage of payment by direct credit should contact the registry for more details and to obtain an application form.

Annual Tax Statement
Accompanying the final stapled security distribution payment, normally in September each year, will be an annual tax statement which details the tax components of the year's distribution.

Publications
The Annual Review and Annual Report are the main sources of information for stapled securityholders. In August each year the Annual Review, Annual Report and Full Year Financial Report, and in February each year, the Half-Year Financial Report are released to the ASX and posted on the ALE website. The Annual Review is mailed to stapled securityholders unless we are requested not to do so. The Full Year and Half-Year Financial Reports are only mailed on request. Periodically ALE may also send releases to the ASX covering matters of relevance to investors. These releases are also posted on the ALE website and may be distributed by email to stapled securityholders by registering on ALE's website. The election by stapled securityholders to receive communications electronically is encouraged by ALE.

Website
The ALE website, www.alegroup.com.au, is a useful source of information for stapled securityholders. It includes details of ALE's property portfolio, current activities and future prospects. ASX announcements are also included on the site on a regular basis. The ALE Property website, www.aleproperties.com.au, provides further detailed information on ALE's property portfolio.

CORPORATE DIRECTORY

Securityholder Enquiries
Please contact the registry if you have any questions about your holding or payments.

Registered Office
Level 10, 6 O'Connell Street
Sydney NSW 2000
Telephone (02) 8231 8588

Company Secretary
Mr Michael Clarke
Level 10, 6 O'Connell Street
Sydney NSW 2000
Telephone (02) 8231 8588

Auditors
KPMG
Level 38, Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

Lawyers
Allens Linklaters
Level 28, Deutsche Bank Place
Sydney NSW 2000

Custodian (of Australian Leisure and Entertainment Property Trust)
The Trust Company Limited
Level 13, 123 Pitt Street
Sydney NSW 2000

Trustee (ALE Direct Property Trust)
The Trust Company (Australia) Limited
Level 13, 123 Pitt Street
Sydney NSW 2000

Registry
Computershare Investor Services Pty Ltd
Reply Paid GPO Box 7115,
Sydney NSW 2000

Level 3, 60 Carrington Street,
Sydney NSW 2000
Telephone 1300 302 429
Facsimile (02) 8235 8150
www.computershare.com.au