ALE PROPERTY GROUP

Appendix 4D

Half-year Report
Six Months Ended 31 December 2015

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 2015** (previous corresponding period 31 December 2014)

Results for announcement to the market

	6 months to 31 December 2015 A$'000	6 months to 31 December 2014 A$'000	Variance %
Rental revenue	**27,951**	27,412	1.97%
Total income	**81,521**	44,830	81.84%
Profit / (Loss) from ordinary activities after income tax, attributable to security holders	**63,076**	21,837	188.85%
Profit before income tax, fair value adjustments, amortisation of prepaid costs and other non-cash items	**14,831**	14,418	2.86%
Total available for distribution	**14,831**	14,418	2.86%
Distribution payable for the half-year	**19,381**	16,438	17.90%
Available and under/(over) distributed at the half-year(paid from accumulated undistributed profits from prior periods)	**(4,550)**	(2,020)	-

Dividends (distributions)

	6 months to 31 December 2015 Cents	6 months to 31 December 2014 Cents	Variance %
December half-year interim distribution	**9.90**	8.40	17.90%
Franked amount per share	**0.00**	0.00	-
Record date for distribution entitlement	31 December 2015		
Interim distribution will be paid	7 March 2016		
The distribution will be 100.00% tax deferred			

ALE PROPERTY GROUP

Net tangible assets per security

	6 months to 31 December 2015	6 months to 31 December 2014	Variance %
Net tangible assets per security	**$2.49**	$1.96	27.04%

Explanation of results

Brief explanation of results

- Rental Revenue increased by 1.97% due to the weighted average portfolio gross rent (exclusive of Queensland land tax) increases of 1.47% in November 2015 and 2.24% in November 2014;
- Total income has increased by 81.84% due to an increase in property fair value increments of $36.81 million. Property values increased by $53.02 million compared to $16.21 million for the half year to 31 December 2014.
- Profit after income tax for the period increased by $41.24 million due to:
    - Higher increment to property fair values of $36.81 million;
    - Lower fair value decrement to derivatives of $3.35 million in the current period as a result of lower long term interest rates; and
    - Cash finance costs were $0.7 million lower due to a decrease in interest expense relating to the ALE Notes 2 which were redeemed on 20 August 2014.
- Total available for distribution is higher due to the higher rental income and lower finance costs noted above.
- The distribution of 9.90 cents per security represents an increase of 17.90% from the previous half-year and is in line with the full year guidance provided by the Board in October 2015.

Reconciliation of profit after tax to total available for distribution

	A$'000
Profit after income tax for half-year	**$63,076**
Plus / (Less)	
Fair value (increment) to investment properties	(53,024)
Fair value decrement to derivatives	3,371
Employee security based payments	96
Finance costs – non cash	1,299
Income tax expense / (benefit)	13
Total available for distribution	**14,831**
Distribution payable	19,381
Available and under / (over) distributed at the half-year	**(4,550)**

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 2015 Half-Year Financial Report with KPMG review opinion is attached.

ALE Property Group

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities

ABN 92 648 441 429

Half-Year Report 31 December 2015

ALE Property Group

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities

Report For the half-year ended 31 December 2015

ABN 92 648 441 429

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FINANCIAL STATEMENTS

31 December 2015

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 Limited (ALH) for a remaining average initial lease term of 12.8 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 report of ALE, for the half-year ended 31 December 2015.

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	
H I Wright	Independent non-executive	8 September 2003	27 October 2015
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	
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. 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 half-year;

- the 86 individual property values increased by an average of 5.93% to $953.9 million; and
- Net Assets increased by 9.87% to $487.5 million and net borrowings (total borrowings less cash) as a percentage of assets (total assets less cash and derivatives) decreased from 48.0% to 45.7%.

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

On 4 February 2016 ALE announced that it had extended the term of the interest rate hedging arrangements on up to 100% of its forecast net debt by a further three years to November 2025. For the half-year ending 31 December 2015 the Group's fair value of the derivative was a net liability of $4.5 million. Interest rates have continued to fall since 31 December 2015 so that as at close of business on 12 February 2016, the Group's fair value of the derivative net liability existing at 31 December 2015 has grown by $4.8 million to $9.3 million. The additional hedging taken out on 4 February 2016 has increased the derivative net liability position by an additional $6.1 million. The total derivative net liability now being $15.4 million.

Apart from the above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of ALE, the results of those operations, or the state of affairs of ALE, in future financial periods.

5. 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.

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.

6. DISTRIBUTIONS AND DIVIDENDS

Trust distributions payable to stapled securityholders for the half-year are as follows:

	December 2015 cents	December 2014 cents	December 2015 $'000	December 2014 $'000
Interim Trust income distribution for the year ending 30 June 2016 to be paid on 7 March 2016	9.90	8.40	19,381	16,438
Interim Trust distribution	**9.90**	**8.40**	**19,381**	**16,438**

No provisions for or payments of Company dividends have been made during the half-year (2014: nil).

7. 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 the properties in the portfolio are leased to Australian Leisure and Hospitality Group (ALH) for an average remaining initial lease term of 12.8 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:

- 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 (3 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 and collar) in November 2028 at which time ALH has four options of 10 years to extend the leases.

Current half-year performance
ALE produced a profit after tax of $63.1 million for the half-year ended 31 December 2015 compared to a profit of $21.8 million for the half-year ended 31 December 2014. The increase is primarily due to an increase in the fair value of properties. Other factors include:

- Rental income increased by 2.0% following the annual rent reviews in November 2014 and November 2015;
- Interest income was lower on the back of decreasing interest rates and lower cash balances;
- Cash finance costs were $0.7 million lower primarily due to a decrease in interest expense of $0.9 million relating to ALE Notes 2 which were redeemed on 20 August 2014.
- Management expenses were largely unchanged 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 (increments)/decrements 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 $14.8 million compared to $14.4 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 and reduced finance costs.

			December 2015 $'000	December 2014 $'000
Profit / (Loss) after income tax for the half-year			**63,076**	**21,837**
Plus / (Less): Adjustments for non-cash items				
Fair value (increments)/decrements to investment properties			(53,024)	(16,210)
Fair value (increments)/decrements to derivatives			3,371	6,723
Employee security based payments			96	96
Finance costs - non-cash			1,299	1,949
Income tax expense/(benefit)			13	23
Total adjustments for non-cash items			**(48,245)**	**(7,419)**
Total available for distribution			**14,831**	**14,418**
Distribution paid or provided for			19,381	16,438
Available and undistributed / (over distributed) for the half-year			**(4,550)**	**(2,020)**
Reconciliation of accumulated undistributed income				
Opening balance			6,523	10,444
Available and undistributed/(over distributed) for the half-year			(4,550)	(2,020)
Closing balance			**1,973**	**8,424**
Earnings and distribution per stapled security:	**Note**	**Percentage Movement**	**Cents**	**Cents**
Earnings available for distribution per security	4.3	2.8%	7.58	7.37
Distribution per security	4.3	17.9%	9.90	8.40
			$	**$**
Net Tangible Assets per security at balance date			2.49	1.96

Financial position

ALE's net assets increased by 9.87% from $443.7 million to $487.5 million, compared with June 2015 which was largely attributable to an increase in property values during the half-year.

Investment property valuations increased by 5.93% from $900.5 million to $953.9 million during the half-year. The average capitalisation rates decreased from 5.99% to 5.74% with the increase in property valuations coming from the November 2015 CPI rent increase and lower average capitalisation rates across the portfolio.

Net assets per stapled security increased by 9.69% from $2.27 to $2.49 compared to June 2015, primarily as a result of the increase in property values.

ALE's market capitalisation, at balance date, increased by 4.10% to around $752 million during the half-year.

ALE's funding structure comprises AMTN's and the CIB's with maturity dates averaging 4.9 years. ALE's unsecured debt currently attracts an investment grade credit rating of Baa2.

The ALE Notes 2 were repaid in full in August 2014. The balance of $102.6 million was repaid from existing cash reserves. ALE's next scheduled debt maturity of $110 million is in August 2017.

Between 30 June 2015 and 31 December 2015 net covenant gearing reduced from 48.0% to 45.7%. ALE continues to maintain appropriate headroom to all debt covenants with the nearest equivalent to an average 21.2% fall in property values.

ALE has consistently sought to protect investors from inflation and interest rate risk and continues to have long term hedging in place to achieve this objective.

The fixed rate AMTN debt raised in June 2014 saw ALE enter into fixed rate debt with August 2017 and August 2020 maturities. The debt raising and forward start hedging arrangements ensure that ALE remains hedged for its base interest rates on around 100% of its net debt for an average of 7.3 years.

Business strategies and prospects

ALE's aim is to preserve the quality of the existing property portfolio. The current debt maturity and hedging position provides significant certainty around a stable distributable profit profile for the medium term.

ALE's objective is to continue to grow distributions by at least CPI.

ALE continues to hold a positive outlook for the market rent prospects for the portfolio. In less than three years time the first major review will occur with the fair market rent capped and collared within 10% of the 2017 rent for each property. 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 to ensure that the existing portfolio of properties continues to perform at the strong profitability levels that currently prevail.

8. 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 5.

9. 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.

10. ROUNDING OF AMOUNTS

ALE is an entity of the kind referred to in Class Order 98/100, 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 Class Order to the nearest thousand dollars, unless otherwise indicated.

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

Peter H Warne
Director
Sydney

Dated this 16th day of February 2016

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 2015 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

16 February 2016

FINANCIAL STATEMENTS

Half-Year Report for the period ended 31 December 2015

Notes to the Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

Half-Year Report for the period ended 31 December 2015

	Note	December 2015 $'000	December 2014 $'000
Revenue			
Rent from investment properties		27,951	27,412
Interest from cash deposits		546	1,155
Total revenue		**28,497**	**28,567**
Other income			
Fair value increments to investment properties	2	53,024	16,210
Other income		-	53
Total other income		**53,024**	**16,263**
Total income		**81,521**	**44,830**
Expenses			
Fair value decrements to derivatives		3,371	6,723
Finance costs - cash	4.1	10,338	11,066
Finance costs - non-cash	4.1	1,299	1,949
Queensland land tax expense		1,073	1,057
Other expenses		2,351	2,175
Total expenses		**18,432**	**22,970**
Profit / (Loss) before income tax		**63,089**	**21,860**
Income tax (expense)/benefit		(13)	(23)
Profit / (Loss) after income tax benefit		**63,076**	**21,837**
Other comprehensive income		**-**	**-**
Other comprehensive income for the period after income tax		**-**	**-**
Total comprehensive income for the period		**63,076**	**21,837**
Profit attributable to:			
Members of ALE		63,076	21,837
Profit for the period		63,076	21,837
Total comprehensive income attributable to:			
Members of ALE		63,076	21,837
Total comprehensive income for the period		63,076	21,837
		Cents	**Cents**
Basic and diluted earnings/(losses) per stapled security	4.3	32.19	11.16

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 2015

	Note	December 2015 $'000	June 2015 $'000
Current assets			
Cash and cash equivalents	3.5	41,435	44,812
Receivables		227	315
Other		1,286	250
Total current assets		**42,948**	**45,377**
Non-current assets			
Investment properties	2	953,860	900,470
Plant and equipment		31	18
Deferred tax asset		314	315
Total non-current assets		**954,205**	**900,803**
Total assets		**997,153**	**946,180**
Current liabilities			
Payables		7,350	7,706
Distribution payable		19,381	16,537
Employee entitlements		169	145
Total current liabilities		**26,900**	**24,388**
Non-current liabilities			
Borrowings	3.1	478,214	476,915
Derivatives	3.2	4,511	1,140
Total non-current liabilities		**482,725**	**478,055**
Total liabilities		**509,625**	**502,443**
Net assets		**487,528**	**443,737**
Equity			
Contributed equity	3.3	258,118	257,870
Reserve		721	735
Retained profits		228,689	185,132
Total equity		**487,528**	**443,737**
		$	$
Net assets per stapled security		**$2.49**	**$2.27**

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 2015

	Share Capital $'000	Share based payments reserve $'000	Retained Earnings $'000	Total $'000
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 purchased	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**
31 December 2014				
Total equity at the beginning of the half-year	**257,870**	**604**	**118,815**	**377,289**
Total comprehensive income for the period				
Profit/(Loss) for the period	-	-	21,837	21,837
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	21,837	21,837
Employee security based payments		96	-	96
Employee security based payments - securities purchased		(59)	(71)	(130)
Distribution paid or payable		-	(16,438)	(16,438)
Total equity at the end of the half-year	**257,870**	**641**	**124,143**	**382,654**

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 2015

	Note	December 2015 $'000	December 2014 $'000
Cash flows from operating activities			
Receipts from tenant and others		30,822	30,172
Payments to suppliers and employees		(7,519)	(6,659)
Interest received		547	1,224
Interest received - interest rate hedges		203	447
Borrowing costs paid		(10,507)	(12,111)
Net cash inflow from operating activities		**13,546**	**13,073**
Cash flows from investing activities			
Proceeds from disposal of properties		-	1,200
Payments for plant and equipment		(20)	-
Payments for investment properties		(366)	
Net cash inflow / (outflow) from investing activities		**(386)**	**1,200**
Cash flows from financing activities			
Proceeds from borrowings - ALE Notes 2		-	(102,597)
Borrowing and capital raising costs paid		-	(9)
Distributions paid		(16,537)	(16,145)
Net cash inflow / (outflow) from financing activities		**(16,537)**	**(118,751)**
Net increase / (decrease) in cash and cash equivalents held		**(3,377)**	**(104,478)**
Cash and cash equivalents at the beginning of the half-year		44,812	149,963
Cash and cash equivalents at the end of the half-year	3.5	**41,435**	**45,485**

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

	December 2015 $'000	December 2014 $'000
Profit for the year	63,076	21,837
Plus/(less):		
Fair value increments to investment property	(53,024)	(16,210)
Fair value decrements to derivatives	3,371	6,723
Finance costs amortisation	189	393
CIB Accumulated indexation	1,110	1,556
Share based payments expense	96	96
Share based payments securities purchased	-	(130)
Depreciation	7	7
Decrease/(increase) in -		
Receivables	88	671
Deferred tax assets	1	21
Other assets	(1,036)	(1,025)
Increase/(decrease) in -		
Payables	(356)	(866)
Provisions	24	-
Net cash inflow from operating activities	**13,546**	13,073

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 2015 to 31 December 2015.

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 2015 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 2015 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 15th February 2016.

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.

Rounding of amounts

ALE is an entity of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, 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 2015.

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.

1. About this report

Measurement of fair values (continued)

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information concerning fair values is included in the following notes:

Note 2	Investment property
Note 3.2	Financial instruments

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 2015 $'000	June 2015 $'000
Investment properties	953,860	900,470
Reconciliation of fair value gains/losses for half year ending 31 December 2015		
Fair value as at beginning of the half year	900,470	837,890
Additions during half year	366	-
Carrying amount before revaluations	**900,836**	837,890
Fair value as at end of the half year	953,860	900,470
Fair value gain/(loss) for half year	**53,024**	62,580

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 2015, the weighted average investment property capitalisation rate used to determine the value of all investment properties was 5.74% (June 2015: 5.99%).

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 profit or loss. ALE has a valuation process for determining the fair value at each reporting date. ALE's properties are independently valued every three years, on a rotation basis. They are valued by an independent valuer, having an appropriate professional qualification and recent experience in the location and category of property being valued or on a more regular

2. Investment property

Measurement of fair value (continued)

basis, if considered appropriate and as determined by management in accordance with the Board's approved valuation policy. These external independent valuations form the basis of determining the fair value of the investment properties. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The weighted average lease term of the properties is around 13 years.

38 properties were independently valued as at 31 December 2015. The independent valuations are identified as "A" in the investment property table under the column labelled "Valuation type". These valuations were completed by CBRE.

The remaining 48 properties were subject to Directors' valuations as at 31 December 2015, identified as "B". The Directors' valuations of the 48 properties were determined by taking each property's net rent as at 31 December 2015 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 38 independent valuations completed at 31 December 2015 on a like for like basis. The Directors have received advice from CBRE 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 a final 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 2015 Yields	June 2015 Yields	**December 2015 Average**	June 2015 Average
New South Wales	**5.09% - 6.25%**	5.10% - 6.36%	**5.50%**	5.64%
Victoria	**3.96% - 6.64%**	4.09% - 6.86%	**5.77%**	6.02%
Queensland	**4.25% - 6.50%**	4.62% - 6.75%	**5.70%**	6.05%
South Australia	**5.60% - 6.44%**	5.73% - 6.49%	**6.04%**	6.18%
Western Australia	**5.98% - 7.29%**	6.19% - 7.12%	**6.46%**	6.59%

2. Investment property

The fair value measurement for investment property of $953.86 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 2015 $000's	Valuation technique	Inputs Used to Measure Fair Value	Range of Individual Property Unobservable inputs
Level 3	Pub Freeholds	953,860	Capitalisation	Gross rent p.a ($'000's)	$162 - $1,631
				Land tax p.a ($'000's)	$12 - $127
				Adopted capitalisation rate	3.96% - 7.29%
			Discounted	Gross rent p.a ($'000's)	$162 - $1,631
				Land tax p.a ($'000's)	$12 - $127
				Discount rates	7.50% - 9.25%
				Terminal capitalisation rates	5.25% - 7.75%
				Consumer price index	2.48% - 2.50%

As noted above the independent valuer had regard to discounted cash flow modelling in deriving a final 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.

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 December 2015 with a valuation date of 31 December 2015.
B Directors' valuations conducted during December 2015 with a valuation date of 31 December 2015.

Properties were purchased in November 2003, unless otherwise indicated.

2. Investment property

Property	Cost including additions $'000	Valuation type	Fair value at December 2015 $'000	Fair value at June 2015 $'000	Fair Value gains/ (losses) for December 2015 $'000
New South Wales					
Blacktown Inn, Blacktown	5,472	B	11,310	10,810	500
Brown Jug Hotel, Fairfield Heights	5,660	B	11,940	11,410	530
Colyton Hotel, Colyton	8,208	A	16,800	15,900	900
Crows Nest Hotel, Crows Nest	8,772	B	16,900	16,150	750
Melton Hotel, Auburn	3,114	A	6,400	6,000	400
Narrabeen Sands Hotel, Narrabeen (Mar 09)	8,945	B	14,370	13,990	380
New Brighton Hotel, Manly	8,867	A	10,000	9,800	200
Pioneer Tavern, Penrith	5,849	B	12,380	11,830	550
Pritchard's Hotel, Mount Pritchard (Oct 07)	21,130	A	26,100	24,900	1,200
Smithfield Tavern, Smithfield	4,151	B	8,830	8,430	400
Total New South Wales properties	**80,168**		**135,030**	**129,220**	**5,810**
Queensland					
Albany Creek Tavern, Albany Creek	8,396	B	15,120	13,780	1,340
Alderley Arms Hotel, Alderley	3,303	B	6,060	5,660	400
Anglers Arms Hotel, Southport	4,434	A	8,625	8,150	475
Balaclava Hotel, Cairns	3,304	A	11,300	9,900	1,400
Breakfast Creek Hotel, Breakfast Creek	11,024	B	16,420	15,450	970
Burleigh Heads Hotel, Burleigh Heads (Nov 08)	6,685	B	12,750	12,010	740
Camp Hill Hotel, Camp Hill	2,265	B	4,060	3,810	250
Chardons Corner Hotel, Annerly	1,416	A	3,000	2,700	300
Dalrymple Hotel, Townsville	3,208	A	11,550	10,450	1,100
Edge Hill Tavern, Manoora	2,359	A	5,650	5,100	550
Edinburgh Castle Hotel, Kedron	3,114	B	5,490	5,150	340
Four Mile Creek, Strathpine (Jun 04)	3,672	B	6,860	6,560	300
Hamilton Hotel, Hamilton	6,604	A	12,200	11,350	850
Holland Park Hotel, Holland Park	3,774	A	12,000	11,000	1,000
Kedron Park Hotel, Kedron Park	2,265	B	3,790	3,560	230
Kirwan Tavern, Townsville	4,434	A	10,100	9,200	900
Lawnton Tavern, Lawnton	4,434	B	8,000	7,530	470
Miami Tavern, Miami	4,057	A	12,750	12,000	750
Mount Gravatt Hotel, Mount Gravatt	3,208	B	5,950	5,590	360
Mount Pleasant Tavern, Mackay	1,794	A	9,350	8,650	700
Noosa Reef Hotel, Noosa Heads (Jun 04)	6,874	A	9,725	9,700	25
Nudgee Beach Hotel, Nudgee	3,020	B	5,410	5,080	330
Palm Beach Hotel, Palm Beach	6,886	A	13,200	12,300	900
Pelican Waters, Caloundra (Jun 04)	4,237	B	7,580	7,130	450
Prince of Wales Hotel, Nundah	3,397	B	6,430	6,020	410
Racehorse Hotel, Booval	1,794	B	3,950	3,580	370
Redland Bay Hotel, Redland Bay	5,189	B	9,880	9,280	600
Royal Exchange Hotel, Toowong	5,755	B	10,100	9,500	600
Springwood Hotel, Springwood	9,150	A	16,650	15,200	1,450
Stones Corner Hotel, Stones Corner	5,377	B	9,990	9,350	640
Vale Hotel, Townsville	5,661	B	12,830	11,670	1,160
Wilsonton Hotel, Toowoomba	4,529	B	10,110	9,210	900
Total Queensland properties	**145,619**		**296,880**	**275,620**	**21,260**

2. Investment property

Property	Cost including additions $'000	Valuation type	Fair value at December 2015 $'000	Fair value at June 2015 $'000	Fair Value gains/ (losses) for December 2015 $'000
South Australia					
Aberfoyle Hub Tavern, Aberfoyle Park	3,303	B	6,500	6,290	210
Eureka Tavern, Salisbury	3,303	A	5,500	5,400	100
Exeter Hotel, Exeter	1,888	B	4,060	3,930	130
Finsbury Hotel, Woodville North	1,605	B	3,560	3,440	120
Gepps Cross Hotel, Blair Athol	2,171	B	4,770	4,610	160
Hendon Hotel, Royal Park	1,605	A	3,750	3,500	250
Stockade Tavern, Salisbury	4,435	A	5,500	5,350	150
Total South Australian properties	**18,310**		**33,640**	**32,520**	**1,120**
Victoria					
Ashley Hotel, Braybrook	3,963	B	8,230	7,780	450
Bayswater Hotel, Bayswater	9,905	A	19,000	18,400	600
Berwick Inn, Berwick (Feb 06)	15,888	A	18,000	17,500	500
Blackburn Hotel, Blackburn	9,433	A	16,750	16,000	750
Blue Bell Hotel, Wendouree	1,982	B	4,790	4,530	260
Boundary Hotel, East Bentleigh (Jun 08)	17,943	A	22,000	21,000	1,000
Burvale Hotel, Nunawading	9,717	B	18,850	17,820	1,030
Club Hotel - FTG, Ferntree Gully	5,095	A	10,500	9,800	700
Cramers Hotel, Preston	8,301	B	16,580	15,680	900
Deer Park Hotel, Deer Park	6,981	B	13,940	13,180	760
Doncaster Inn, Doncaster	12,169	B	22,020	20,820	1,200
Ferntree Gully Hotel/Motel, Ferntree Gully	4,718	A	7,800	7,400	400
Gateway Hotel, Corio	3,114	B	7,400	7,000	400
Keysborough Hotel, Keysborough	9,622	A	18,750	17,600	1,150
Mac's Melton Hotel, Melton	6,886	B	13,300	12,580	720
Meadow Inn Hotel/Motel, Fawkner	7,689	B	15,150	14,320	830
Mitcham Hotel, Mitcham	8,584	B	16,100	15,220	880
Morwell Hotel, Morwell	1,511	A	2,600	2,400	200
Olinda Creek Hotel, Lilydale	3,963	A	7,700	7,300	400
Pier Hotel, Frankston	8,019	B	15,070	14,250	820
Plough Hotel, Mill Park	8,490	B	14,930	14,110	820
Prince Mark Hotel, Doveton	9,810	A	18,900	18,000	900
Royal Exchange, Traralgon	2,171	B	4,990	4,710	280
Sandbelt Club Hotel, Moorabbin	10,849	B	20,970	19,830	1,140
Sandown Park Hotel/Motel, Noble Park	6,321	B	11,890	11,240	650
Sandringham Hotel, Sandringham	4,529	B	10,710	10,130	580
Somerville Hotel, Somerville	2,642	A	6,250	5,700	550
Stamford Inn, Rowville	12,733	A	25,500	23,900	1,600
Sylvania Hotel, Campbellfield	5,377	A	11,200	10,600	600
The Vale Hotel, Mulgrave	5,566	A	11,750	11,300	450
Tudor Inn, Cheltenham	5,472	A	11,000	9,900	1,100
Village Green Hotel, Mulgrave	12,546	B	22,840	21,600	1,240
Young & Jackson, Melbourne	6,132	A	14,250	13,600	650
Total Victorian properties	**248,121**		**459,710**	**435,200**	**24,510**
Western Australia					
Queens Tavern, Highgate	4,812	B	8,300	8,210	90
Sail & Anchor Hotel, Fremantle	3,114	A	4,500	4,300	200
The Brass Monkey Hotel, Northbridge (Nov 07)	7,815	A	9,400	9,000	400
Balmoral Hotel, East Victoria Park (Jul 07)	6,377	B	6,400	6,400	-
Total Western Australian properties	**22,118**		**28,600**	**27,910**	**690**
Total investment properties	**514,336**		**953,860**	**900,470**	**53,390**

3.
Capital structure and financing

This section provides information on the Group's capital structure and its exposure to financial risk, how they effect 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 2015 $'000	June 2015 $'000
Non-current borrowings		
Capital Indexed Bond (CIB)	144,248	143,107
Australian Medium Term Notes (AMTN)	333,966	333,808
	478,214	**476,915**

CIB	December 2015 $'000	June 2015 $'000
Gross value of debt	111,900	111,900
Accumulated indexation	33,124	32,014
Unamortised borrowing costs	(776)	(807)
Net balance	**144,248**	**143,107**

$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 2015 $'000	June 2015 $'000
Gross value of debt	335,000	335,000
Accumulated indexation	-	-
Unamortised borrowing costs	(1,034)	(1,192)
Net balance	**333,966**	**333,808**

On 10 June 2014 ALE issued $335 million 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 2015 $'000	June 2015 $'000
Current assets		
Cash - CIB borrowings reserves	8,390	8,390
Non-current assets		
Total investment properties	953,860	900,470
Less: Properties not subject to mortgages:		
Pritchard's Hotel, NSW	(26,100)	(24,900)
Properties subject to mortgages	936,150	883,960
Total assets pledged as security	**944,540**	892,350

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.

3. Capital structure and financing

Terms and Repayment Schedule

	Nominal Interest Rate	Maturity Date[1]	31 December 2015 Face Value $'000	31 December 2015 Carrying Amount $'000	30 June 2015 Face Value $'000	30 June 2015 Carrying Amount $'000
CIB	3.4%[2]	Nov-2023	111,900	145,024	111,900	143,914
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	480,024	446,900	478,914
Unamortised borrowing costs				(1,810)		(1,999)
Total borrowings				478,214		476,915

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 2015.

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 2015		
CIB	144,248	151,774
AMTN	333,966	342,522
	478,214	**494,296**
30 June 2015		
CIB	143,107	152,050
AMTN	333,808	346,584
	476,915	**498,634**

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 2015 $'000	June 2015 $'000
Current assets	-	-
Non current assets	-	-
Total assets	-	-
Current liabilities	-	-
Non current liabilities	(4,511)	(1,140)
Total liabilities	(4,511)	(1,140)
Net assets/ (liabilities)	(4,511)	(1,140)

Fair value adjustments to derivatives

	December 2015 $'000	December 2014 $'000
Fair value increments/ (decrements) to interest rate hedge derivatives	(3,371)	(6,723)

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 profit and loss.

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 2015, 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 2015 $'000	June 2015 $'000	December 2015 $'000	June 2015 $'000	December 2015 $'000	June 2015 $'000
Less than 1 year	-	-	-	-	-	-
1 - 2 years	-	-	-	-	-	-
2 - 3 years	-	-	-	-	-	-
3 - 4 years	-	-	-	-	-	-
4 - 5 years	-	-	(30,000)	-	(30,000)	-
Greater than 5 years	280,000	280,000	-	(30,000)	280,000	250,000
	280,000	280,000	(30,000)	(30,000)	250,000	250,000

3. Capital structure and financing

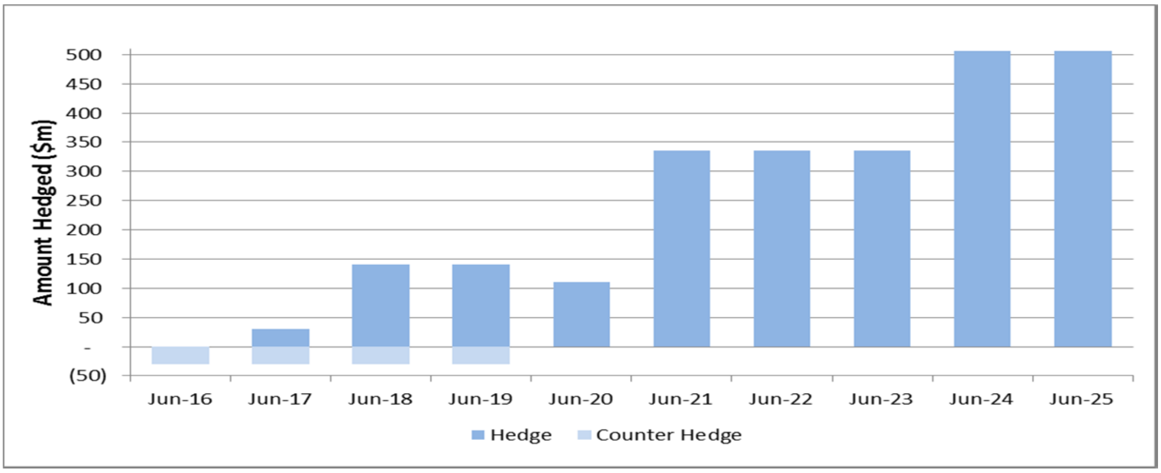
ALE has a forward start hedge in place and a counter hedge that is currently active.

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 7.8 years at 30 June 2015 to 7.3 years at 31 December 2015. Following the extension of the hedging on 4 February 2016 this has changed to 9.9 years.

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

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 new issuance of CIB is not permitted if the indexed value of CIB exceeds 30% 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 2015 and 30 June 2015, ALE and its subsidiaries were in compliance with all the above covenants.

3.3 Equity

	December 2015 $'000	June 2015 $'000
Balance at the beginning of the period	257,870	257,870
Securities issued - ESSS	248	-
	258,118	257,870

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	195,702,333	195,702,333
Securities issued - ESSS	66,747	-
Closing balance	195,769,080	195,702,333

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

ALE seeks to maximise securityholder equity by addressing risks and adding value where appropriate.

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 2015 and 30 June 2015 were 51.1% and 53.1% respectively.

The net gearing ratios (total borrowings less cash as a percentage of total assets less cash and derivatives) at 31 December 2015 and 30 June 2015 were 45.7% and 48.0% respectively.

3.5 Cash and cash equivalents

	December 2015 $'000	**June 2015 $'000**
Cash at bank and in hand	2,972	2,333
Deposits at call	30,073	34,089
Cash reserve	8,390	8,390
	41,435	44,812

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

4.2 Distributable income

4.3 Earnings per security

4.1 Finance costs

	December 2015 $'000	December 2014 $'000
Finance costs - cash		
Capital Indexed Bonds (CIB)	2,456	2,424
Australian Medium Term Notes (AMTN)	7,999	7,999
ALE Notes 2	-	940
Interest rate derivative payments/(receipts)	(199)	(374)
Other finance expenses	82	77
	10,338	11,066
Finance costs - non-cash		
Accumulating indexation - CIB	1,110	1,556
Amortisation - CIB and CMBS	31	28
Amortisation - AMTN	158	151
Amortisation - ALE Notes 2	-	214
	1,299	1,949
Finance costs (cash and non-cash)	**11,637**	13,015

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 2015 $'000	December 2014 $'000
Profit after income tax	**63,076**	21,837
Plus /(less)		
Fair value increments to investment properties	(53,024)	(16,210)
	3,371	6,723
Loss on disposal of property	-	-
Employee share based payments expense	96	96
Finance costs - non cash	1,299	1,949
Income tax expense	13	23
Adjustments for non-cash items	(48,245)	(7,419)
Total available for distribution	14,831	14,418
Distribution paid or provided for	19,381	16,438
Available and under / (over) distributed	(4,550)	(2,020)

<u>Reconciliation of accumulated undistributed income</u>

	December 2015 $'000	December 2014 $'000
Opening balance	6,523	10,444
Available and undistributed / (over distributed) for the half year	(4,550)	(2,020)
Closing balance	**1,973**	**8,424**

4. Business performance

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 2015	December 2014
Profit attributable to members of the Group ($000's)	63,076	21,837
Weighted average number of stapled securities	195,725,912	195,702,333
Basic earnings per security (cents)	32.23	11.16

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 2015	December 2014
Profit attributable to members of the Group ($000's)	63,076	21,837
Weighted average number of stapled securities	195,964,780	195,702,333
Diluted earnings per security (cents)	32.19	11.16

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 2015	December 2014
Distributable profit attributable to members of the Group ($000's)	14,831	14,418
Number of stapled securities	195,769,080	195,702,333
Distributable profit per security (cents)	7.58	7.37

Distributed profit per security

	December 2015	December 2014
Distributable income per stapled security	7.58	7.37
Distribution paid per stapled security	9.90	8.40
Under/(over) distributed for the half year	(2.32)	(1.03)
Accumulated undistributed income at the end of the period	1.01	4.30

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

ALE has one reportable segment, as described below, which is ALE's strategic business unit. The strategic business unit is based upon internal management reports that are reviewed by the Managing Director on at least a quarterly basis. The strategic business unit covers the operations of the property division, including rental of properties and the financing of those properties. The internal management reports concentrate on distributable income of ALE. These results are summarised in Note 4.

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

Geographical segment

ALE owns property solely within Australia.

5.2 Investments in controlled entities

The Trust owns 100% of the issued equity of the Sub-Trust. The Sub-Trust owns 100% of the issued equity of the Finance Company. The Trust owns none of the issued equity of the Company, but is deemed to be its "acquirer" under AIFRS.

5.3 Events occurring after reporting date

On 4 February 2016 ALE announced that it had extended the term of the interest rate hedging arrangements on up to 100% of its forecast net debt by a further three years to November 2025. For the half-year ending 31 December 2015 the Group's fair value of the derivative was a net liability of $4.5 million. Interest rates have continued to fall since 31 December 2015 so that as at close of business on 12 February 2016, the Group's fair value of the derivative net liability existing at 31 December 2015 has grown by $4.8 million to $9.3 million. The additional hedging taken out on 4 February 2016 has increased the derivative net liability position by an additional $6.1 million. The total derivative net liability now being $15.4 million.

Apart from the above, 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

In the directors' opinion:

1. the financial statements and notes set out on pages 6 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 2015 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
Director
Sydney

Dated this 16th day of February 2016

Independent auditor's review report to the stapled security holders of ALE Property Group

Report on the financial report

We have reviewed the accompanying half-year financial report of ALE Property Group ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2015, 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 and the directors' declaration of the Group comprising the 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.

Directors' responsibility for the half-year financial report

The directors of the 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.

Auditor's responsibility

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 2015 and its performance for the half-year period 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.

KPMG

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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 is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

KPMG

John Teer
Partner

Sydney

16 February 2016

INVESTOR INFORMATION AND CORPORATE DIRECTORY

Half-Year Report for the period ended 31 December 2015

INVESTOR INFORMATION

Stock Exchange Listing
The ALE Property Group (ALE) is listed on the Australian Securities 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. The plan is currently suspended.

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.

Publications
The Annual Review, Annual Report and Property Compendium 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 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.

Websites
ALE's websites, www.alegroup.com.au and www.aleproperties.com.au are useful sources of information for securityholders. They includes details of ALE's property portfolio, current activities and future prospects. ASX announcements are also included on the site on a regular basis.

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.

Distributions
Stapled security distributions may be paid twice yearly, normally in early March and September.

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

Email Alerts
For emailed updates, visit the ALE website and join "Email Alerts" at www.alegroup.com.au.

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