HLG

HEDLEY LEISURE & GAMING PROPERTY FUND

Hedley Leisure & Gaming Property Fund

Half-Year Report

For The Six Months Ended 31 December 2008

Comprising Hedley Leisure & Gaming Property Trust (ARSN 125 526 016) and Hedley Leisure & Gaming Property Partners Limited (ABN 44 124 753 733) and their controlled entities

HEDLEY LEISURE & GAMING PROPERTY FUND

Half-Year Report for the six months ended 31 December 2008

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Directors' report

The directors of Permanent Investment Management Limited, the Responsible Entity for the Hedley Leisure & Gaming Property Trust (the "Trust") present their report together with the financial report of the Hedley Leisure & Gaming Property Fund ("HLG") for the half-year ended 31 December 2008.

HLG comprises Hedley Leisure & Gaming Property Trust, Hedley Leisure & Gaming Property Partners Limited (the "Company") and their controlled entities. The units in the Trust and the shares in the Company are stapled and cannot be traded or dealt with separately. The stapled securities were first listed on the Australian Securities Exchange ("ASX") on 2 August 2007, under the code HLG.

Directors

The Responsible Entity and the Company each have entered into separate, but materially similar, services agreements with HLG Management Pty Ltd as trustee for HLG Services Trust (the "Manager"). The Manager provides all investment, asset management and general administrative services to HLG (other than certain compliance and supervisory services which are provided by the Responsible Entity). The Manager is also responsible for pursuing all acquisitions and any divestments.

HLG and the Manager have appointed an investment committee, which is comprised of the directors of the Company. The investment committee is an advisory committee, which liaises between the Manager and the Responsible Entity, and the Company and the Manager. The investment committee reviews the Manager's advice for compliance with the law, the Trust Deed and/or the Trust Constitution, HLG's investment criteria, the services agreements and the interests of the security holders. Assuming compliance, the Responsible Entity and the Company must follow the Manager's advice.

The following persons were directors of the Responsible Entity at any time during or since the end of the half-year. Unless stated the directors have held their position for the whole of this period:

Directors of the Responsible Entity

Jonathan W Sweeney - ceased 31 December 2008
Michael J Britton
Vicki Allen
David Grbin - appointed 22 July 2008
John Atkin - appointed 27 January 2009
Eugene Quass - ceased 13 February 2009

Principal activities

The principal activity of HLG consists of investment in the pub freehold sector. There has been no significant change in the nature of this activity during the half-year.

Significant changes in state of affairs

Prior to listing HLG entered into 10 year interest rate swaps. The mark-to-market valuation of HLG's interest rate swaps was performed by the ANZ Banking Group Ltd at the end of the half year. Credit markets since 1 July 2008 have significantly deteriorated and there has been a significant negative movement in the mark-to-market valuation of HLG's interest rate swaps. The resulting derivative financial instrument liability disclosed at note 14 to the financial statements is the principal driver in the reduction in the net assets per stapled security from $2.38 as at 30 June 2008 to $1.05 as at 31 December 2008. It should be noted that the process of mark-to-market is based on valuation procedures that follow accepted financial market practice. Although HLG believes that the ANZ valuation of its interest rate swaps represents the most appropriate estimate of the carrying value of the swap liability at valuation date, it does not in any way represent an actual assessment of a loss if the interest rate swaps are held to maturity. Rather the valuation adjustment to the swaps represents an accounting entry which has no impact on HLG's debt covenants with its banks or on the amount of cash that is available to meet current and future distributions to security holders. HLG's interest rate swaps have a weighted average term to maturity of 8.5 years. However, HLG is currently required to pay more in notional interest under the swaps than if it had not entered into the swaps. Therefore, the swaps will negatively affect HLG's cash flow at the current interest rate.

During the reporting period HLG disposed of five investment properties for $11,450,000 which was substantially in line with the carrying value as disclosed in the 30 June 2008 HLG annual report. There is one remaining investment property sale that is yet to settle.

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Directors' report

After balance date events

On 22 January 2009 HLG announced its expected interim distribution of 4 cents per stapled security for the half-year ended 31 December 2008. The record date of the distribution was 4 February 2009 with the distribution payable to stapled security holders on 3 March 2009. For more information on the 31 December 2008 interim distribution refer to distributions and note 5 to the financial statements.

Unauthorised payments to the Manager during the half - year amounting to $1.144 million as set out in note 2 to the financial statements were repaid with interest by the Manager immediately after the Manager became aware of them.

Likely developments

HLG (via the Manager) will continue to pursue its strategy to actively optimise the value of the portfolio by continually improving its operations and implementing a 3-5 year development program.

In accordance with HLG's lease agreements for its investment properties, HLG will receive fixed annual rental increases from its tenants. The directors are not aware of any other future developments likely to materially affect the results of HLG.

Distributions

For the period ended 31 December 2008 HLG has resolved to distribute all of its cash-effective income. Trust distributions payable to stapled security holders for the half-year ended 31 December 2008 were as follows:-

	31 December 2008 ¢ per security	31 December 2007 ¢ per security	31 December 2008 $'000	31 December 2007 $'000
Half year distribution paid and payable	4.00	13.00	6,106	16,229

No provisions for or payments of Company dividends have been made during the half-year.

Review and results of operations

HLG maintained its investment strategy of property investment in the pub freehold sector within Australia.

Based on the directors valuation performed by the Manager, HLG has maintained the existing valuations of its property portfolio used in the final accounts for the year ended 30 June 2008. The independent valuations on which the valuations in the 30 June 2008 financial statements were based, were dated mid August and late September 2008. HLG is of the view that the value of the investment properties portfolio at 31 December 2008 would not be materially different from those values applied in the 30 June 2008 financial statements and accordingly the portfolio reflects the current market conditions as at 31 December 2008.

As foreshadowed in its 2008 annual report HLG completed the disposal of five investment properties during the half year reporting period. From its investment property portfolio HLG sold Finnians Irish Tavern, Reservoir Road DBS, Gateway Plaza DBS, Taranganba Tavern Site and the Chincogan Hotel for a total consideration of $11,450,000. These properties generated annual rental revenue of $769,370. Prior to 31 December 2008, one remaining property was "held for sale" giving a portfolio of 103 investment properties at 31 December 2008, with a total portfolio value of $1,053 million.

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Directors' report

Review and results of operations (continued)

Other financial highlights for the half year of trading of HLG are disclosed below:

	31 December 2008 $'000	31 December 2007 $'000
Net property income	36,705	31,814
Net finance costs	(29,242)	(28,064)
Other income/(expense)	(181,463)	(2,129)
Profit/(Loss) as shown in the income statement	(174,000)	1,621
Add (less) non-operating items		
Net present value adjustment - prepaid interest rate swap interest	(651)	-
Consulting fees re sale of assets	349	-
Fair value adjustments to interest rate swaps	174,839	(15,655)
Loss on sale of investment properties	872	-
Net fair value adjustment losses - investment properties	-	18,331
Impairment of ALE stapled securities	3,260	-
Other property acquisition costs	62	1,157
Amortisation of borrowing costs	140	1,100
Profit from operations as adjusted	4,871	6,554
Net assets per stapled security - including fair value adjustment to interest rate swaps (dollars)	1.05	3.51
Net assets per stapled security- excluding fair value adjustment to interest rate swaps (dollars)	2.19	3.17

Rounding of amounts

HLG is of a 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 and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Lead auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4, and forms part of the directors' report for the half-year ended 31 December 2008.

This report is made in accordance with a resolution of the directors of Permanent Investment Management Limited.

Michael John Britton

Director (Permanent Investment Management Limited)

Dated this 26th day of February 2009

Lead auditor's independence declaration

Under Section 307C of the Corporations Act 2001 to the directors of Permanent Investment Management Limited, the Responsible Entity for the Hedley Leisure & Gaming Property Trust

I declare that, to the best of my knowledge and belief, in relation to the review of the Hedley Leisure & Gaming Property Fund for the half-year ended 31 December 2008 there have been:

- No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Graham Coonan
Partner

Cairns
26 February 2009

Consolidated interim income statement

	Note	Consolidated 31 December 2008 $'000	Consolidated 31 December 2007 $'000
Revenue			
Rent from investment properties		37,123	32,130
Outgoings recovered		2,362	2,082
Distributions		484	3,401
Straight-line lease adjustment	11	12,649	13,403
Interest from cash deposits		179	96
Total revenue		**52,797**	**51,112**
Other income			
Fair value adjustment to derivative financial instruments		-	15,655
Total other income		-	**15,655**
Total revenue and other income		**52,797**	**66,767**
Expenses			
Outgoings		2,473	1,698
Queensland land tax		155	651
Investment property expense		152	49
Manager's fees	2	1,594	1,306
Directors' remuneration		190	67
Finance costs	4	29,421	28,160
Fair value adjustments to investment properties		-	18,331
Other property acquisition costs		62	1,157
Loss on sale of investment properties		872	21
Impairment of available for sale assets	13	3,260	-
Fair value adjustment to derivative financial instruments	14	174,839	-
Impact of straight-line lease adjustment on fair value of investment properties	11	12,649	13,403
Other expenses	6	1,130	303
Total expenses		**226,797**	**65,146**
Profit/(Loss) for the half-year to stapled security holders		**(174,000)**	**1,621**
		cents	cents
Basic and diluted earnings/(loss) per security	3	(118.32)	1.48
Distribution paid or payable per security	5	4.00	13.00

The accompanying notes form part of these interim financial statements

HEDLEY LEISURE & GAMING PROPERTY FUND

Half-Year Report for the six months ended 31 December 2008

Consolidated interim balance sheet

	Note	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	9,827	10,862
Trade and other receivables	8	3,204	4,104
Derivative financial instruments	14	-	1,817
Other current assets	9	826	593
Non - current assets held for sale	10	1,960	16,010
Total current assets		**15,817**	**33,386**
Non-current assets			
Property, plant and equipment		604	600
Investment property	11	1,001,209	1,011,095
Other non-current assets	12	55,076	42,095
Intangible assets		1,337	1,337
Other investments	13	6,261	9,521
Total non-current assets		**1,064,487**	**1,064,648**
TOTAL ASSETS		**1,080,304**	**1,098,034**
LIABILITIES			
Current liabilities			
Trade and other payables		5,358	8,779
Current tax payable		58	58
Loans and borrowings		282	-
Distribution payable	5	-	16,467
Total current liabilities		**5,698**	**25,304**
Non-current liabilities			
Derivative financial instruments	14	173,022	-
Loans and borrowings	15	740,741	746,285
Total non-current liabilities		**913,763**	**746,285**
TOTAL LIABILITIES		**919,461**	**771,589**
NET ASSETS		**160,843**	**326,445**

The accompanying notes form part of these interim financial statements

Half-Year Report for the six months ended 31 December 2008

Consolidated interim balance sheet (continued)

	Note	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
EQUITY			
Contributed equity		458,953	450,556
(Deficiency)/undistributed earnings		(298,172)	(124,173)
Reserves		62	62
TOTAL EQUITY		**160,843**	**326,445**

	$	$
Net assets per stapled security - including fair value adjustment to swap	1.05	2.38
Net assets per stapled security - excluding fair value adjustment to swap	2.19	2.37

The accompanying notes form part of these interim financial statements

Consolidated interim statement of changes in equity

	Note	Contributed Equity	(Deficiency)/ Undistributed Earnings	Reserves	Total
		$'000	$'000	$'000	$'000
CONSOLIDATED					
Balance at 1 July 2007		277,957	(115)	8,784	286,626
Profit for the period		-	1,621	-	1,621
Final adjustments to consideration for founder's securities					
- Cloning of trusts		(13,797)	-	-	(13,797)
- Setting value of founder's securities		(15,200)	-	-	(15,200)
Stapled securities issued during the period		199,363	-	-	199,363
Capital raising costs recognised directly against capital raised		(9,458)	-	-	(9,458)
Net change in fair value of available-for-sale financial instruments		-	-	(10,742)	(10,742)
Balance at 31 December 2007		**438,865**	**1,506**	**(1,958)**	**438,413**
Balance at 1 July 2008		450,556	(124,172)	62	326,446
Loss for the period		-	(174,000)	-	(174,000)
Stapled securities issued during the period		8,414	-	-	8,414
Capital raising costs recognised directly against capital raised		(17)	-	-	(17)
Balance at 31 December 2008		**458,953**	**(298,172)**	**62**	**160,843**

The accompanying notes form part of these interim financial statements

Consolidated interim statement of cash flows

	Note	Consolidated 31 December 2008 $'000	Consolidated 31 December 2007 $'000
Cash flows from operating activities			
Rent from investment properties (GST inclusive)		40,599	35,811
Other receipts from customers (GST inclusive)		3,337	6,249
Receipt of ALE distribution		2,860	-
Payments to suppliers		(9,373)	(10,275)
Interest received – bank deposits		180	97
Interest paid		(30,312)	(28,122)
Receipts from interest rate swaps		2,493	4,714
Net cash provided from operating activities		**9,784**	**8,474**
Cash flows from investing activities			
Payments for investment properties		(312)	(413,357)
Payments of development deed proceeds		(1,701)	-
Proceeds from disposal of investment properties		11,515	2,039
Payment for contract termination		(4,080)	-
Proceeds from disposal of development deed properties		1,701	-
Payment for ALE securities		-	(3,694)
Net cash from investing activities		**7,123**	**(415,012)**
Cash flows from financing activities			
Proceeds from issue of stapled securities		-	138,302
Payments of borrowing establishment costs		(479)	(10,085)
Payment of distribution		(9,854)	-
Payments of capital raising costs		-	(7,951)
Proceeds from borrowings		277	847,391
Repayments of borrowings		(7,886)	(559,342)
Net cash provided from financing activities		**(17,942)**	**408,315**
Net increase/(decrease) in cash held		**(1,035)**	**1,777**
Cash and cash equivalents at the beginning of the period		10,862	(161)
Cash and cash equivalents at the end of the period	7	**9,827**	**1,616**

The accompanying notes form part of these interim financial statements

HEDLEY LEISURE & GAMING PROPERTY FUND

Half-Year Report for the six months ended 31 December 2008

Condensed notes to the consolidated interim financial statements

Contents of the notes to the financial statements

Condensed notes to the consolidated interim financial statements

1 Summary of significant accounting policies

(a) Reporting entity

The consolidated interim financial report of Hedley Leisure & Gaming Property Fund ("HLG") as at and for the six months ended 31 December 2008 comprises Hedley Leisure & Gaming Property Trust (the "Trust") and its controlled entity and Hedley Leisure & Gaming Property Partners Limited (the "Company") and its controlled entities. Hedley Leisure & Gaming Property Trust is a registered managed investment scheme under the *Corporations Act 2001*. Hedley Leisure & Gaming Property Partners Limited is a company limited by shares under the *Corporations Act 2001*. The responsible entity of the Trust is Permanent Investment Management Limited (the "Responsible Entity").

The units of the Trust and the shares of the Company are stapled such that the units and shares cannot be traded separately.

(b) Statement of compliance

The consolidated interim financial report is a general purpose financial report, which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of HLG as at and for the year ended 30 June 2008 and any public announcements made by HLG during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The financial statements were approved by the directors of the Responsible Entity on 26 February 2009.

Early adoption of standard

As indicated in the financial report for the year ended 30 June 2008, HLG elected to early adopt AASB 2008-2 Amendment to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation (issued in March 2008).

Under the amendment financial instruments that meet the definition of puttable instruments on liquidation, such as the units issued by the Trust, are classified as equity.

Rounding of amounts

HLG is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(c) Significant accounting policies

The accounting policies applied by HLG in this consolidated interim financial report are the same as those applied by HLG in its consolidated financial report as at and for the year ended 30 June 2008.

(d) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying HLG's accounting policies. 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.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 11 - Investment property.

Condensed notes to the consolidated interim financial statements

2. Related party information

There has been no change to the nature of the related party transactions disclosed in the most recent annual financial report (but also refer below regarding unauthorised payments to the Manager).

Manager's fees

The Manager is HLG Management Pty Ltd as trustee for HLG Services Trust (the "Manager"), a wholly owned subsidiary of TWH (Qld) Pty Ltd. In accordance with the services agreement between the Manager, the Company and the Trust, the Manager is entitled to the following fees:

Base fee

A base fee of 0.308% per annum (exclusive of GST) of the gross value of HLG's assets. The base fee is calculated monthly and payable half-yearly.

Performance fee

A performance fee of up to 0.25% of the gross value of HLG's assets based on the percentage by which the accumulated return on the stapled securities exceeds the performance of the S&P/ASX 200 Property Trust Accumulation Index for the corresponding period.

	Consolidated 31 December 2008 $'000	Consolidated 31 December 2007 $'000
Base fee	1,594	1,306
Performance fee	-	-
	1,594	**1,306**

Transaction fee

Additionally the Manager is entitled to a transaction fee of 1.025% of the purchase price on completion of real property acquisitions. These are accounted for as part of the acquisition cost of the property. The transaction fee is payable half-yearly. Transaction fees for the period were nil (half-year ended 31 December 2007: $680,183).

All Manager's fees are payable in HLG stapled securities for the first three years after listing, i.e., Manager's fees for the years ending 30 June 2008, 30 June 2009 and 30 June 2010 are non-cash expenses.

During the half-year ended 31 December 2008, unauthorized payments amounting to $1.144 million were made to the Manager. These cash payments were identified after period end. The $1.144 million has subsequently been fully reimbursed by the Manager to the Fund with interest. At 31 December 2008, this amount is included in trade and other receivables (note 8).

Condensed notes to the consolidated interim financial statements

3. Earnings per stapled security

	Consolidated 31 December 2008	Consolidated 31 December 2007
Net loss after tax attributable to stapled security holders	$(173,999,655)	$1,621,081
Total stapled securities on issue at year end	152,642,832	124,834,753
Weighted average stapled securities - basic	147,061,560	109,471,055
Weighted average stapled securities - diluted	147,061,560	109,471,055
Basic and diluted earnings/(loss) per security - cents	(118.32)	1.48

There have been no dilutive transactions involving stapled securities or potential stapled securities during the half-year or since the balance sheet date.

	Note	Consolidated 31 December 2008 $'000	Consolidated 31 December 2007 $'000
4 Finance costs			
(a) Finance costs – cash			
Senior Debenture Subscription Facility ("SDSF") interest expense	(i)	25,726	20,701
Junior Debenture Subscription Facility ("JDSF") interest expense	(ii)	2,445	1,694
Other interest expense	(iii)	23	8,382
Less: Receipts from interest rate swaps	(iv)	(80)	(5,141)
		28,114	**25,636**
(b) Finance costs – non-cash			
Amortised costs – bridging facility (retired July 2007)	(v)	-	1,100
Amortised costs – SDSF and JDSF	(vi)	1,712	1,266
Net present value adjustment – prepaid interest rate swap interest	(vii)	(651)	26
Other borrowing costs		246	132
		1,307	**2,524**
Total finance costs		**29,421**	**28,160**

i. Variable rate interest expense for the SDSF issued in August 2007 with a scheduled termination on 22 August 2010. The interest rate is the monthly BBSY (Bank Bill Swap Bid Rate) plus 0.8% interest margin.

ii. Variable rate interest expense for the JDSF issued in August 2007 with a scheduled termination on 22 August 2010. The interest rate is the monthly BBSY plus 1.5% margin.

iii. Interest expense for bank overdraft facilities, bridging facilities, Australian Taxation Office general interest charge and funding for annual insurance funding. The bridging facility was fully paid out upon issue of SDSF and JDSF.

Condensed notes to the consolidated interim financial statements

4 Finance costs (continued)

iv. HLG's interest rate exposures from SDSF and JDSF borrowings totaling $747 million as at 31 December 2008 are 100% hedged by 10 year fixed index swaps with indexation occurring on 1 July each year. The swaps lock the interest rate on debt facilities taken out by HLG at a weighted average rate of 7.40% per annum excluding interest margins for the 2009 financial year.

v. Establishment costs of the bridging facility were fully amortised as at 30 June 2008.

vi. Establishment costs of SDSF and JDSF facilities are being amortised over three years on an effective interest rate basis.

vii. The net present value has been calculated on monthly cash flows of $51,700 over the next 9 years, being the return on prepaid interest.

5 Distributions

After the balance sheet date the following distribution was proposed by the directors. As at 31 December 2008 the distribution had not been provided for in the financial statements.

	Cents per security	Total amount $'000
Half year distribution 31 December 2008 declared on 22 January 2009	4.00	6,106

The financial effect of this distribution has not been brought to account in the financial statements for the half-year ended 31 December 2008 and will be recognised in subsequent financial reports. The distribution is due to be paid on 3 March 2009.

Trust distributions paid for the year ended 30 June 2008 were as follows:

	Cents per security	Total amount $'000
Half year distribution declared on 25 January 2008 and paid on 29 February 2008	13.00	16,826
Full year distribution declared on 29 June 2008 and paid on 5 September 2008	12.00	16,467
Total distribution for the year ended 30 June 2008	**25.00**	**33,293**

	Consolidated 31 December 2008 $'000	Consolidated 31 December 2007 $'000
6 Other expenses		
Consultancy fees	648	40
Responsible Entity fees	125	54
Directors insurance	55	29
ASX chess charges	90	91
All other expenses	212	89
	1,130	**303**

Condensed notes to the consolidated interim financial statements

	Note	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
7 Cash and cash equivalents			
Interest reserve account		5,000	5,000
Cash at bank		4,827	5,862
		9,827	**10,862**

In the event of a loan repayment default by HLG, its lender has the right to use the funds from the interest reserve account to cover any shortfall. These funds are restricted and are not available for general use.

	Note	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
8 Trade and other receivables			
Trade receivables		755	232
Payments recoverable from the Manager	2	1,144	-
Other receivables		1,305	3,872
		3,204	**4,104**
9 Other current assets			
Prepayments		222	-
Deposits and bonds		1	-
Two tier swap - current portion		603	593
		826	**593**
10 Non-current assets held for sale			
Investment properties held for sale		**1,960**	**16,010**

Prior to 31 December 2008, one hotel was being actively marketed for sale (30 June 2008 : 6 hotels). The fair value of this property has been taken to be the expected contract price for the property. The total value of this property amounted to $1.96 million (30 June 2008 : $16.01 million) which has been shown as a non-current asset held for sale at reporting date.

Movements	Note	Consolidated 31 December 2008 $'000
Carrying amount at the beginning of the period		16,010
Additions		500
Reclassify to investment property	11	(3,500)
Disposals		(11,050)
Carrying amount at the end of the period		**1,960**

	Note	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
11 Investment property			
Investment property at fair value		1,052,613	1,049,850
Straight - line lease adjustment		(51,404)	(38,755)
		1,001,209	**1,011,095**

Condensed notes to the consolidated interim financial statements

	Note	Consolidated 31 December 2008 $'000
11 Investment property (continued)		
Movements		
Carrying amount at the beginning of the period		1,011,095
Capital expenditure		313
Reclassify from non-current assets held for sale	10	3,500
Disposals		(1,050)
Movement in straight - line rental income asset	12	(12,649)
Carrying amount at the end of the period		**1,001,209**

Investment properties

All investment properties are freehold and 100% owned by HLG and are comprised of land, buildings and fixed improvements. Plant and equipment is held by the tenant. In Queensland gaming licences and liquor licences are held by the tenant, whereas in New South Wales, Victoria and South Australia they are held by the tenant and revert back to the lessor upon completion of the lease.

Leasing arrangements

The investment properties are each leased to a single tenant under long-term operating leases with rentals payable monthly in advance, other than leases to Coles Ltd which are payable on the 15th of each month. HLG has incurred no lease incentive costs to date.

The remaining average lease duration for all properties vary between 13 and 30 years, excluding options for extension of the leases upon completion of the lease term.

Valuation of investment properties

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.

Independent valuations

At 30 June 2008

In line with HLG's policy to independently value one third of its investment portfolio annually, independent valuations were obtained for 36 properties from CBRE and Burgess Rawson in August and September 2008. These properties were restated where necessary to those values at 30 June 2008.

HLG (via the Manager) also assessed the carrying values of the remaining investment properties, based on the capitalisation rates applying to the properties independently valued. Where the carrying value of any of these properties differed significantly from fair value, that property's value was adjusted to fair value at 30 June 2008.

At 31 December 2008

HLG has reviewed the carrying value of all investment properties at 31 December 2008. In this regard they note that the independent valuations on which the property valuations at 30 June 2008 were based, were dated mid August 2008 and late September 2008. A review has been undertaken of available data in respect of recent valuations of similar properties owned by other entities operating in the industry. Accordingly, HLG is of the view that the values of HLG's investment properties at 31 December 2008 are not materially different from those values applied at 30 June 2008 and no adjustments to those values have been made at 31 December 2008.

Condensed notes to the consolidated interim financial statements

	Note	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
12 Other non-current assets			
Two tier swap (value of prepaid interest)		3,672	3,340
Straight-line lease adjustment	11	51,404	38,755
		55,076	**42,095**

The majority of lease agreements include annual increases in rents charged. Under AASBs, HLG is required to recognise lease income on a straight-line basis. This has the effect of increasing income above rental receipts in the early years, and reducing income below rental receipts in later years. There is no net effect on cash available for distributions to security holders.

13 Other investments			
Listed stapled securities in ALE Property Group		6,261	9,521

The listed securities held are valued as per the quoted market price at balance date, being $1.94 per security. As a result of a 34% reduction in the fair value of the ALE Property Group securities from 1 July 2008 to 31 December 2008, it is considered that the securities are impaired and the reduction has been recognised as a impairment loss in the income statement.

14 Derivative financial instruments			
Derivative financial instrument - asset		-	**1,817**
Derivative financial instrument - liability		**(173,022)**	-
Movements			
Interest rate swaps at fair value at the beginning of the period		1,817	
Fair value adjustment recognised in the income statement		(174,839)	
Interest rate swaps at fair value at the end of the period		**(173,022)**	

The mark-to-market valuation of HLG's interest rate swaps was performed by ANZ Banking Group.

15 Loans and borrowings			
Non-current			
Bank loans		740,741	746,285
		740,741	**746,285**
Bank loans consist of			
ANZ Junior Debenture Subscription Facility ("JDSF")		59,491	59,479
ANZ Senior Debenture Subscription Facility ("SDSF")		681,250	686,806
		740,741	**746,285**
JDSF			
JDSF issued August 2007		60,000	60,000
Prepaid borrowing establishment costs capitalised		(890)	(752)
Amortisation of prepaid borrowing costs		381	231
		59,491	**59,479**

Condensed notes to the consolidated interim financial statements

	Consolidated 31 December 2008 $'000	Consolidated 30 June 2008 $'000
15 Loans and borrowings (continued)		
SDSF		
SDSF issued August 2007	687,082	694,000
Prepaid borrowing establishment costs capitalised	(10,201)	(9,861)
Amortisation of prepaid borrowing costs	4,369	2,667
	681,250	**686,806**

Assets pledged as security

ANZ has first security by way of fixed and floating charge over all of the assets of HLG, a registered mortgage over each property and a fixed charge over each licence.

Terms and debt repayment schedule

The ANZ Bank facilities were taken out by HLG Issuer Finance Pty Ltd, a wholly owned subsidiary of the Company and on-lent to the Trust on the same terms and conditions as the ANZ Bank facilities.

	Currency	Nominal interest rate	Date of maturity	Face value $'000	Carrying amount $'000
JDSF	AUD	1 month BBSY + 1.5%	August 2010	60,000	59,491
SDSF	AUD	1 month BBSY + 0.8%	August 2010	687,082	681,250
				747,082	**740,741**

16 Segment information

Business segment

HLG operates solely in property investment and has no business segmentation.

Geographical segment

HLG owns property solely in Australia.

Condensed notes to the consolidated interim financial statements

17 Fund information

Registered office of the Responsible Entity

Permanent Investment Management Limited

Level 4

35 Clarence Street

Sydney

New South Wales 2000

Registered office and principal place of business of the Company

Hedley Leisure & Gaming Property Partners Limited

69 Aumuller Street

Cairns

Queensland 4870

HEDLEY LEISURE & GAMING PROPERTY FUND

Half-Year Report for the six months ended 31 December 2008

Directors' declaration

In the opinion of the directors of Permanent Investment Management Limited, the Responsible Entity of the Hedley Leisure & Gaming Property Trust:

1. the financial statements and notes, set out on pages 5 to 19, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the financial position of the Hedley Leisure & Gaming Property Fund as at 31 December 2008 and of its performance for the six months ended on that date and;

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

2. there are reasonable grounds to believe that the Hedley Leisure & Gaming Property Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of Permanent Investment Management Limited.

Michael John Britton

Director (Permanent Investment Management Limited)

Dated this 26th day of February 2009

Sydney

Independent auditor's review report to the security holders of the Hedley Leisure & Gaming Property Fund

We have reviewed the accompanying half-year financial report of Hedley Leisure & Gaming Property Fund ("HLG" or "consolidated entity"), which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of changes in equity and statement of cash flows for the half-year ended on that date, a summary of accounting policies and other explanatory notes and the directors' declaration set out on pages 5 to 20. The consolidated entity comprises Hedley Leisure & Gaming Property Trust ("the Trust") and Hedley Leisure & Gaming Property Partners Limited and the entities each 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 Permanent Investment Management Limited ("the Responsible Entity") are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Interim and Other Financial Reports 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 consolidated entity's financial position as at 31 December 2008 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 the Hedley Leisure & Gaming Property Fund, 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*.

Independent auditor's review report to the security holders of the Hedley Leisure & Gaming Property Fund (continued)

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 Hedley Leisure & Gaming Property Fund is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 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

Graham Coonan
Partner

Cairns
26 February 2009

HLG
HEDLEY LEISURE & GAMING PROPERTY FUND

Appendix 4D

Half-year report 31 December 2008

Entity Details:

Hedley Leisure & Gaming Property Fund

Comprising:

Hedley Leisure & Gaming Property Trust (ARSN 125 526 016) and

Hedley Leisure & Gaming Property Partners Limited (ABN 44 124 753 733)

Details of reporting period:

Current period:	1 July 2008 — 31 December 2008
Previous corresponding period:	1 July 2007 — 31 December 2007

Results for announcement to the market:

Hedley Leisure & Gaming Property Fund comprises the Hedley Leisure & Gaming Property Trust, the units of which are stapled to the shares of Hedley Leisure & Gaming Property Partners Limited. The stapled securities were first listed on the Australian Securities Exchange on 2 August 2007.

	6 months to 31 December 2008 A$'000	6 months to 31 December 2007 A$'000	% of change from corresponding half year
Revenue from ordinary activities			
Rent from investment properties	37,123	32,130	up 15.54%
Outgoings recovered	2,362	2,082	up 13.45%
Finance income	179	96	up 86.46%
Straight - line lease adjustment	12,649	13,403	down 5.63%
Distributions - ALE	484	3,401	down 85.77%
Total	52,797	51,112	up 3.30%
Profit from ordinary activities (before fair value adjustments and other non-operating income and expense)	4,871	6,554	down 25.68%
Net (loss)/profit attributable to stapled security holders	(174,000)	1,621	down > 100%

Distributions	**Record Date**	**Payment Date**	**Amount per stapled security**
December 2008 total interim distribution	4 February 2009	3 March 2009	4.00 cents
December 2007 total interim distribution	15 February 2008	29 February 2008	13.00 cents

HLG
HEDLEY LEISURE & GAMING PROPERTY FUND

Appendix 4D

Half-year report 31 December 2008

Brief Explanation of results

- Net property income for the half year ended 31 December 2008 increased by 15.37% compared to the same period in the prior year.

- Fair value declines in interest rate swaps were the main drivers for a consolidated net loss for the half year ended 31 December 2008 of $174.0 million (2007 profit $1.6 million).

- The net loss included a fair value adjustment to HLG's interest rate swaps of $174.8 million, leading to a decline in the net assets per security from $2.38 as at 30 June 2008 to $1.05 as at 31 December 2008. If the swaps are held to maturity all negative fair value adjustments will be counterbalanced by a corresponding positive fair value adjustment. If the effect of the fair value adjustment to the interest rate swaps is removed, then HLG's net assets per stapled security is $2.19 as at 31 December 2008 compared to $2.37 as at 30 June 2008.

- For the six months ended 31 December 2008, HLG will pay a distribution of 4.00 cents per stapled security and is expected to be 100% tax deferred. This represents a reduction of the distribution for the previous corresponding period of 13.00 cents. It is consistent with previous announcements made by HLG to adjust its distribution policy to provide greater alignment with underlying earnings.

- During the reporting period HLG disposed of five investment properties for $11.5 million which was substantially in line with the carrying value disclosed in the 30 June 2008 annual report. One property is still being actively marketed for sale as at 31 December 2008.

- Following a review by the directors of the Manager of the carrying value of HLG's investment properties it was noted that the independent valuations on which the investment property valuations were based, were dated August and September 2008. This resulted in an average capitalization rate being adopted across the portfolio of 7.12% and a write down of approximately $80 million. Accordingly, the directors of the Manager are of the view that no further adjustments are required and that the fair value of investment property reflect market conditions at the end of the reporting period.

Net tangible assets per security:

	Current period	Previous corresponding period	**% of change from corresponding half year**
Net tangible assets (NTA) per security	A$1.00	A$3.43	Down 70.85%

HEDLEY LEISURE & GAMING PROPERTY FUND

Appendix 4D

Half-year report 31 December 2008

Details of any individual and total dividends or distribution payments:

Refer to Note 5: Distributions in the attached financial statements.

Details of Distribution Reinvestment Plan:

The Distribution Reinvestment Plan ("DRP") permits stapled security holders resident in Australia or New Zealand to reinvest distributions in stapled securities. Key features include:

- participation is optional, and can be varied or withdrawn as set out in the DRP;
- the ability to participate is in respect to all or only some of an investor's stapled securities;
- stapled securities are allocated at the market price as set out in the DRP, being the arithmetic average of the daily volume weighted average price of each stapled security sold between the 5th February and the 20th February 2009 (calculation period) on the market operated by the ASX;
- there is a 5% discount on the allocation of stapled securities for those security holders who elected to reinvest
- the record date for the distribution is 4 February 2009; and
- all stapled securities allocated under the DRP rank equally in every respect with the existing stapled securities and participate in all distributions subsequently declared or determined to be payable.

For a full copy of the DRP refer to HLG's webpage www.hlg.com.au

Audit status:

Independent auditor KMPG has completed a review of the half-year financial statements on which this Appendix is based. There is no review dispute or review qualification.

A copy of the HLG half-year report with KPMG's review conclusion is attached.