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ASX Announcement

Announcement No 04/09
The Manager
Australian Securities Exchange Limited
Corporate Announcement Office
Level 4, 20 Bridge St
Sydney NSW 2000

Hedley Leisure & Gaming Property Fund (ASX code: HLG)
Results for the Six Months ended 31 December 2008

Financial Summary & Highlights:

	December 2008 $000
Property Income	37,123
Other income	2,362
Total income	39,485
Property & other expenses	(3,599)
Management Expense	(1,594)
Borrowing costs	(29,421)
Profit from Operations as adjusted	4,871
Operating Cash flow	9,784
Profit/Loss after provisions	(174,000)
Total distribution	6,106
Interim Distribution per stapled security	4.00 cents
Total assets	1,080,304
Net debt (approx.)	742,000

- HLG owns (but does not operate) 89 Pubs/Hotels & 14 other properties, totalling **103** locations
- All pubs and bottle shops are leased to Operators with average lease term of **16.5** yrs
- All rent has been paid to HLG by the Operators in accordance with lease obligations
- Fixed rent increases of average 3.8% per annum or $1.4 million for the 6 months to 31 Dec 2008
- Rent increases averaging 3.8% PA will continue for the term of the leases
- Profit from Operations as adjusted of **$4.9 million** for the 6 months
- Interim Distribution of **4** cents per stapled security payable 3rd March, 2009
- The Interim Distribution is funded entirely from cash-flow
- The Interim Distribution is 100% tax deferred
- Completed all asset sales as foreshadowed at 30 June 2008 - realised $11.5 million for debt reduction. Total property assets held at 31 December 2008 of $1,053 million
- Total other assets of $27 million, reduced from $48 million at June 2008
- HLG's net debt of $742 million, reduced from $748 million at June 2008
- The bank Debt is due for renewal in August 2010
- HLG's bank interest remains fully hedged, giving HLG fixed income and expense streams
- HLG remains fully compliant with its banking covenants
- Capital management initiatives are ongoing
- As announced on 4th February 2009, in accordance with accounting standard AASB 139, HLG recognised a non-cash provision of $173 million for a mark-to-market decrease in the value of its Interest Rate Swap Agreements
- Made key executive appointment of Peter Armstrong as Chief Operating Officer in November, 2008 and on 22nd January, 2009 Peter Armstrong was appointed Chief Executive Officer
- Reaffirms guidance of a FY2009 full year distribution of 8 cents per stapled security. The foreshadowed FY2009 Final Distribution of 4 cents per stapled security is expected to be 100% tax deferred and payable in August, 2009
- Continues to implement the HLG strategy as outlined at the Annual general Meeting in November, 2008

1. Result for the six month period ending 31 December 2008

HLG today announced a Profit from Operations as adjusted of $4.9 million for the 6 months ended 31 December 2008 and confirmed the interim distribution of 4 cents per stapled security, 100% tax deferred payable 3rd March, 2009.

2. FY 2009 Interim Distribution

The Interim Distribution per stapled security of 4 cents will be paid on the 3rd of March 2009 to registered HLG stapled security holders as at 5 pm on 4 February 2009. The Interim Distribution is 100% Tax Deferred to eligible security holders.

3. Property Valuations

As at 30 June 2008, one third of HLG's properties were valued by Burgess Rawson and CBRE Richard Ellis resulting in an average capitalisation rate being adopted across the total portfolio of 6.96% and a write-down of property assets of approx. $80 million or a decrease of 8%.

The property valuations were received on 30 September 2008, therefore the directors are of an opinion that values are current and no further adjustments to value are required in regard to the 31st December accounts. Total property assets held at 31 December 2008 following divestments is $1,053 million.

4. Other Property & Business Issues

HLG owns 89 pubs/hotels and 14 speciality or similar related properties. The average lease term of the HLG portfolio is 16.5 years, reflecting that HLG has a secure and consistent income stream (rent as per lease obligations) through the ebbs and flows of the economic cycle.

HLG has average fixed year rent increases of 3.8% or $2.8 million per annum for F09 which have contributed to HLG's current weighted average capitalisation rate increasing to 7.08%.

HLG's redevelopment program with its major tenants is progressing, for example the redevelopment of a Liquor Superstore at the Boomerang Hotel in Mackay and several others are being advanced through planning, design etc stages.

HLG has completed the divestment of 1 hotel and 4 other properties (land & shops) resulting in debt reduction of $11.5 million. No acquisitions were undertaken during the period.

5. Risk & Capital Management

5.1 Non Cash Provision for Interest Rate Swap Agreements

As recently announced and as disclosed, prior to listing HLG hedged its bank interest liabilities and 10 year Swaps were entered into. As a result, the average interest rate payable by HLG over the Swaps term (before margin) is 7.4%.

HLG's Swaps currently stand at $760 million with a remaining term of 8.5 years, with HLG's current net debt being approximately $742 million. HLG in its FY2008 accounts adopted AASB 139 *Financial Instruments: Recognition and Measurement* resulting in a fair value adjustment to profit, by marking the Swaps to market, of +$20.6 million. Conversely as interest rates have fallen, and following AASB 139, the fair value adjustment results in a non-cash accounting provision of $173 million which has been recognised in the results for the six months ended 31 December 2008.

As at the date of this announcement the fair value adjustment stands at $167 million, a reduction of $6 million to the above provision. Provided the swaps are held to maturity, the provision of $173m in the accounts will be amortised over the remaining term of the swaps.

It is important to recognise that this fair value adjustment to the Swaps:

- is Non-Cash;
- does not in any way affect HLG's continuing compliance with its banking debt covenants (as they expressly exclude such adjustments);
- does not impede HLG's ability to pay the Distribution of 4 cents per stapled security for the half year ended 31st December, 2008; and
- has no effect on free cash flow, from which future distributions may be paid.

All negative fair value adjustments will be counterbalanced by a corresponding sum of positive fair value adjustments by the expiry of the Swaps, if the Swaps are held until expiry.

Impact on Net Assets

- The write down in the value of the Swaps has a negative impact on the Net Asset backing per stapled security of HLG.
- The impact on HLG's Net Assets (as at December 31, 2008) per security is a reduction from $2.19 to $1.05 per stapled security due to the accounting provision on the Swaps.

5.2 Variation of the Founder's Agreements relating to Share Issues

As recently announced and to improve the position of HLG security holders, due approval was granted to amend the requirement (as per the 1 June 2007 PDS) of the founder - TWH (Qld) Pty Ltd (the "**Founder**") - to reinvest distributions for up to 71% of the original Founder's securities under HLG's Distribution Reinvestment Plan "DRP".

Accordingly, the Founder will **<u>not</u>** be required to reinvest via the DRP for future distributions at the prevailing ASX pricing for HLG securities. This is because it would be unfavourable to security holders for the Founder to participate fully in the DRP, as it would:

1. Dilute the existing security holders returns;
2. Reduce the NTA of each security;
3. Reduce the ongoing income stream per security;
4. Increase the proportion of securities owned by the Founder;
5. Increase the proportion of the income earned by HLG being distributed to the Founder; and
6. Reduce HLG's ability to maintain a distribution at a reasonable level.

5.3 Debt Management

HLG's total debt facilities are $790 million which are drawn to a net debt position of $742 million. As outlined above HLG's bank interest is fully hedged and aligned to its cash-flow from lease obligations.

HLG is operating within all its banking covenants.

6. Outlook & Strategy

HLG will continue to monitor and advise the market should economic conditions develop that could have a material positive or negative effect to HLG. In this regard the following should be noted:

1. HLG's average lease term is 16.5 years
2. HLG tenants are meeting all their leasehold obligations (rent in full)
3. Fixed rent increases averaging 3.8% per annum are contained in each lease
4. Average pub capitalisation rate is currently 7.08%
5. Write-downs of 8% already taken to the FY08 accounts
6. Capital management initiatives and the property development program as outlined at the previous HLG AGM are progressing.

The financial outlook for the year ending 30 June 2009 remains unchanged.

On 18 February 2009 HLG received the resignation of Stephen Donnelly from the position of Chief Financial Officer (CFO). A search for a suitable replacement CFO has now commenced.

Colin Henson
Chairman
Hedley Leisure & Gaming Property Partners Limited