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ASX Announcement

The Manager
Australian Securities Exchange Limited
Corporate Announcement Office
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Hedley Leisure & Gaming Property Fund (ASX code: HLG)
announces its audited financial results
for the twelve months ended 30 June 2009

Hedley Leisure & Gaming Property Fund (**HLG**) comprising Hedley Leisure & Gaming Property Partners Limited (**Company**) and Hedley Leisure & Gaming Property Trust (**Trust**), has today reported its final audited financial results for the twelve months ended 30 June 2009.

1. Financial Summary & Highlights of Audited Financial Statements:

	2009 ($'000)	2008 ($'000)
Rent From Investment Property	79,724	73,113
Other Income (incl. SL Lease Adj)	27,899	37,337
Total Income	107,623	110,450
Finance Costs	58,796	58,138
Management Costs	3,159	3,025
Asset Impairment and Write Downs	185,786	97,305
Other Costs (incl. SL Lease Adj)	38,556	40,155
Total Costs	286,297	198,623
Net Profit / (Loss)	(178,674)	(88,173)
Underlying Profit from operations	8,213	9,153
Operating Cashflow	16,912	20,842
Total Distribution for Year	6,106	33,293
Interim Distribution per stapled security	4 cents	13 cents
Final Distribution per stapled security	nil	12 cents
LVR Ratio	76.4%	70.7%

Financial points include;

- Total revenue of $107 million.
- Operating cash flow of $16.9 million.
- Underlying profit from operations of $8.2 million.
- A net loss of $178.7 million, including non cash write downs of $93 million re Investment Property and Licences, and $86m re Interest Rate Swaps in accordance with AASB 139.
- Valuation of Investment Property resulted in a 8.3% write down to $962 million, reflecting an average capitalisation rate of 7.9% across the portfolio.
- Cash, Receivables and Securities of $19m at 30 June 2009.
- Loans and Borrowings of $741m at 30 June 2009.
- An Interim Distribution of 4 cents per security was paid from operating cash flow on 3 March 2009.
- A nil Final Distribution for FY2009 was declared.
- HLG's interest rate exposure remains fully hedged by a series of interest rate swaps, giving HLG fixed income and expense streams.

Other Key Points;

- Discussions with HLG's bank syndicate commenced in April 2009 for the extension of HLG's loan facilities beyond the current maturity date of August 2010. The key terms of the loan facility extension are being negotiated with the bank syndicate and documentation of the new loan agreements is expected to occur during the current half of FY2010.
- New loan agreements are expected to include higher interest rates, restrictions on distributions, a requirement for HLG to significantly reduce its loan balances over the next three years and waivers in respect of any existing loan breaches.
- HLG owns (but does not operate) 91 Pubs/Hotels and 13 other properties, totalling **104** locations.
- All pubs and bottle shops are leased to Operators with average lease term of **16** yrs.
- All rent and outgoings has been paid by the tenants in accordance with lease obligations except for an amount related to the Hedz Pty Ltd receivership (refer to point 7 below).
- Fixed rent increases averaging 3.8% per annum or approximately $3 million per annum. These Rent increases will continue for the term of the leases (average 16 years).
- During the year HLG divested 6 properties, which realised $13.2 million.
- Tom Hedley resigned as Chief Executive Officer of HLG and as a director of the Company.

- Peter Armstrong is Managing Director of the Company and Chief Executive Officer of HLG.
- Colin Henson, Chairman of the Company, was appointed Executive Chairman effective from 1 July 2009.
- David Charles joined HLG as Chief Financial Officer on 1 April 2009.
- The management and board of HLG continues to implement the HLG strategy as outlined at the Annual General Meeting in November 2008.

2. Audited Financial Results for the year ended 30 June 2009

The Underlying Operating Profit for the year ended 30 June 2009 was $8.2 million and cash-flow from operations of $16.9 million. After provisions for mark-to-market interest rate swaps and property write-downs the loss for the year was $178.7 million.

3. FY 2009 Distribution

An Interim Distribution of 4 cents per stapled security was paid (from cash-flow) to stapled security holders on 3 March 2009. The Interim Distribution was 100% Tax Deferred to eligible security holders. Directors declared a nil Final Distribution for the year ended 30 June 2009.

4. Property Valuations

As at 30 June 2009, one third of HLG's properties were valued by CBRE Richard Ellis. The process used by CBRE was adopted by HLG as a basis for Directors valuations of the two thirds of the properties owned by the Fund which were not subject to formal valuation. The valuations resulted in an average capitalisation rate being adopted across the total property portfolio of 7.9%, and a write-down of property assets of approx. $93 million or a decrease of 8.3% on 30 June 2008.

Excluding the Coles assets which are comparable to FY08 values, the balance of the HLG properties are valued at $490 million, a decrease of $100.3 million or 17% on FY08. Approximately $80 million of asset write-down was adopted in FY08.

5. Other Property & Business Issues

HLG owns 91 pubs/hotels and 13 speciality or similar related properties. The average lease term of the HLG portfolio is 16 years, reflecting that HLG has a secure and consistent income stream from the rent payable under the lease obligations.

HLG's redevelopment program with its major tenants is continuing, with a number of projects progressing through the planning, design and agreement for lease stages.

HLG has completed the divestment of 6 properties resulting in cash proceeds of $13.2 million primarily used to repay debt. One parcel of land was acquired during the year for $0.75m.

6. Risk & Capital Management

As previously announced, prior to ASX listing in August 2007, HLG hedged its bank interest expense by entering into 10 year Interest Rate Swaps, effectively locking in the interest rate HLG would pay and removing the risk of interest rates rising. As a result, the average interest rate paid by HLG over the year ended 30 June 2009 was 7.5% per annum.

HLG's Interest Rate Swap principal currently stands at $760 million with a remaining term of 8 years. This compares to HLG's current net debt of approximately $741 million. HLG has adopted AASB 139 *Financial Instruments: Recognition and Measurement* resulting in a non-cash fair value adjustment to the interest rate swap position of $86 million as at 30 June 2009. (2008 $20.6 million positive).

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 at 30 June 2009 is a reduction from $1.38 to $0.84 per stapled security.

7. Debt Management

Extension of Loan Facilities

Discussions with HLG's bank syndicate commenced in April 2009 for the extension of HLG's loan facilities beyond the current maturity of August 2010, until October 2012. The key terms of the loan facility extension are being negotiated and documentation of the new loan agreements is commencing. That documentation will include a waiver of the breach events referred to below.

It is expected that finalisation of the new loan agreements will occur during the current half of FY 2010, and an appropriate announcement will be made at that time. The extension of the loan facility should provide security holders and potential investors greater certainty about the future viability of HLG. The new loan agreements will include higher interest rates, restrictions on distributions and a requirement for HLG to significantly reduce its loan balances over the next three years. A further note in regard to these negotiations is included in the financial statements under Note 1 (c) (ii).

Breach of Existing Loan Covenants

At 30 June 2009 HLG had a Loan to Value (LVR) ratio of 76.4% as a result of the write downs in property values. This is a breach of the LVR covenant of 75% in HLG's loan agreements with its bank syndicate. On 1 July 2009 administrators and receivers were appointed to Hedz Pty Ltd, a major tenant of HLG and this also constituted a breach of certain provisions of HLG's loan agreements with its bank syndicate.

These breach events each give the bank syndicate the right to require immediate repayment of the entire outstanding debt (including interest rate swap liabilities), and accordingly HLG has classified the entire loan balance outstanding as a current liability.

The audited financial statements of HLG have been prepared on a going concern basis but it must be recognised that HLG depends on the continuing support of its bank syndicate. At the time of this announcement the breaches of HLG's loan agreements referred to above have not been waived by the bank syndicate, which has reserved its rights. However the bank syndicate has not given any indication that it will enforce its rights.

As Manager of HLG, HLG Services Pty Ltd is confident that it is taking all appropriate measures and that it has the support of its bank syndicate as referenced above. Final documentation and completion of the new loan documents has however not yet occurred.

8. Liquor and gaming licences valuation

HLG advised in its ASX announcement of 1 September 2009 that the Fund's final report for the financial year ended 30 June 2009 had not been finalised, and as a consequence the Fund did not lodge an Appendix 4E by 31 August 2009. The Fund also advised that one of the significant issues which delayed the finalisation of the full year results was an ASIC proposal that HLG adopt a revised accounting policy for liquor and gaming licences.

HLG has now adopted a new accounting policy and liquor and gaming licences are now recognised separately from investment properties as intangible assets and measured at cost. The impact of this change is detailed in note 1 (c) (vi) of the financial statements.

Background

In mid August 2009 HLG received a proposal from ASIC that HLG adopt a revised accounting policy for liquor and gaming licences.

HLG has previously adopted AASB 140 in accounting for the Liquor and Gaming Licences as part of Investment Property. HLG used the example referred to in AASB 140 of a Fully Furnished Apartment where the rent paid by the tenant was for the property and the furnishings, and thus the furniture etc was not required to be separated from the Property.

However, ASIC maintains that the Licences are separately identifiable and valuable, and hence should be accounted for separately under AASB 138. ASIC also advised that in its opinion there is no "active market" for Licences as defined in AASB 138, and as such proposed that the Licences be carried at cost.

Assignment of Value to Licences

HLG sought and gained advice from specialists Ernst & Young regarding possible methodologies for assigning values to the licences at time of acquisition and at subsequent reporting dates, ensuring the methodology adopted complied with all relevant accounting standards.

Liquor and gaming licences are now recognised separately from investment properties as intangible assets and measured at cost. Liquor and gaming licences have been assessed as having indefinite useful lives and are not amortised but are tested for impairment each reporting period. Previously liquor and gaming licences were included in investment properties and measured using the fair value model, with all gains and losses arising from changes in fair values of the investment property recognised in the income period in which they arose. The change in accounting policy recognises the different risks attached to intangible assets and investment property. This change in accounting policy has been recognised retrospectively and comparatives have been restated in the accounts.

This is an accounting adjustment and does not affect the real value of HLG's investment properties.

9. Matters occurred since 30 June 2009

Receivership/Administration of Hedz hotels

On 1 July 2009, administrators and receivers were appointed to 10 hotels operated by Hedz Pty Ltd, a major tenant of HLG. Hedz Pty Ltd is a private company forming part of the Tom Hedley private group of companies, a number of which also had administrators and receivers appointed. The Tom Hedley private group has no association with HLG other than the group holds a substantial interest in HLG's stapled securities, is party to a development deed with HLG, and Hedz Pty Ltd operates 12 pubs under lease from HLG. The receivers/administrators of Hedz Pty Ltd are operating the 10 hotels and associated retail outlets and are paying rent to HLG in accordance with the leases. This rent equates to approximately 10% of HLG's total rent receivable. At present $300,000 of unpaid lease outgoings is owed by Hedz Pty Ltd for the period prior to the appointment of the receivers to Hedz Pty Ltd, however HLG expects to recover the arrears by the end of October 2009. This amount was fully provided for in the FY2009 financial statements.

Establishment of Internal Management

HLG announced on 27 July 2009 the establishment of internal management within the Fund. Management services were previously provided by an external management company controlled by Tom Hedley. As a result of establishing internal management, HLG will achieve an estimated cost saving of $2.7 million for the financial year ended 30 June 2010 and $22 million of cost savings over the life (ie 8 years) of the previous management agreement.

Cessation of use of the Hedley name

As recently announced, HLG will cease to use the Hedley name shortly after the Annual General Meeting (AGM) in November 2009. HLG plans to recommend to stapled security holders at the AGM that the company change its name to Redcape Property Fund Limited. The Fund will change its name to The Redcape Property Fund, and in preparation for this HLG has reserved that company name and domain name.

Other Matters

To assist in the delivery of the HLG plan, Colin Henson was appointed Executive Chairman of HLG effective 1 July 2009. In this position Mr. Henson will work as part of the HLG management team to restore value in the interests of stapled security holders.

Peter Armstrong, the Chief Operating Officer since November 2008, was appointed Managing Director of the Company and Chief Executive Officer of HLG.

David Charles joined HLG as Chief Financial Officer on 1 April 2009.

10. 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:

- HLG's average lease term is 16 years.
- HLG tenants are meeting all their leasehold obligations including the administrators and receivers of Hedz Pty Ltd.
- Fixed rent increases averaging 3.8% per annum are contained in each lease.
- Average pub capitalisation rate is currently 7.9%.
- Write-downs of 8.3 % taken to the FY09 accounts.

HLG will now apply to the ASX to lift the trading suspension in the Fund's securities.

Colin Henson
Executive Chairman
Hedley Leisure & Gaming Property Partners Limited