

## Appendix 4D

### Half-year Report Six Months Ended 31 December 2010

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'):   |
| ✓                  |                          | <b>31 December 2010</b><br>(previous corresponding period 31 December 2009) |

#### Results for announcement to the market

|  | <b>6 months to<br/>31 December<br/>2010</b> | 6 months to<br>31 December<br>2009 | Variance % |
|--|---|------------------------------------|------------|
|  | <b>A\$'000</b>                              | A\$'000                            |            |
| Revenue  | <b>62,479</b>                               | 42,316                             | 147.6%     |
| Profit from ordinary activities after income tax, attributable to security holders                       | <b>39,835</b>                               | 10,249                             | 388.7%     |
| Profit before income tax, fair value adjustments, amortisation of prepaid costs and other non-cash items | <b>15,806</b>                               | 18,131                             | (12.8%)    |
| Total available for distribution   | <b>15,806</b>                               | 18,131                             | (12.8%)    |
| Distribution payable for the half-year   | <b>15,550</b>                               | 18,182                             | (14.4%)    |
| Available and undistributed/(over distributed) at the half-year  | <b>256</b>                                  | (51)                               | -          |

#### Dividends (distributions)

|  | <b>6 months to<br/>31 December<br/>2010</b> | 6 months to<br>31 December<br>2009 | Variance % |
|--|---|------------------------------------|------------|
|  | <b>Cents</b>                                | Cents                              |            |
| December half-year interim distribution                      | <b>10.00</b>                                | 12.00                              | (16.7%)    |
| Franked amount per share                                     | <b>0.00</b>                                 | 0.00                               | -          |
| Record date for determining entitlements to the distribution | <b>31 December 2010</b>                     |                                    |            |

### Net tangible assets per security

|  | 6 months to<br>31 December<br>2010 | 6 months to<br>31 December<br>2009 | Variance % |
|--|------------------------------------|------------------------------------|------------|
| Net tangible assets per security                             | <b>\$2.26</b>                      | \$2.39                             | (5.4%)     |
| Net assets per security, excluding fair value of derivatives | <b>\$2.21</b>                      | \$2.27                             | (2.6%)     |

### Explanation of results

#### Brief explanation of results

- Revenue has increased by 147.6% due to:
  - Increase in property portfolio value by \$21.8 million flowing from November 2010 annual rent review increase of 2.95%;
  - Increase in mark to market values for derivatives of \$12.1 million;
  - Discounts received on debt buybacks during the period of \$0.3 million;
  - Weighted average portfolio gross rent reviews (exclusive of Queensland land tax) increases of 2.95% in November 2010 and 1.16% in November 2009, which have been offset by property disposals during the prior period;
  - Higher interest received due to higher cash balances and higher average bank deposit rates during six months to December 2010. All surplus funds have been placed on term deposit throughout the six month period.
- Profit after income tax has increased by 389% due to a significant reversal of the prior year losses in the fair value of derivatives and higher fair value adjustments to property values.
- The distribution of 10.00 cents per security represents a small under distribution of distributable free cash flow. The distribution will be fully funded from free cash flow.

### Reconciliation of profit after tax to amounts available for distribution

|   | A\$'000       |
|---|---------------|
| Profit after income tax for half-year                   | 39,835        |
| Plus / (Less)   |               |
| Profit on sale of investment properties                 | -             |
| Fair value increment to investment properties           | (21,773)      |
| Fair value increment to derivatives                     | (12,131)      |
| Employee security based payments                        | 65            |
| Finance costs – non cash                                | 8,540         |
| Income tax expense                                      | 1,270         |
| <b>Total available for distribution</b>                 | <b>15,806</b> |
| Distribution payable                                    | 15,550        |
| <b>Available and under distributed at the half-year</b> | <b>256</b>    |

### **Record date for determining distribution entitlement**

|  |                  |
|--|------------------|
| Record date for distribution entitlement | 31 December 2010 |
| Interim distribution will be paid        | 28 February 2011 |

### **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 2010 Half-Year Financial Report with KPMG review opinion is attached.



**Half-Year Report 31 December 2010**

## **ALE Property Group (ALE)**

**Comprising Australian Leisure and Entertainment Property Trust and its controlled entities**

**ABN 92 648 441 429**

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# ALE Property Group

Half-Year Report for period ended 31 December 2010

## 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 2010.

### 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        |
|-------------------------------------|---------------------------|------------------|
| P H Warne (Chairman)                | Independent non-executive | 8 September 2003 |
| J P Henderson                       | Independent non-executive | 19 August 2003   |
| H I Wright                          | Independent non-executive | 8 September 2003 |
| A F O Wilkinson (Managing Director) | Executive                 | 16 November 2004 |
| J T McNally                         | Executive                 | 26 June 2003     |

### 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 these activities during the half-year.

### Significant changes in the state of affairs

In the opinion of the directors, no significant changes in the state of affairs of ALE occurred during the half-year.

### Matters subsequent to the end of the financial half-year

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.

### 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 security holders.

Disclosed in the financial statements are current borrowings for CMBS and ALE Notes as they mature in May and September this year. Management are currently in the process of detailed discussions with institutions in order to refinance this debt on or prior to maturity.

In accordance with the leases of its investment properties, ALE will receive increases in rental income in line with increases in the consumer price index. The directors are not aware of any other future developments likely to significantly affect the operations and/or results of ALE.

### Distributions and dividends

ALE has announced a policy of only paying distributions from free cash flow. The distribution for the half-year ended 31 December 2010 represents 98.38% of ALE's forecast free cash flow for the period.

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

|   | 31 December<br>2010<br>cents | 31 December<br>2009<br>cents | 31 December<br>2010<br>\$'000 | 31 December<br>2009<br>\$'000 |
|---|------------------------------|------------------------------|-------------------------------|-------------------------------|
| Interim Trust income distribution for the year ending 30 June 2011 to be paid on 28 February 2011 | 10.00                        | 12.00                        | 15,550                        | 18,182                        |
| <b>Interim Trust distribution</b>   | <b>10.00</b>                 | <b>12.00</b>                 | <b>15,550</b>                 | <b>18,182</b>                 |

No provisions for or payments of Company dividends have been made during the half-year (2009: nil).

# ALE Property Group

Half-Year Report for period ended 31 December 2010

## DIRECTORS' REPORT (continued)

### Review and results of operations

ALE recorded a profit of \$39.8 million for the half-year ended 31 December 2010. (31 December 2009: \$10.2 million profit).

The table below separates the cash components of profit/(loss) that are available for distribution from the non-cash components of profit/(loss). The directors believe this will assist stapled security holders in understanding the results of operations and distributions of ALE.

|  | <b>31 December<br/>2010<br/>\$'000</b> | <b>31 December<br/>2009<br/>\$'000</b> |
|--|--|--|
| <b>Profit / (Loss) after income tax for the half-year</b>              | <b>39,835</b>                          | <b>10,249</b>                          |
| <b>Plus /(Less): Adjustments for non-cash items</b>                    |  |  |
| Profit on sale of investment properties                                | -                                      | (1,081)                                |
| Fair value (increments)/decrements to investment properties            | (21,773)                               | (8,700)                                |
| Fair value (increments)/decrements to derivatives                      | (12,131)                               | 10,361                                 |
| Employee security based payments                                       | 65                                     | 65                                     |
| Finance costs - non-cash   | 8,540                                  | 5,843                                  |
| Income tax expense/(benefit)   | 1,270                                  | 1,394                                  |
| <b>Total adjustments for non-cash items</b>                            | <b>(24,029)</b>                        | <b>7,882</b>                           |
| <b>Profit after income tax adjusted for non-cash items</b>             | <b>15,806</b>                          | <b>18,131</b>                          |
| <b>Total available for distribution</b>                                | <b>15,806</b>                          | <b>18,131</b>                          |
| Distribution paid or provided for                                      | 15,550                                 | 18,182                                 |
| <b>Available and undistributed/(over distributed) at the half-year</b> | <b>256</b>                             | <b>(51)</b>                            |
|  | <b>Percentage<br/>Movement</b>         | <b>31 December<br/>2010<br/>Cents</b>  |
|  | <b>Note</b>                            | <b>31 December<br/>2009<br/>Cents</b>  |
| <b>Earnings and distribution per stapled security:</b>                 |  |  |
| Earnings available for distribution per security                       | 7(c) (15.1%)                           | <u>10.16</u> <u>11.97</u>              |
| Distribution per security  | 7(d) (16.7%)                           | <u>10.00</u> <u>12.00</u>              |

### Summary of financial highlights for the December 2010 half-year:

Profit before income tax increased by 288% compared to December 2009 half-year.

Earnings available for distribution before fair value and other non-cash adjustments decreased by 16.7% compared to the December 2009 half-year.

Distribution per stapled security decreased from 12.00 cents to 10.00 cents compared to the December 2009 half-year.

Investment property revaluations increased the portfolio value by 3.0% compared to June 2010 due to the CPI indexed rental increase. There was no movement in capitalisation rates during the period.

Gearing (net borrowings to total assets) decreased slightly to 50.9%. All borrowing facilities continue to operate well within loan covenant limits.

**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 4.

**Environmental regulation**

Whilst 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 responsibility and compliance with the various licence requirements and regulations. Further, the directors are not aware of any material breaches of these requirements. At three properties ongoing testing and monitoring is being undertaken and minor remediation work is required, however, ALE is indemnified by third parties against any remediation amounts likely to be required.

**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 2011





***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 2010 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

Nigel Virgo  
*Partner*

Sydney

16<sup>th</sup> February 2011

**ALE Property Group**

Half-Year Report for period ended 31 December 2010

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

|   | Note | 31 December<br>2010<br>\$'000 | 31 December<br>2009<br>\$'000 |
|---|------|-------------------------------|-------------------------------|
| <b>Revenue</b>  |      |                               |                               |
| Rent from investment properties                                   |      | 24,893                        | 27,383                        |
| Profit on sale of investment properties                           |      | -                             | 1,081                         |
| Interest from cash deposits                                       |      | 3,429                         | 2,239                         |
| <b>Total revenue</b>  |      | <b>28,322</b>                 | <b>30,703</b>                 |
| <b>Other income</b>   |      |                               |                               |
| Fair value increments to investment properties                    | 9    | 21,773                        | 8,700                         |
| Fair value increments to derivatives                              | 4    | 12,131                        | -                             |
| Discounts on debt buybacks  |      | 253                           | 2,913                         |
| <b>Total other income</b>   |      | <b>34,157</b>                 | <b>11,613</b>                 |
| <b>Total income</b>   |      | <b>62,479</b>                 | <b>42,316</b>                 |
| <b>Expenses</b>   |      |                               |                               |
| Fair value decrements to derivatives                              | 4    | -                             | 10,361                        |
| Loss on termination of CPI hedging                                |      | -                             | 2,025                         |
| Finance costs - cash  | 5    | 9,579                         | 9,319                         |
| Finance costs - non-cash  | 5    | 8,540                         | 5,843                         |
| Queensland land tax expense                                       |      | 1,261                         | 1,429                         |
| Other expenses  |      | 1,994                         | 1,696                         |
| <b>Total expenses</b>   |      | <b>21,374</b>                 | <b>30,673</b>                 |
| <b>Profit/(Loss) before income tax</b>                            |      | <b>41,105</b>                 | <b>11,643</b>                 |
| Income tax expense/(benefit)                                      |      | 1,270                         | 1,394                         |
| <b>Profit/(Loss) after income tax</b>                             |      | <b>39,835</b>                 | <b>10,249</b>                 |
| <b>Other comprehensive income</b>                                 |      | -                             | -                             |
| <b>Other comprehensive income for the period after income tax</b> |      | -                             | -                             |
| <b>Total comprehensive income for the period</b>                  |      | <b>39,835</b>                 | <b>10,249</b>                 |
| <b>Profit attributable to:</b>                                    |      |                               |                               |
| Members of ALE  |      | 39,835                        | 10,249                        |
| Minority interest   |      | -                             | -                             |
| <b>Profit for the period</b>                                      |      | <b>39,835</b>                 | <b>10,249</b>                 |
| <b>Total comprehensive income attributable to:</b>                |      |                               |                               |
| Members of ALE  |      | 39,835                        | 10,249                        |
| Minority interest   |      | -                             | -                             |
| <b>Total comprehensive income for the period</b>                  |      | <b>39,835</b>                 | <b>10,249</b>                 |
|   |      | <b>Cents</b>                  | <b>Cents</b>                  |
| Basic and diluted earnings/(losses) per stapled security          | 7(a) | 25.74                         | 7.82                          |
| Distribution per stapled security for the half-year               | 7(d) | 10.00                         | 12.00                         |

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

**ALE Property Group**

Half-Year Report for period ended 31 December 2010

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

|                                      | Note | 31 December<br>2010<br>\$'000 | 30 June<br>2010<br>\$'000 |
|--------------------------------------|------|-------------------------------|---------------------------|
| <b>Current assets</b>                |      |                               |                           |
| Cash and cash equivalents            | 8    | 119,028                       | 132,062                   |
| Receivables                          |      | 11,258                        | 17,807                    |
| Other                                |      | 2,742                         | 863                       |
| <b>Total current assets</b>          |      | <b>133,028</b>                | <b>150,732</b>            |
| <b>Non-current assets</b>            |      |                               |                           |
| Investment properties                | 9    | 735,623                       | 713,850                   |
| Derivatives                          | 6    | 13,108                        | 21,190                    |
| Plant and equipment                  |      | 59                            | 40                        |
| Deferred tax asset                   |      | 963                           | 2,233                     |
| <b>Total non-current assets</b>      |      | <b>749,753</b>                | <b>737,313</b>            |
| <b>Total assets</b>                  |      | <b>882,781</b>                | <b>888,045</b>            |
| <b>Current liabilities</b>           |      |                               |                           |
| Payables                             |      | 5,692                         | 6,708                     |
| Borrowings                           | 10   | 224,651                       | 158,185                   |
| Provisions                           |      | 15,575                        | 18,412                    |
| <b>Total current liabilities</b>     |      | <b>245,918</b>                | <b>183,305</b>            |
| <b>Non-current liabilities</b>       |      |                               |                           |
| Borrowings                           | 10   | 280,340                       | 356,610                   |
| Derivatives                          | 6    | 5,323                         | 25,537                    |
| Deferred tax liability               |      | -                             | -                         |
| <b>Total non-current liabilities</b> |      | <b>285,663</b>                | <b>382,147</b>            |
| <b>Total liabilities</b>             |      | <b>531,581</b>                | <b>565,452</b>            |
| <b>Net assets</b>                    |      | <b>351,200</b>                | <b>322,593</b>            |
| <b>Equity</b>                        |      |                               |                           |
| Contributed equity                   | 11   | 174,119                       | 169,838                   |
| Retained profits                     | 12   | 176,863                       | 152,572                   |
| Reserve                              |      | 218                           | 183                       |
| <b>Total equity</b>                  |      | <b>351,200</b>                | <b>322,593</b>            |

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

**ALE Property Group**

Half-Year Report for period ended 31 December 2010

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

|   | Share<br>Capital<br>\$'000 | Share<br>based<br>payments<br>reserve<br>\$'000 | Retained<br>Earnings<br>\$'000 | Total<br>\$'000 |
|---|----------------------------|---|--------------------------------|-----------------|
| <b>2010</b>   |                            |   |                                |                 |
| <b>Total equity at the beginning of the half-year</b> | <b>169,838</b>             | <b>183</b>                                      | <b>152,572</b>                 | <b>322,593</b>  |
| Profit/(Loss) for the half-year                       | -                          | -   | 39,835                         | 39,835          |
| Employee security based payments                      | -                          | 65  | -                              | 65              |
| Vesting of performance rights                         | 24                         | (30)  | 6                              | -               |
| Securities issued - dividend reinvestment plan        | 4,257                      | -   | -                              | 4,257           |
| Distribution paid or payable                          | -                          | -   | (15,550)                       | (15,550)        |
| <b>Total equity at the end of the half-year</b>       | <b>174,119</b>             | <b>218</b>                                      | <b>176,863</b>                 | <b>351,200</b>  |
| <b>2009</b>   |                            |   |                                |                 |
| <b>Total equity at the beginning of the half-year</b> | <b>64,761</b>              | <b>84</b>                                       | <b>204,677</b>                 | <b>269,522</b>  |
| Profit/(Loss) for the half-year                       | -                          | -   | 10,249                         | 10,249          |
| Employee security based payments                      | -                          | 65  | -                              | 65              |
| Vesting of performance rights                         | 25                         | (27)  | 2                              | -               |
| Securities issued - institutional placement           | 29,596                     | -   | -                              | 29,596          |
| Securities issued - rights issue                      | 75,634                     | -   | -                              | 75,634          |
| Securities issued - dividend reinvestment plan        | 566                        | -   | -                              | 566             |
| Institutional placement and rights issue costs        | (4,814)                    | -   | -                              | (4,814)         |
| Distribution paid or payable                          | -                          | -   | (18,182)                       | (18,182)        |
| <b>Total equity at the end of the half-year</b>       | <b>165,768</b>             | <b>122</b>                                      | <b>196,746</b>                 | <b>362,636</b>  |

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

**RECONCILIATION OF DISTRIBUTIONS TO STAPLED SECURITY HOLDERS**

|  | 31 December<br>2010<br>\$'000 | 31 December<br>2009<br>\$'000 |
|--|-------------------------------|-------------------------------|
| <b>Profit attributable to the stapled security holders of ALE</b>      | <b>39,835</b>                 | <b>10,249</b>                 |
| <b>Adjustments for non-cash items</b>                                  | <b>7</b>                      | <b>(24,029)</b>               |
| <b>Profit after income tax adjusted for non-cash items</b>             | <b>15,806</b>                 | <b>18,131</b>                 |
| <b>Total available for distribution</b>                                | <b>15,806</b>                 | <b>18,131</b>                 |
| Distribution paid or provided for                                      | 15,550                        | 18,182                        |
| <b>Available and undistributed/(over distributed) at the half-year</b> | <b>256</b>                    | <b>(51)</b>                   |

Basic and diluted earnings per stapled security before fair value, income tax and other amounts is disclosed in Note 7 of this financial report.

**ALE Property Group**

Half-Year Report for period ended 31 December 2010

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

|  |          | 31 December<br>2010<br>\$'000 | 31 December<br>2009<br>\$'000 |
|--|----------|-------------------------------|-------------------------------|
|  | Note     |                               |                               |
| <b>Cash flows from operating activities</b>                      |          |                               |                               |
| Receipts from tenant and others                                  |          | 24,921                        | 27,439                        |
| Payments to suppliers and employees                              |          | (4,827)                       | (6,785)                       |
| Interest received  |          | 4,038                         | 1,730                         |
| Borrowing costs paid   |          | (11,142)                      | (9,654)                       |
| <b>Net cash inflow from operating activities</b>                 | <b>8</b> | <b>12,990</b>                 | <b>12,730</b>                 |
| <b>Cash flows from investing activities</b>                      |          |                               |                               |
| Proceeds from disposal of properties                             |          | 6,250                         | 63,663                        |
| Payments for plant and equipment                                 |          | (37)                          | -                             |
| <b>Net cash inflow/(outflow) from investing activities</b>       |          | <b>6,213</b>                  | <b>63,663</b>                 |
| <b>Cash flows from financing activities</b>                      |          |                               |                               |
| Repayment of borrowings  |          | (18,091)                      | (59,286)                      |
| CPI hedge indexation payment                                     |          | -                             | (4,691)                       |
| CPI hedge fair value termination payment                         |          | -                             | (5,760)                       |
| Proceeds from securities issued (net of costs)                   |          | -                             | 100,416                       |
| Distributions paid   |          | (14,146)                      | (12,587)                      |
| <b>Net cash inflow/(outflow) from financing activities</b>       |          | <b>(32,237)</b>               | <b>18,092</b>                 |
| <b>Net increase/(decrease) in cash and cash equivalents held</b> |          | <b>(13,034)</b>               | <b>94,485</b>                 |
| Cash and cash equivalents at the beginning of the half-year      |          | 132,062                       | 35,905                        |
| <b>Cash and cash equivalents at the end of the half-year</b>     | <b>8</b> | <b>119,028</b>                | <b>130,390</b>                |

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes.*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****Note 1 Statement of Compliance**

This general purpose financial report for the interim half-year reporting period ended 31 December 2010 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 2010 and any public announcements made by ALE during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

**Note 2 Significant accounting policies**

Except as described below, the accounting policies applied by ALE in this consolidated interim financial report are the same as those applied by ALE in its consolidated financial report as at and for the year ended 30 June 2010.

*AASB 101 Presentation of Financial Statements*

From 1 July 2010 the Group has applied amendments to *AASB 101 Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards* arising from the Annual improvements Project. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively however no items require further disclosure in comprehensive income.

The Company 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.

**Note 3 Estimates**

The preparation of interim 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.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2010.

|  | <b>31 December<br/>2010<br/>\$'000</b> | <b>31 December<br/>2009<br/>\$'000</b> |
|--|--|--|
|--|--|--|

**Note 4 Fair value adjustments to derivatives**

|  |                      |                        |
|--|----------------------|------------------------|
| Interest rate swaps fair value net gain/(loss)               | (3,075)              | (5,748)                |
| CPI hedge fair value net gain/(loss)                         | 15,206               | (2,121)                |
| CPI hedge realised fair value net gain/(loss) for the period | -                    | (2,492)                |
|  | <b><u>12,131</u></b> | <b><u>(10,361)</u></b> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|               |   | <b>31 December<br/>2010<br/>\$'000</b> | <b>31 December<br/>2009<br/>\$'000</b> |
|---------------|---|--|--|
| <b>Note 5</b> | <b>Finance costs</b>  |  |  |
|               | <b>Finance costs - cash</b>   |  |  |
|               | Capital Indexed Bonds (CIB)   | 2,170                                  | 2,367                                  |
|               | Commercial Mortgage Backed Securities (CMBS)                            | 1,305                                  | 2,970                                  |
|               | ALE Notes   | 480                                    | 2,431                                  |
|               | ALE Notes 2   | 5,514                                  | -                                      |
|               | National Australia Bank Facility (NAB)                                  | -                                      | 1,439                                  |
|               | Other expenses  | 110                                    | 112                                    |
|               | (a)   | <u><b>9,579</b></u>                    | <u><b>9,319</b></u>                    |
|               | <b>Finance costs - non-cash</b>   |  |  |
|               | CIB - accumulating indexation   | 1,871                                  | 797                                    |
|               | CPI Hedge - CMBS borrowings - accumulating indexation                   | 3,901                                  | 1,469                                  |
|               | CPI Hedge - ALE Notes/NAB Facility borrowings - accumulating indexation | 1,205                                  | 2,269                                  |
|               | Amortised costs - CMBS & CIB  | 123                                    | 128                                    |
|               | Amortised costs - NAB facility  | -                                      | 54                                     |
|               | Amortised costs - CPI Hedges  | 17                                     | 2                                      |
|               | Amortised costs - ALE Notes   | 928                                    | 852                                    |
|               | Amortised costs - ALE Notes 2   | 336                                    | -                                      |
|               | Amortised costs - ALE Notes premium                                     | 159                                    | 272                                    |
|               | (a)   | <u><b>8,540</b></u>                    | <u><b>5,843</b></u>                    |
|               | <b>Finance costs (cash and non-cash)</b>                                | <u><b>18,119</b></u>                   | <u><b>15,162</b></u>                   |

- (a) The above amounts represent net cash finance costs after derivative payments and receipts.
- (b) Other borrowing costs such as rating agency fees and liquidity fees.
- (c) Establishment costs of the various borrowings are amortised over the period of the borrowing on an effective rate basis.
- (d) Premium of \$3.750 million payable on maturity of ALE Notes is accruing over the period of November 2003 to September 2011 on an effective rate basis.
- (e) The finance costs in respect of the CIB comprise the interest coupon payable at 3.4% and the accumulated indexation payable on maturity based on the actual consumer price indexes relevant to the reporting period.
- (f) During the prior period part of a CPI hedge was terminated. Refer Note 10 for further details.

In reconciling profit after tax to amounts available for distribution to stapled security holders, the non-cash finance costs have been added back thereby recognising that their non-cash nature increases the amounts available for distribution. (Note 7 contains further information)

|                                | <b>31 December<br/>2010<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
|--------------------------------|--|------------------------------------|
| <b>Note 6</b>                  |  |                                    |
| <b>Derivatives</b>             |  |                                    |
| Asset                          | 13,108                                 | 21,190                             |
| (Liability)                    | (5,323)                                | (25,537)                           |
| <b>Net asset / (liability)</b> | <u><b>7,785</b></u>                    | <u><b>(4,347)</b></u>              |

During the period the net value of ALE's derivatives increased by \$12.132 million.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**Note 6 Derivatives (continued)**
**Instruments used by the Group**

ALE uses derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and the consumer price index in accordance with the ALE's financial risk management policies. As at the balance date ALE, has hedged all non CIB borrowings through the use of CPI Hedges. In addition to CPI Hedges, interest rates on certain floating rate borrowings had previously been subject to interest rate swaps. Following the implementation of the CPI Hedges the interest rate swaps were no longer required and have been counter swapped. Interest rate swaps and CPI Hedges are carried on the statement of financial position at fair value. Changes in the mark to market fair value of these derivatives are recognised in the statement of comprehensive income.

Further information concerning derivatives is disclosed in Note 10.

**Note 7 Distributions**

Reconciliation of profit/(loss) after tax to amounts available for distribution:

|  |     | <b>31 December<br/>2010<br/>\$'000</b>                   | <b>31 December<br/>2009<br/>\$'000</b>                   |
|--|-----|--|--|
| <b>Profit after income tax for the half-year</b>   | (a) | <b>39,835</b>  | <b>10,249</b>  |
| <b>Plus / (Less)</b>   |     |  |  |
| Profit on sale of investment properties  |     | -  | (1,081)  |
| Fair value (increments)/decrements to investment properties  |     | (21,773)   | (8,700)  |
| Fair value (increments)/decrements to derivatives  |     | (12,131)   | 10,361   |
| Employee security based payments   |     | 65   | 65   |
| Finance costs - non-cash   |     | 8,540  | 5,843  |
| Income tax expense/(benefit)   |     | 1,270  | 1,394  |
| <b>Adjustments for non-cash items</b>  |     | <b>(24,029)</b>  | <b>7,882</b>   |
| <b>Total available for distribution</b>  | (c) | <b>15,806</b>  | <b>18,131</b>  |
| Distribution paid or provided for  | (d) | 15,550   | 18,182   |
| <b>Available and undistributed/(over distributed) at the half-year</b>   | (e) | <b>256</b>   | <b>(51)</b>  |
|  |     | <b>Number of<br/>Stapled<br/>Securities On<br/>Issue</b> | <b>Number of<br/>Stapled<br/>Securities On<br/>Issue</b> |
| Weighted average number of stapled securities used as the denominator in calculating earnings per stapled security at (a) and (b) below.               |     | 154,767,784  | 131,093,545  |
| Stapled securities on issue at the end of the half-year used in calculating distribution per stapled security at (c) and (d) below.                    |     | 155,495,311  | 151,529,561  |
|  |     | <b>31 December<br/>2010<br/>Cents</b>                    | <b>31 December<br/>2009<br/>Cents</b>                    |
| (a) Basic and diluted earnings per stapled security  |     | 25.74  | 7.82   |
| (b) Basic and diluted earnings per stapled security before fair value adjustments, non-cash finance costs and non-cash amortisation of borrowing costs |     | 10.21  | 13.83  |
| (c) Total available for distribution   |     | 10.16  | 11.97  |
| (d) Distribution per stapled security  |     | 10.00  | 12.00  |
| (e) Available and undistributed/(over distributed) at the half-year  |     | 0.16   | (0.03)   |



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|  | <b>31 December<br/>2010<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
|--|--|------------------------------------|
| <b>Note 8 Cash assets and cash equivalents</b> |  |                                    |
| Cash at bank and in hand                       | 1,523                                  | 3,494                              |
| Deposits at call                               | 112,005                                | 123,068                            |
| Cash reserve                                   | 5,500                                  | 5,500                              |
|  | <b>119,028</b>                         | <b>132,062</b>                     |

An amount of \$5.5 million is required to be held as a cash reserve as part of the terms of the CMBS and CIB issues in order to provide liquidity for CMBS and CIB obligations to scheduled maturities of 20 May 2011 and 20 November 2023 respectively.

|  | <b>31 December<br/>2010<br/>\$'000</b> | <b>31 December<br/>2009<br/>\$'000</b> |
|--|--|--|
| <u>Reconciliation of profit after income tax to net cash inflows from operating activities</u> |  |  |
| Profit for the half-year   | 39,835                                 | 10,249                                 |
| Fair value (gains)/losses to investment property   | (21,773)                               | (8,700)                                |
| Fair value (gains)/losses to derivative financial instruments                                  | (12,132)                               | 10,361                                 |
| Profit on disposal of investment property  | -                                      | (1,081)                                |
| Discounts on debt buybacks   | (253)                                  | (2,913)                                |
| Finance costs - amortisation   | 1,563                                  | 1,308                                  |
| Finance costs - accumulating indexation  | 6,977                                  | 4,535                                  |
| Stapled security based payments expense  | 65                                     | 65                                     |
| Depreciation   | 18                                     | 23                                     |
| Decrease/(Increase) in receivables   | 299                                    | (712)                                  |
| Decrease/(Increase) in other assets  | (1,879)                                | (1,523)                                |
| Increase/(Decrease) in deferred tax asset  | 1,274                                  | 1,394                                  |
| Increase/(Decrease) in payables  | (1,016)                                | (276)                                  |
| Increase/(Decrease) in provisions  | 16                                     | -                                      |
| <b>Net cash inflow from operating activities for the half-year</b>                             | <b>12,994</b>                          | <b>12,730</b>                          |

|                                       | <b>31 December<br/>2010<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
|---------------------------------------|--|------------------------------------|
| <b>Note 9 Investment properties</b>   |  |                                    |
| Investment properties - at fair value | <b>735,623</b>                         | <b>713,850</b>                     |

**Reconciliation**

A reconciliation of the carrying amounts of investment properties at the beginning and end of the half-year is set out below:

|  |                |                |
|--|----------------|----------------|
| Carrying amount at beginning of the half-year      | 713,850        | 772,410        |
| Acquisitions, inclusive of acquisition costs       | -              | -              |
| Disposals at book value                            | -              | (37,650)       |
| Resumptions at book value                          | -              | (8,080)        |
| Net gain from fair value adjustments               | 21,773         | (12,830)       |
| <b>Carrying amount at the end of the half-year</b> | <b>735,623</b> | <b>713,850</b> |

**ALE Property Group**

Half-Year Report for period ended 31 December 2010

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Investment properties (continued)**

| <b>Property</b>                         | <b>Date acquired</b> | <b>Cost including additions \$'000</b> | <b>Valuation type and date</b> | <b>Fair Value at 31 December 2010 \$'000</b> | <b>Fair Value at 30 June 2010 \$'000</b> | <b>Fair Value gains/ (losses) half-year ending 31 December 2010</b> |
|---|----------------------|--|--------------------------------|--|--|---|
| <b>New South Wales</b>                  |                      |  |                                |  |  |   |
| Blacktown Inn, Blacktown                | Nov-03               | 5,472                                  | C , A                          | 8,138  | 7,930                                    | 208   |
| Brown Jug Hotel, Fairfield Heights      | Nov-03               | 5,660                                  | C , B                          | 8,353  | 8,140                                    | 213   |
| Colyton Hotel, Colyton                  | Nov-03               | 8,208                                  | C , B                          | 13,022                                       | 12,690                                   | 332   |
| Crows Nest Hotel, Crows Nest            | Nov-03               | 8,772                                  | C , A                          | 12,058                                       | 11,750                                   | 308   |
| Melton Hotel, Auburn                    | Nov-03               | 3,114                                  | C , B                          | 5,244  | 5,110                                    | 134   |
| Narrabeen Sands Hotel, Narrabeen        | Mar-09               | 8,945                                  | C , B                          | 10,020                                       | 10,020                                   | -   |
| New Brighton Hotel, Manly               | Nov-03               | 8,867                                  | C , B                          | 12,263                                       | 11,950                                   | 313   |
| Pioneer Tavern, Penrith                 | Nov-03               | 5,849                                  | C , B                          | 8,681  | 8,460                                    | 221   |
| Pritchard's Hotel, Mt Pritchard         | Oct-07               | 21,130                                 | C , B                          | 19,271                                       | 18,710                                   | 561   |
| Smithfield Tavern, Smithfield           | Nov-03               | 4,151                                  | C , A                          | 6,301  | 6,140                                    | 161   |
| <b>Total New South Wales properties</b> |                      | <b>80,168</b>                          |                                | <b>103,351</b>                               | <b>100,900</b>                           | <b>2,451</b>  |
| <b>Queensland</b>                       |                      |  |                                |  |  |   |
| Albany Creek Tavern, Albany Creek       | Nov-03               | 8,396                                  | C , A                          | 10,486                                       | 10,160                                   | 326   |
| Alderley Arms Hotel, Alderley           | Nov-03               | 3,303                                  | C , B                          | 4,762  | 4,600                                    | 162   |
| Anglers Arms Hotel, Southport           | Nov-03               | 4,434                                  | C , A                          | 6,765  | 6,550                                    | 215   |
| Balaclava Hotel, Cairns                 | Nov-03               | 3,304                                  | C , B                          | 4,993  | 4,830                                    | 163   |
| Breakfast Creek Hotel, Breakfast Creek  | Nov-03               | 10,659                                 | C , A                          | 12,154                                       | 11,760                                   | 394   |
| Burleigh Hotel, Burleigh Heads          | Nov-08               | 6,685                                  | C , A                          | 10,132                                       | 9,840                                    | 292   |
| Camp Hill Hotel, Camp Hill              | Nov-03               | 2,265                                  | C , B                          | 3,091  | 2,980                                    | 111   |
| Chardons Corner Hotel, Annerly          | Nov-03               | 1,416                                  | C , B                          | 1,672  | 1,600                                    | 72  |
| Dalrymple Hotel, Townsville             | Nov-03               | 3,208                                  | C , B                          | 4,974  | 4,820                                    | 154   |
| Edge Hill Tavern, Manoora               | Nov-03               | 2,359                                  | C , B                          | 4,044  | 3,920                                    | 124   |
| Edinburgh Castle Hotel, Kedron          | Nov-03               | 3,114                                  | C , A                          | 4,397  | 4,260                                    | 137   |
| Four Mile Creek, Strathpine             | Jun-04               | 3,672                                  | C , B                          | 5,380  | 5,380                                    | -   |
| Hamilton Hotel, Hamilton                | Nov-03               | 6,604                                  | C , B                          | 6,813  | 6,530                                    | 283   |
| Holland Park Hotel, Holland Park        | Nov-03               | 3,774                                  | C , A                          | 5,683  | 5,500                                    | 183   |
| Kedron Park Hotel, Kedron Park          | Nov-03               | 2,265                                  | C , A                          | 2,952  | 2,850                                    | 102   |
| Kirwan Tavern, Townsville               | Nov-03               | 4,434                                  | C , B                          | 7,434  | 7,210                                    | 224   |
| Lawnton Tavern, Lawnton                 | Nov-03               | 4,434                                  | C , A                          | 6,216  | 6,030                                    | 186   |
| Miami Tavern, Miami                     | Nov-03               | 4,057                                  | C , B                          | 6,869  | 6,620                                    | 249   |
| Mount Gravatt Hotel, Mount Gravatt      | Nov-03               | 3,208                                  | C , B                          | 4,602  | 4,440                                    | 162   |
| Mount Pleasant Tavern, Mackay           | Nov-03               | 1,794                                  | C , A                          | 3,041  | 2,950                                    | 91  |
| Noosa Reef Hotel, Noosa Heads           | Jun-04               | 6,874                                  | C , B                          | 10,650                                       | 10,650                                   | -   |
| Nudgee Beach Hotel, Nudgee              | Nov-03               | 3,020                                  | C , B                          | 3,919  | 3,770                                    | 149   |
| Palm Beach Hotel, Palm Beach            | Nov-03               | 6,886                                  | C , B                          | 9,881  | 9,580                                    | 301   |
| Pelican Waters, Caloundra               | Jun-04               | 4,237                                  | C , B                          | 6,202  | 6,020                                    | 182   |
| Prince of Wales Hotel, Nundah           | Nov-03               | 3,397                                  | C , B                          | 5,127  | 4,970                                    | 157   |

# ALE Property Group

Half-Year Report for period ended 31 December 2010

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Note 9 Investment properties (continued)

| Property                                   | Date acquired | Cost including additions \$'000 | Valuation type and date | Fair Value at 31 December 2010 \$'000 | Fair Value at 30 June 2010 \$'000 | Value gains/ (losses) half-year ending 31 December 2010 \$'000 |
|--|---------------|---------------------------------|-------------------------|---------------------------------------|-----------------------------------|--|
| Racehorse Hotel, Booval                    | Nov-03        | 1,794                           | C, A                    | 1,714                                 | 1,610                             | 104  |
| Redland Bay Hotel, Redland Bay             | Nov-03        | 5,189                           | C, B                    | 5,210                                 | 3,800                             | 1,410  |
| Royal Exchange Hotel, Toowong              | Nov-03        | 5,755                           | C, B                    | 7,871                                 | 7,620                             | 251  |
| Springwood Hotel, Springwood               | Nov-03        | 9,150                           | C, B                    | 12,092                                | 11,710                            | 382  |
| Stones Corner Hotel, Stones Corner         | Nov-03        | 5,377                           | C, A                    | 8,056                                 | 7,810                             | 246  |
| Vale Hotel, Townsville                     | Nov-03        | 5,661                           | C, A                    | 9,218                                 | 8,950                             | 268  |
| Wilsonton Hotel, Toowoomba                 | Nov-03        | 4,529                           | C, B                    | 7,036                                 | 6,820                             | 216  |
| <b>Total Queensland properties</b>         |               | <b>145,254</b>                  |                         | <b>203,436</b>                        | <b>196,140</b>                    | <b>7,296</b>   |
| <b>South Australia</b>                     |               |                                 |                         |                                       |                                   |  |
| Aberfoyle Hub Tavern, Aberfoyle Park       | Nov-03        | 3,303                           | C, B                    | 5,254                                 | 5,120                             | 134  |
| Eureka Tavern, Salisbury                   | Nov-03        | 3,303                           | C, B                    | 5,428                                 | 5,290                             | 138  |
| Exeter Hotel, Exeter                       | Nov-03        | 1,888                           | C, B                    | 3,294                                 | 3,210                             | 84   |
| Finsbury Hotel, Woodville North            | Nov-03        | 1,605                           | C, A                    | 2,750                                 | 2,680                             | 70   |
| Gepps Cross Hotel, Blair Athol             | Nov-03        | 2,171                           | C, B                    | 3,899                                 | 3,800                             | 99   |
| Hendon Hotel, Royal Park                   | Nov-03        | 1,605                           | C, A                    | 2,883                                 | 2,810                             | 73   |
| Stockade Tavern, Salisbury                 | Nov-03        | 4,435                           | C, B                    | 6,947                                 | 6,770                             | 177  |
| <b>Total South Australian properties</b>   |               | <b>18,310</b>                   |                         | <b>30,455</b>                         | <b>29,680</b>                     | <b>775</b>   |
| <b>Victoria</b>                            |               |                                 |                         |                                       |                                   |  |
| Ashley Hotel, Braybrook                    | Nov-03        | 3,963                           | C, B                    | 6,381                                 | 6,190                             | 191  |
| Bayswater Hotel, Bayswater                 | Nov-03        | 9,905                           | C, A                    | 16,267                                | 15,780                            | 487  |
| Berwick Inn, Berwick                       | Feb-06        | 15,888                          | C, B                    | 17,220                                | 17,220                            | -  |
| Blackburn Hotel, Blackburn                 | Nov-03        | 9,433                           | C, A                    | 13,040                                | 12,650                            | 390  |
| Blue Bell Hotel, Wendouree                 | Nov-03        | 1,982                           | C, B                    | 3,886                                 | 3,770                             | 116  |
| Boundary Hotel                             | Jun-08        | 17,943                          | C, A                    | 20,421                                | 19,810                            | 611  |
| Burvale Hotel, Nunawading                  | Nov-03        | 9,717                           | C, B                    | 15,174                                | 14,720                            | 454  |
| Club Hotel, Ferntree Gully                 | Nov-03        | 5,095                           | C, A                    | 8,659                                 | 8,400                             | 259  |
| Cramers Hotel, Preston                     | Nov-03        | 8,301                           | C, B                    | 13,628                                | 13,220                            | 408  |
| Deer Park Hotel, Deer Park                 | Nov-03        | 6,981                           | C, B                    | 10,958                                | 10,630                            | 328  |
| Doncaster Inn, Doncaster                   | Nov-03        | 12,169                          | C, B                    | 18,122                                | 17,580                            | 542  |
| Ferntree Gully Hotel/Motel, Ferntree Gully | Nov-03        | 4,718                           | C, B                    | 8,504                                 | 8,250                             | 254  |
| Gateway Hotel, Corio                       | Nov-03        | 3,114                           | C, B                    | 5,742                                 | 5,570                             | 172  |
| Keysborough Hotel, Keysborough             | Nov-03        | 9,622                           | C, A                    | 13,246                                | 12,850                            | 396  |
| Mac's Melton Hotel, Melton                 | Nov-03        | 6,886                           | C, A                    | 10,473                                | 10,160                            | 313  |
| Meadow Inn Hotel/Motel, Fawkner            | Nov-03        | 8,113                           | C, B                    | 12,349                                | 11,980                            | 369  |
| Mitcham Hotel, Mitcham                     | Nov-03        | 8,584                           | C, B                    | 12,638                                | 12,260                            | 378  |
| Morwell Hotel, Morwell                     | Nov-03        | 1,511                           | C, B                    | 3,185                                 | 3,090                             | 95   |

# ALE Property Group

Half-Year Report for period ended 31 December 2010

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Note 9 Investment properties (continued)

| Property   | Date acquired | Cost including additions \$'000 | Valuation type and date | Fair Value at 31 December 2010 \$'000 | Fair Value at 30 June 2010 \$'000 | Fair Value gains/(losses) half-year ending 31 December 2010 |
|--|---------------|---------------------------------|-------------------------|---------------------------------------|-----------------------------------|---|
| Olinda Creek Hotel, Lilydale   | Nov-03        | 3,963                           | C , B                   | 6,257                                 | 6,070                             | 187   |
| Pier Hotel, Frankston  | Nov-03        | 8,019                           | C , A                   | 11,370                                | 11,030                            | 340   |
| Plough Hotel, Mill Park  | Nov-03        | 8,490                           | C , A                   | 11,989                                | 11,630                            | 359   |
| Prince Mark Hotel, Doveton   | Nov-03        | 9,810                           | C , A                   | 15,081                                | 14,630                            | 451   |
| Royal Exchange, Traralgon  | Nov-03        | 2,171                           | C , B                   | 4,433                                 | 4,300                             | 133   |
| Sandbelt Club Hotel, Moorabbin   | Nov-03        | 10,849                          | C , B                   | 15,988                                | 15,510                            | 478   |
| Sandown Park Hotel/Motel, Noble Park   | Nov-03        | 6,321                           | C , B                   | 9,391                                 | 9,110                             | 281   |
| Sandringham Hotel, Sandringham   | Nov-03        | 4,529                           | C , B                   | 8,319                                 | 8,070                             | 249   |
| Somerville Hotel, Somerville   | Nov-03        | 2,642                           | C , A                   | 5,092                                 | 4,940                             | 152   |
| Stamford Inn, Rowville   | Nov-03        | 12,733                          | C , B                   | 18,184                                | 17,640                            | 544   |
| Sylvania Hotel, Campbellfield  | Nov-03        | 5,377                           | C , A                   | 9,133                                 | 8,860                             | 273   |
| Tudor Inn, Cheltenham  | Nov-03        | 5,472                           | C , B                   | 8,587                                 | 8,420                             | 167   |
| The Vale Hotel, Mulgrave   | Nov-03        | 5,566                           | C , B                   | 8,680                                 | 8,330                             | 350   |
| Victoria Hotel, Shepparton   | Nov-03        | 2,265                           | C , B                   | 4,216                                 | 4,090                             | 126   |
| Village Green Hotel, Mulgrave  | Nov-03        | 12,546                          | C , A                   | 16,792                                | 16,290                            | 502   |
| Young & Jacksons, Melbourne  | Nov-03        | 6,132                           | C , B                   | 9,185                                 | 8,910                             | 275   |
| <b>Total Victorian properties</b>  |               | <b>250,810</b>                  |                         | <b>372,590</b>                        | <b>361,960</b>                    | <b>10,630</b>   |
| <b>Western Australia</b>   |               |                                 |                         |                                       |                                   |   |
| Balmoral Hotel, East Victoria Park   | Jul-07        | 6,377                           | C , B                   | 6,150                                 | 6,150                             | -   |
| The Brass Monkey Hotel, Northbridge  | Nov-07        | 7,815                           | C , B                   | 7,656                                 | 7,400                             | 256   |
| Queens Tavern, Highgate  | Nov-03        | 4,812                           | C , B                   | 7,210                                 | 6,990                             | 220   |
| Sail & Anchor Hotel, Freemantle  | Nov-03        | 3,114                           | C , B                   | 4,775                                 | 4,630                             | 145   |
| <b>Total Western Australian properties</b>   |               | <b>22,118</b>                   |                         | <b>25,791</b>                         | <b>25,170</b>                     | <b>621</b>  |
| <b>Total investment properties</b>   |               | <b>516,660</b>                  |                         | <b>735,623</b>                        | <b>713,850</b>                    | <b>21,773</b>   |
| <b>Reconciliation of fair value gains/(losses) for half-year ending 31 December 2010</b> |               |                                 |                         |                                       |                                   |   |
| Fair value as at 30 June 2010  |               |                                 |                         |                                       |                                   | 713,850   |
| Disposals during half-year ended 31 December 2010  |               |                                 |                         |                                       |                                   | -   |
| Additions during half-year ended 31 December 2010  |               |                                 |                         |                                       |                                   | -   |
| Carrying amount before 31 December 2010 valuations                                       |               |                                 |                         |                                       |                                   | 713,850   |
| Fair value as at 31 December 2010  |               |                                 |                         |                                       |                                   | 735,623   |
| Fair value gain for half-year ended 31 December 2010                                     |               |                                 |                         |                                       |                                   | 21,773  |

#### Valuation type and date

- A Independent valuations conducted during June 2010 with a valuation date of 30 June 2010.
- B Directors' valuations conducted during June 2010 with a valuation date of 30 June 2010.
- C Directors' valuations conducted during December 2010 with a valuation date of 31 December 2010.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**Note 9 Investment properties (continued)****Investment properties**

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

**Leasing arrangements**

The majority of investment properties are leased to a single tenant under long-term "triple net" operating leases with rentals payable monthly in advance. ALE has incurred no lease incentive costs to date. The Balmoral, The Brass Monkey and Pritchard's Hotels are leased under long term "double net" operating leases.

**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. As at 31 December 2010 the weighted average investment property capitalisation rate used to determine the value of all investment properties was 6.60% (June 2010: 6.60%).

**Independent valuations as at 30 June 2010**

In accordance with ALE's policy of independently valuing at least one-third of its property portfolio annually, 29 properties were independently valued as at 30 June 2010. The independent valuations are identified as "A" in the investment property table under the column labelled "Valuation type and date". These valuations were completed by Urbis Valuations.

**Directors' valuations as at 30 June 2010**

29 of ALE's portfolio of 87 properties were independently valued as at 30 June 2010. The remaining 58 properties were subject to Directors' valuations as at 30 June 2010, identified as "B". The Directors' valuations were determined by taking each property's net rent as at 30 June 2010 and capitalising it at a rate equal to the latest independently determined capitalisation rate for that property adjusted by the average change in capitalisation rate evident in the 30 June 2010 independent valuations on a state by state basis.

**Directors' valuations as at 31 December 2010**

During December 2010 the directors revalued each of ALE's 87 properties. The directors' valuations recognise the impact of the November 2010 state based CPI rental increases which resulted in a national weighted average indexation of property net income (exclusive of Queensland land tax) of 2.95% and are based on independent advice that is not unreasonable to keep the weighted average capitalisation rate of ALE's portfolio unchanged at 6.60%, being the weighted average rate applied in determining the 30 June 2010 valuation results.

**ALE Property Group**

Half-Year Report for period ended 31 December 2010

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|   |     | <b>31 December<br/>2010<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
|---|-----|--|------------------------------------|
| <b>Note 10 Borrowings</b>                 |     |  |                                    |
| <b>Current borrowings</b>                 |     | <b>224,651</b>                         | <b>158,185</b>                     |
| <b>Non-current borrowings</b>             |     | <b>280,340</b>                         | <b>356,610</b>                     |
| Comprising:                               |     |  |                                    |
| <b>Current</b>                            |     |  |                                    |
| CMBS - maturing May 2011                  | (b) | 146,806                                | 158,185                            |
| ALE Notes - maturing September 2011       | (e) | 77,845                                 | -                                  |
|   |     | <b>224,651</b>                         | <b>158,185</b>                     |
| <b>Non-current</b>                        |     |  |                                    |
| CIB - maturing November 2023              | (a) | 128,237                                | 126,349                            |
| ALE Notes - maturing September 2011       | (e) | -                                      | 83,603                             |
| ALE Notes 2 - maturing August 2014        | (f) | 122,049                                | 121,713                            |
| CPI Hedges - maturing May 2023            | (c) | 24,352                                 | 20,449                             |
| CPI Hedges - maturing November 2023       | (c) | 5,702                                  | 4,496                              |
| NAB Facility - repaid                     | (d) | -                                      | -                                  |
|   |     | <b>280,340</b>                         | <b>356,610</b>                     |
| <b>CIB</b>                                |     |  |                                    |
| Opening balance                           |     | 126,349                                | 139,174                            |
| Repayment of borrowings                   |     | -                                      | (14,710)                           |
| Accumulating indexation                   |     | 1,871                                  | 1,869                              |
| Amortisation of establishment costs       |     | 17                                     | 16                                 |
| <b>Closing balance</b>                    |     | <b>128,237</b>                         | <b>126,349</b>                     |
| <b>CMBS</b>                               |     |  |                                    |
| Opening balance                           |     | 158,185                                | 183,670                            |
| Repayments                                |     | (11,500)                               | (25,600)                           |
| Amortisation of establishment costs       |     | 121                                    | 115                                |
| <b>Closing balance</b>                    |     | <b>146,806</b>                         | <b>158,185</b>                     |
| <b>CPI Hedge - Maturing November 2023</b> |     |  |                                    |
| Opening balance                           |     | 20,449                                 | 16,687                             |
| Accumulating indexation                   |     | 3,901                                  | 3,758                              |
| Amortisation of establishment costs       |     | 2                                      | 4                                  |
| <b>Closing balance</b>                    |     | <b>24,352</b>                          | <b>20,449</b>                      |
| <b>CPI Hedge - Maturing May 2023</b>      |     |  |                                    |
| Opening balance                           |     | 4,496                                  | 3,508                              |
| Accumulating indexation                   |     | 1,205                                  | 987                                |
| Amortisation of establishment costs       |     | 1                                      | 1                                  |
| <b>Closing balance</b>                    |     | <b>5,702</b>                           | <b>4,496</b>                       |
| <b>ALE Notes</b>                          |     |  |                                    |
| Opening balance                           |     | 83,603                                 | 148,275                            |
| Repayments                                |     | (6,845)                                | (65,822)                           |
| Amortisation of establishment costs       |     | 928                                    | 875                                |
| Premium payable at maturity - accrued     |     | 159                                    | 275                                |
|   |     | <b>77,845</b>                          | <b>83,603</b>                      |

# ALE Property Group

Half-Year Report for period ended 31 December 2010

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|   | 31 December<br>2010<br>\$'000 | 30 June<br>2010<br>\$'000 |
|---|-------------------------------|---------------------------|
| <b>Note 10 Borrowings (continued)</b>     |                               |                           |
| <b>ALE Notes 2</b>                        |                               |                           |
| Opening balance                           | 121,713                       | -                         |
| Proceeds of borrowings                    | -                             | 125,009                   |
| Borrowing establishment costs capitalised | -                             | (3,405)                   |
| Amortisation of establishment costs       | 336                           | 109                       |
| <b>Closing balance</b>                    | <b>122,049</b>                | <b>121,713</b>            |
| <b>NAB Facility</b>                       |                               |                           |
| Opening balance                           | -                             | 54,848                    |
| Repayment of borrowings                   | -                             | (55,000)                  |
| Amortisation of establishment costs       | -                             | 152                       |
| <b>Closing balance</b>                    | <b>-</b>                      | <b>-</b>                  |

Disclosed above are current borrowings for CMBS and ALE Notes as they mature in May and September this year. Management are currently in the process of detailed discussions with institutions in order to refinance this debt on or prior to maturity.

### **(a) CIB**

\$125 million of CIB was issued in May 2006. 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.

### **(b) CMBS**

\$245 million of CMBS were issued between May 2006 and August 2007, with a scheduled maturity date of May 2011. ALE's \$245 million of CMBS variable base interest rate exposure (and any debt that replaces it) is fully hedged until November 2023. (See (c) below).

As part of the CMBS facility, in the unlikely event that the CMBS is not fully repaid by the scheduled maturity date the credit margin would increase. After the scheduled maturity date, the security trustee for the CMBS is entitled to dispose of ALE's secured properties and apply the proceeds to the repayments of both the CIB and CMBS.

Prior to 7 December 2007, ALE had in place interest rate swap contracts to cover 100% of interest payments on the \$245 million CMBS. Under these swap contracts ALE receives floating rate interest and pays fixed rate interest. On 7 December 2007 contracts were entered into which offset the pre-existing swap contracts for interest on the outstanding CMBS. ALE will continue to receive or pay net amounts until 2015 arising from the difference between fixed rates payable and fixed rates receivable in respect of the offsetting swaps.

### **(c) CPI Hedges**

ALE has in place two CPI Hedges to hedge its floating rate debt, consisting of CMBS, ALE Notes and ALE Notes 2. The original hedges were transacted with two separate counterparties and originally covered \$245 million of debt (maturing in November 2023) and \$205 million of debt (maturing in May 2023). During the prior period \$125 million of the May 2023 hedge was terminated in line with ALE reducing its net outstanding borrowings arising from the cash proceeds from the August 2009 capital raising and from completed and anticipated property sales. At balance date, all of ALE's outstanding floating rate debt has been fully hedged up to May and November 2023 by the remaining CPI Hedges.

#### **CPI Hedge - Maturing November 2023**

Since 7 December 2007, ALE has had a 16 year CPI Hedge in place in respect of the \$245 million of floating rate debt. Under the hedge ALE receives floating interest rates plus a margin of 0.2575% and pays a fixed rate of 3.61% on a balance escalating with CPI until November 2023. The CPI Hedge indexation is calculated with reference to the all cities national CPI. The indexation that accumulates is added to the \$245 million notional balance of the CPI Hedge. The accumulated indexation is payable by ALE on maturity of the CPI Hedge which is scheduled for November 2023. The hedge counterparty has a right to break the hedge such that the accumulated indexation and any mark to market revaluation amount may become payable/receivable in December 2012 or December 2017. During the half year ending 31 December 2010 \$1.844 million of net swap interest from the CPI Hedge was received/receivable (2009: \$0.192 million paid/payable).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**Note 10 Borrowings (continued)****CPI Hedge - maturing May 2023**

In July 2008 and August 2008, a CPI Hedge was established in respect of \$205 million of floating rate debt. On 2 November 2009, \$125 million of the nominal amount of this hedge was terminated. A real base interest of 3.77% p.a. applies to the CPI Hedge and is settled quarterly with the remaining \$80 million notional balance of the CPI Hedge escalating quarterly in line with the national CPI. The indexation that accumulates is payable by ALE on the maturity of the CPI Hedge which is scheduled for May 2023 (or at any of the earlier five year extension dates). The hedge counterparty has a right not to extend the hedge such that the accumulated indexation and any mark to market revaluation amount may become payable in May 2013 or May 2018. During the half-year ending 31 December 2010 \$1.065 million of net swap interest from the CPI Hedge was received/receivable (2009: \$0.320 million paid/payable).

**(d) NAB Facility**

In October 2007 ALE established a \$55 million facility with National Australia Bank. The NAB facility had a floating interest rate and a maturity date of May 2011. The facility was repaid in full during the previous financial year .

**(e) ALE Notes**

\$150 million of ALE Notes were issued on 7 November 2003 with a scheduled maturity date of 30 September 2011. A fixed rate interest of 7.265% is payable semi-annually on the Notes. A 2.5% redemption premium of \$3.75 million is also payable on the maturity date. The outstanding balance of ALE Notes base interest rate exposure (and any debt facility that replaces it) is fully hedged until November 2023.

On 9 July 2008, ALE put in place an interest rate swap to counter swap 100% of the fixed interest payments on the \$150 million ALE Notes borrowings. Under the swap contract ALE is obliged to receive fixed interest and pay floating interest. On 8 July 2010 ALE put in place a counter hedge that locks in the benefit existing in the original swap at that date and allows the benefit to be realised over the remaining term of the swap.

During the financial year ended 30 June 2010 ALE conducted an on-market and an off-market buyback of ALE Notes. Additionally existing ALE Noteholders were given the option of converting their holding of ALE Notes into ALE Notes 2 via a reinvestment option at the time the ALE Notes 2 were issued (see (f) below). Each of these initiatives were completed at a premium to the book value of the ALE Notes at the time they were undertaken. In total a notional amount of \$72.41 million of ALE Notes were bought back.

**(f) ALE Notes 2**

\$125 million of ALE Notes 2 were issued on 30 April 2010 with a scheduled maturity date of 20 August 2014. Under the terms of the issue ALE has the right to extend the maturity date by one or two years, at which time a redemption premium of \$1 and \$2 respectively becomes due and payable upon maturity. Interest is payable on the ALE Notes 2 on a floating rate basis with a margin of 4.00%. Interest is payable quarterly in arrears on the notes.



# ALE Property Group

Half-Year Report for period ended 31 December 2010

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Note 10 Borrowings (continued)

#### (a) Interest rate swaps

The notional principal amounts and periods of expiry of the interest rate swap and CPI Hedge contracts at balance date are as follows:

|                                    | 31 December<br>2010<br>\$'000 | 30 June<br>2010<br>\$'000 |
|------------------------------------|-------------------------------|---------------------------|
| Less than 1 year                   | -                             | -                         |
| 1 - 2 years                        | -                             | -                         |
| 2 - 3 years                        | -                             | -                         |
| 3 - 4 years                        | -                             | -                         |
| 4 - 5 years                        | -                             | -                         |
| Greater than 5 years (See * below) | 325,000                       | 325,000                   |
|                                    | <u>325,000</u>                | <u>325,000</u>            |

\* The periods of expiry shown assumes the respective counterparties to the CPI hedge contracts exercise their rights to extend (December 2012) and don't exercise their right to break (May 2013).

The above notional amounts do not include the accumulated indexation associated with the CPI Hedges.

The swap and 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.

Assuming rights to break and rights to extend are not exercised by the hedge counterparties, the average weighted term of the interest rate hedges and fixed rate securities in relation to the total borrowings of ALE has decreased from 12.9 years at 30 June 2010 to 12.4 years at 31 December 2010.

The gain or loss from marking to market the interest rate hedges (derivatives) at fair value is taken directly to the consolidated income statement. In the half year ended 31 December 2010 a gain in value of \$12.132 million was recognised in profit and loss (2009: \$7.869 million loss in value).

#### (h) Assets pledged as securities

The ALE Notes, NAB Facility and CPI Hedges are unsecured. The carrying amounts of assets pledged as security as at balance date for CMBS borrowings, CIB borrowings, and certain interest rate derivatives are:

|  | 31 December<br>2010<br>\$'000 | 30 June<br>2010<br>\$'000 |
|--|-------------------------------|---------------------------|
| <b>Current assets</b>                              |                               |                           |
| Cash reserve                                       | <u>5,500</u>                  | <u>5,500</u>              |
| <b>Non-current assets</b>                          |                               |                           |
| Total investment properties and loans and deposits | 735,623                       | 713,850                   |
| <i>Less: Properties not subject to mortgages</i>   |                               |                           |
| Boundary Hotel, Bentleigh East, VIC                | (20,421)                      | (19,810)                  |
| Pritchard's Hotel, Mt Pritchard, NSW               | (19,271)                      | (18,710)                  |
| The Brass Monkey Hotel, Northbridge, WA            | <u>(7,656)</u>                | <u>(7,400)</u>            |
| <b>Properties subject to first mortgages</b>       | <u>688,275</u>                | <u>667,930</u>            |
| <b>Total assets</b>                                | <u>693,775</u>                | <u>673,430</u>            |

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

# ALE Property Group

Half-Year Report for period ended 31 December 2010

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Note 10 Borrowings (continued)

#### Financial Covenants

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

#### Loan to Value Ratio Covenants (LVR)

|             |   |
|-------------|---|
| CMBS / CIB  | No LVR Covenant   |
| CPI Hedges  | Senior borrowings not to exceed 60% of total property value |
| ALE Notes   | Senior borrowings not to exceed 60% of total assets         |
| ALE Notes   | Total borrowings not to exceed 87.5% of total assets        |
| ALE Notes 2 | Total borrowings not to exceed 67.5% of total assets        |

#### *Definitions*

Senior borrowings excludes the ALE Notes and ALE Notes 2 borrowings  
All covenants exclude the market value of derivatives

#### Interest Cover Ratio Covenants (ICR)

|            |   |
|------------|---|
| CMBS/CIB   | Tenant EBITDAR to be greater than 4.5 times CMBS/CIB interest |
| CPI Hedges | No ICR covenant   |
| ALE Notes  | ALE EBITDAR to be greater than 1.2 times total interest       |

#### *Definitions*

Senior interest excludes ALE Notes and ALE Notes 2 interest  
Interest amounts include all derivative rate swap payments and receipts

At 31 December 2010 and 2009 ALE was in compliance with all the above covenants.

|   | <b>31 December<br/>2010<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
|---|--|------------------------------------|
| <b>Note 11 Contributed equity</b>                                     |  |                                    |
| Balance at the beginning of the period                                | 169,838                                | 165,768                            |
| Stapled securities issued under Dividend Reinvestment Plan            | 4,257                                  | 4,070                              |
| Stapled securities issued under ALE Executive Performance Rights Plan | 24                                     | -                                  |
|   | <b><u>174,119</u></b>                  | <b><u>169,838</u></b>              |

#### Movements in the number of fully paid stapled securities during the period were as follows:

|   | <b>Number of<br/>Stapled<br/>Securities</b> | <b>Number of<br/>Stapled<br/>Securities</b> |
|---|---|---|
| Stapled securities on issue:  |   |   |
| Balance at the beginning of the period                                | 153,354,571                                 | 151,529,561                                 |
| Stapled securities issued under Dividend Reinvestment Plan            | 2,128,492                                   | 1,825,010                                   |
| Stapled securities issued under ALE Executive Performance Rights Plan | 12,248                                      | -   |
| <b>Balance at the end of the period</b>                               | <b><u>155,495,311</u></b>                   | <b><u>153,354,571</u></b>                   |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Contributed equity (continued)****Stapled securities issued**

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 unitholder 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 5.60% 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.

|   | <b>31 December<br/>2010<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
|---|--|------------------------------------|
| <b>Note 12 Retained profits</b>                         |  |                                    |
| Balance at the beginning of the half-year               | 152,572                                | 196,746                            |
| Profit attributable to stapled security holders of ALE  | 39,835                                 | (25,773)                           |
| Transfer from share based payments reserve              | 6                                      | 3                                  |
| Total available for appropriation                       | 192,413                                | 170,976                            |
| Distributions provided for or paid during the half-year | (15,550)                               | (18,404)                           |
| <b>Balance at the end of the half-year</b>              | <b>176,863</b>                         | <b>152,572</b>                     |

**Note 13 Net assets per stapled security**

|   |                |                |
|---|----------------|----------------|
| Net Assets at Balance date                        | <b>351,200</b> | <b>322,593</b> |
| Per stapled security on issue                     | \$2.26         | \$2.10         |
| Net Assets at Balance date, excluding Derivatives | <b>343,415</b> | <b>326,940</b> |
| Per stapled security on issue                     | \$2.21         | \$2.13         |

**Note 14 Contingent liabilities and contingent assets****Put and call option**

For all of the investment properties (except Balmoral Hotel, Pritchards Hotel and The Brass Monkey), at the end of the initial lease term of 25 years (2028 for most of the portfolio), and at the end of each further term (four ten year terms), in the event the lease is not extended, there is a call option for the landlord (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 as determined by the valuation methodology set out in the lease. The landlord must pay the purchase price on expiry of the lease.

**Bank guarantee**

ALE has entered into a bank guarantee of \$184,464 in respect of an office tenancy at Level 10, 6 O'Connell Street, Sydney. This guarantee may give rise to a liability if the Company does not meet its obligations under the terms of the lease.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**Note 15 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.

**Note 16 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 7.

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

**Geographical segment**

ALE owns property solely within Australia.

**Note 17 Events occurring after reporting date**

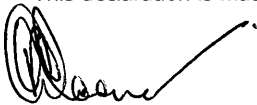
The directors are not aware of any other matter or circumstance occurring after balance date which may materially affect the state of affairs of ALE and are not aware of any matter or circumstance occurring after balance date which may materially affect ALE's operations or the results of those operations.

**Directors' declaration**

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 23 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 2010 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 2011



## **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 2010, 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, 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 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 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 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of ALE Property Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



*Independence*

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

*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 2010 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



Nigel Virgo  
*Partner*

Sydney

16<sup>th</sup> February 2011

# ALE Property Group

Half-Year Report for period ended 31 December 2010

## INVESTOR INFORMATION

### Stock Exchange Listing

The ALE Property Group (ALE) is listed on the Australian Stock Exchange (ASX). Its stapled securities are listed under ASX code: LEP, its ALE Notes are listed under ASX code: LEPHB and ALE Notes 2 are listed under ASX code: LEPHC.

### Distribution Reinvestment Plan

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

### Electronic Payment of Distributions

Security holders 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.

Security holders 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 and Annual Report are the main sources of information for stapled security holders. 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 and Annual Report are both mailed to stapled security holders unless requested not to do so. The Full Year and Half-Year Financial Reports are only mailed on request. Periodically ALE may also send releases to the ASX covering matters of relevance to investors. These releases are also posted on the ALE website and may be distributed by email to holders by registering on ALE's website. **The election by holders to receive communications electronically is encouraged by ALE.**

### Website

The ALE website, [www.alegroup.com.au](http://www.alegroup.com.au), is a useful source of information for security holders. It includes details of ALE's property portfolio, current activities and future prospects. ASX announcements are also included on the site on a regular basis.

### Annual Tax Statement

Accompanying the final stapled security distribution payment, normally in August 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 February and August.

### Security Holder Enquiries

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

## CORPORATE DIRECTORY

### Registered Office

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

### Company Secretary

Mr Brendan Howell  
Level 10, 6 O'Connell Street  
Sydney NSW 2000  
Telephone (02) 8231 8588

### Auditors

KPMG  
10 Shelley Street  
Sydney NSW 2000

### Lawyers

Allens Arthur Robinson  
Level 28, Deutsche Bank Place  
Sydney NSW 2000

### Custodian (of Australian Leisure and Entertainment Property Trust)

Trust Company of Australia Limited  
Level 4, 35 Clarence Street  
Sydney NSW 2000

### Trustee (of ALE Direct Property Trust)

Trust Company Fiduciary Services Limited  
Level 4, 35 Clarence Street  
Sydney NSW 2000

### Registry

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

Level 3, 80 Carrington Street  
Sydney NSW 2000  
Telephone 1300 302 429  
Facsimile (02) 8235 8150  
[www.computershare.com.au](http://www.computershare.com.au)