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# ANNUAL REPORT 2010

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ALE Property Group



Annual Report 30 June 2010

\$11.8<sub>m</sub>

The Crows Nest Hotel is valued at \$11.75m and is on a strategically located site on a major intersection on Sydney's lower north shore. 'The Crowie'.



**ALE PROPERTY GROUP (ALE)**  
COMPRISING AUSTRALIAN LEISURE AND ENTERTAINMENT PROPERTY  
TRUST AND ITS CONTROLLED ENTITIES  
ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

ABN 92 648 441 429

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CORPORATE DIRECTORY

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### **ALE PROPERTY GROUP (ASX: LEP)**

ALE Property Group is Australia's largest listed freehold owner of pubs. Established in November 2003, ALE owns a property portfolio of 87 pubs across the five mainland states of Australia. All of the pubs in the portfolio are leased to Australian Leisure and Hospitality Group Limited (ALH). ALH is Australia's largest pub operator and is 75% owned by Woolworths Limited and 25% by the Bruce Mathieson Group. Visit the ALE website for more information: [www.alegroup.com.au](http://www.alegroup.com.au).

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## DIRECTORS' REPORT

For the year ended 30 June 2010

### DIRECTORS' REPORT

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 the Company is:

Level 7  
1 O'Connell Street  
Sydney NSW 2000

The directors of the Company present their report, together with the financial statements of ALE, for the year ended 30 June 2010.

### 1. DIRECTORS

The following persons were directors of the Company during the 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

### 2. PRINCIPAL ACTIVITIES

The principal activities of ALE consist of investment in property and property funds management. There has been no significant change in the nature of these activities during the year.

### 3. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, the following significant changes in the state of affairs of ALE occurred during the year:

- an institutional placement and rights issue raised a gross amount of \$105 million in new equity;
- an ALE Notes 2 issue raised \$125 million in new borrowings;
- twelve properties with a book value of \$86.785 million were sold; and
- debt with a book value of \$228 million was repaid and bought back at a discount of \$5.661 million to book value.

All of the above resulted in Net Tangible Assets rising 19.7% to \$332.592 million and net borrowings as a percentage of total assets decreasing from 65.4% to 50.1%.

### 4. 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.

In accordance with the leases of its investment properties, ALE expects to receive increases in rental income in line with increases in the consumer price index. ALE is currently in the process of refinancing its borrowing obligations and this may result in the hedging arrangements being restructured and there may be an increase in credit margins payable on the debt to be refinanced. The directors are not aware of any other future development likely to significantly affect the operations and/or results of ALE.

In early 2008, ALH commenced proceedings in the Supreme Court of Victoria in relation to the lease over the Vale Hotel in Mulgrave, Victoria.

On 16 December 2009, Justice Judd delivered judgment in the proceedings which endorsed ALE's interpretation of the relevant provisions of the lease.

On 23 April 2010, Justice Judd delivered judgment on and made orders reflecting the findings set out in the judgment of 16 December 2009, including an order that ALH pay ALE's costs. ALH is now appealing the 23 April 2010 judgment and orders to the Victorian Court of Appeal. ALE is confident that it will succeed in having ALH's appeal dismissed and looks forward to the Victorian Court of Appeal confirming the position. The appeal is expected to be heard in late calendar 2011.

## 5. DISTRIBUTIONS AND DIVIDENDS

Trust distributions paid out and payable to stapled security holders, based on the number of stapled securities on issue at the respective record dates, for the year were as follows:

	<b>30 June 2010 cents per security</b>	30 June 2009 cents per security	<b>30 June 2010 \$'000</b>	30 June 2009 \$'000
Final Trust income distribution for the year ending 30 June 2010 to be paid on 31 August 2010	12.00	15.00	18,403	13,153
Interim Trust income distribution for the year ending 30 June 2010 paid on 28 February 2010	12.00	15.00	18,183	13,000
<b>Total distribution for the year ending 30 June 2010</b>	<b>24.00</b>	<b>30.00</b>	<b>36,586</b>	<b>26,153</b>

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

## 6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 8 July 2010 ALE put in place a counter swap over an existing \$150 million interest rate swap 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.

Since the end of the financial year ALE has bought back an additional \$10.1 million in CMBS debt. The debt was bought back at a discount to face value of \$0.25 million.

On 31 July 2010 the settlement for the sale of Oxford 152 took place. All sale proceeds were received.

Apart from the above matters, there has not arisen in the interval between the end of the financial year 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 years.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### 7. REVIEW AND RESULTS OF OPERATIONS

ALE produced a loss after tax of \$15.5 million for the year ended 30 June 2010. (30 June 2009: Profit of \$27.4 million.) ALE produced a profit before fair value adjustments and income tax of \$22.7 million for the year ended 30 June 2010 (30 June 2009: \$14.6 million). ALE produced a distributable profit (excluding fair value adjustments and other non cash items) of \$38.1 million for the year ended 30 June 2010 (30 June 2009: \$33.6 million).

The table below separates the cash components of profit that are available for distribution from the non-cash components of ALE's profit. The directors believe this will assist stapled securityholders in understanding the results of operations and distributions of ALE.

	30 June 2010 \$'000	30 June 2009 \$'000
<b>Profit before income tax and fair value adjustments for the year</b>	<b>22,670</b>	<b>14,557</b>
Unrealised fair value increments/(decrements) to investment properties	(4,130)	(5,985)
Unrealised fair value increments/(decrements) to derivatives	(33,915)	11,685
Income tax (expense)/benefit	(149)	7,107
<b>Profit/(loss) after income tax for the year</b>	<b>(15,524)</b>	<b>27,364</b>
<b>Adjustment for non-cash items</b>		
Unrealised fair increments/(decrements) to derivatives and investment properties	38,045	(5,700)
Gain on termination of derivative	–	(1,371)
Loss/(Gain) on disposal of investment properties	1,271	(3,688)
Employee share based payments	130	157
Finance costs – non-cash	13,999	23,902
Income tax expense /(benefit)	149	(7,107)
<b>Adjustments for non-cash items</b>	<b>53,594</b>	<b>6,193</b>
<b>Total profit available for distribution</b>	<b>38,070</b>	<b>33,557</b>
Distribution paid or provided for	36,586	26,153
<b>Available and under distributed for the year</b>	<b>1,484</b>	<b>7,404</b>

	Percentage Increase / (Decrease)	30 June 2010 Cents	30 June 2009 Cents
<b>Earnings and distribution per stapled security:</b>			
Basic and diluted earnings	–134.7%	–10.94	31.51
Earnings available for distribution	–30.5%	26.84	38.64
Total distribution	–20.0%	24.00	30.00

#### Summary of financial highlights for the year:

Total distribution per stapled security decreased by 20.0% from 30.0 cents to 24.0 cents compared to the June 2009 year.

Investment property acquisitions, disposals and revaluations decreased portfolio value by 11.3% from \$804.77 million to \$713.85 million compared to June 2009.

Net assets per stapled security decreased from \$3.08 to \$2.10 compared to June 2009.

## 8. INFORMATION ON DIRECTORS

### Mr Peter Warne B.A., Chairman and Non-executive Director.

#### *Experience and expertise*

Peter was appointed as Chairman and non-executive director of the Company in September 2003.

Peter began his career with the NSW Government Actuary's Office and the NSW Superannuation Board before joining Bankers Trust Australia Limited ("BTAL") in 1981. Peter held senior positions in the Fixed Income Department, the Capital Markets Division and the Financial Markets Group of BTAL and acted as a consultant to assist with integration issues when the investment banking business of BTAL was acquired by Macquarie Bank Limited in 1999.

Peter is also a board member of three other listed entities, being ASX Limited, Macquarie Group Limited, and WHK Group Limited.

Peter graduated from Macquarie University with a Bachelor of Arts, majoring in Actuarial Studies. He qualified as an associate of, and received a Certificate of Finance and Investment from, the Institute of Actuaries, London.

### Mr John Henderson B.Bldg, MRICS, AAPI, Non-executive Director.

#### *Experience and expertise*

John was appointed as a non-executive director of the Company in August 2003.

John has been a director of Marks Henderson Pty Ltd since 2001 and is actively involved in the acquisition of investment property. Previously an International Director at Jones Lang LaSalle and Managing Director of the Sales and Investment Division, he was responsible for overseeing the larger property sales across Australasia, liaising with institutional and private investors, and coordinating international investment activities.

John graduated from the University of Melbourne and is a member of the Royal Institution of Chartered Surveyors, is an associate of the Australian Property Institute and is a licensed real estate agent.

### Ms Helen Wright LL.B, MAICD, Non-executive Director.

#### *Experience and expertise*

Helen was appointed as a non-executive director of the Company in September 2003.

Helen was a partner of Freehills, a leading Australian firm of lawyers, from 1986 to 2003. She practised as a commercial lawyer specialising in real estate projects including development and financing and related taxation and stamp duties. Helen is the Local Government Remuneration Tribunal for NSW and until recently was the Statutory and Other Offices Remuneration Tribunal. Prior appointments included the Boards of Sydney Harbour Foreshore Authority and subsidiaries, Australia Day Council of NSW, Darling Harbour Authority, UNSW Press Limited and MLC Homepack Limited.

Helen has a Bachelor of Laws from the University of NSW, and in 1994 completed the Advanced Management Program at the Harvard Graduate School of Business.

### Mr Andrew Wilkinson B.Bus. CFTP, Managing Director.

#### *Experience and expertise*

Andrew was appointed Managing Director of the Company in November 2004. He joined ALE as Chief Executive Officer at the time of its listing in November 2003.

Andrew has over 30 years experience in banking, corporate finance and funds management.

He was previously a corporate finance partner with PricewaterhouseCoopers and spent 15 years in finance and investment banking with organisations including ANZ Capel Court and Schroders.

### Mr James McNally B.Bus (Land Economy), Dip. Law, Executive Director.

#### *Experience and expertise*

James was appointed as an executive director of the Company in June 2003.

James has over 16 years experience in the funds management industry, having worked in both property trust administration and compliance roles for Perpetual Trustees Australia Limited and MIA Services Pty Limited, a company that specialises in compliance services to the funds management industry.

James provides compliance and management services to several Australian fund managers. He is currently an external member on a number of compliance committees for various responsible entities and acts as a Responsible Manager for a number of companies that hold an Australian Financial Services Licence, including the Company.

James' qualifications include a Bachelor of Business in Land Economy (Hawkesbury Agricultural College) and a Diploma of Law (Legal Practitioners Admission Board). He is a registered valuer and licensed real estate agent.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### Mr Brendan Howell B.Econ, G.Dip App Fin (Sec Inst), Company Secretary.

#### *Experience and expertise*

Brendan was appointed to the position of company secretary in April 2007, having previously held the position from September 2003 to September 2006.

Brendan has a Bachelor of Economics from the University of Sydney and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia, and over 19 years experience in the funds management industry. He was formerly an associate member of both the Securities Institute of Australia and the Institute of Chartered Accountants in Australia. Brendan has a property and accounting background and has previously held senior positions with a leading Australian trustee company administering listed and unlisted property trusts. For over 10 years Brendan has been directly involved with MIA Services Pty Limited, a company which specialises in funds management compliance, and acts as an independent consultant and external compliance committee member for a number of property, equity and infrastructure funds managers. Brendan also acts as an independent director for several unlisted public companies, some of which act as responsible entities.

### Independent member of the Audit, Compliance and Risk Management Committee (ACRMC)

#### Mr David Lawler B.Bus, CPA, Independent ACRMC Member.

#### *Experience and expertise*

David was appointed to ALE's ACRMC on 9 December 2005 and has 25 years experience in internal auditing in the banking and finance industry. He was the Chief Audit Executive for Citibank in the Philippines, Italy, Switzerland, Mexico, Brazil, Australia and Hong Kong. He was Group Auditor for the Commonwealth Bank of Australia.

David is an audit committee member of the Australian Office of Financial Management, the Defence Materiel Organisation, the Australian Trade Commission, the Australian Sports Anti-Doping Authority, the Australian Agency for International Development and National ICT Australia.

David is a director of Australian Settlements Limited and chairman of its audit and risk committee.

David has a Bachelor of Business Studies from Manchester Metropolitan University in the UK. He is a Fellow of CPA Australia and a past President of the Institute of Internal Auditors-Australia.

### Directorships of listed entities within the last three years

The following director held directorships of other listed entities within the last three years and from the date appointed up to the date of this report unless otherwise stated:

Director	Directorships of listed entities	Type	Appointed	Resigned
P H Warne	ASX Limited	Non-executive	July 2006	
P H Warne	WHK Group Limited	Non-executive	May 2007	
P H Warne	Macquarie Group Limited	Non-executive	July 2007	
P H Warne	Teys Limited	Non-executive	October 2007	June 2009

### Special responsibilities of directors

The following are the special responsibilities of each director:

Director	Special responsibilities
P H Warne	Chairman of the Board. Member of the Audit, Compliance and Risk Management Committee (ACRMC). Chair of the Nominations Committee. Chair of the Remuneration Committee.
H I Wright	Chair of the ACRMC. Member of the Nominations Committee. Member of the Remuneration Committee.
J P Henderson	Member of the ACRMC. Member of the Nominations Committee. Member of the Remuneration Committee.
A F O Wilkinson	Chief Executive Officer and Managing Director of the Company. Responsible Manager of the Company under the Company's Australian Financial Services Licence (AFSL)
J T McNally	Responsible Manager of the Company under the Company's AFSL.



### Directors' and key management personnel interests in stapled securities and performance rights

The following directors, key management personnel and their associates held or currently hold the following stapled security interests in ALE:

Name	Role	Number held at the start of the year	Net Movement	Number held at 30 June 2010
P H Warne	Non-executive Director	790,000	395,000	1,185,000
J P Henderson	Non-executive Director	239,910	115,455	355,365
H I Wright	Non-executive Director	130,000	20,000	150,000
A F O Wilkinson	Executive Director	146,312	37,156	183,468
A J Slade	Capital Manager	20,000	11,064	31,064
M J Clarke	Finance Manager	2,613	1,951	4,564

The following key management personnel currently hold performance rights over stapled securities in ALE:

Name	Role	Number held at the start of the year	Net Movement	Number held at 30 June 2010
A F O Wilkinson	Executive Director	–	160,026	160,026
A J Slade	Capital Manager	31,735	45,574	77,309

### Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2010, together with the number of meetings attended by each director at the time the director held office during the year were:

Director	Board Meetings		ACRMC		Remuneration Committee meetings	
	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended
P H Warne	19	18	6	6	3	3
J P Henderson	19	16	6	6	3	3
H I Wright	19	19	6	6	3	3
A F O Wilkinson	19	19	n/a	n/a	n/a	n/a
J T McNally	19	17	n/a	n/a	n/a	n/a

Member of Audit, Compliance and Risk Management Committee

D J Lawler	n/a	n/a	6	6	n/a	n/a
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<sup>1</sup> "Held" reflects the number of meetings which the director or member was eligible to attend.

### 9. REMUNERATION REPORT (AUDITED)

The Remuneration Report is set out under the following main headings:

- 9.1 Principles used to determine the nature and amount of remuneration
- 9.2 Service agreements
- 9.3 Details of remuneration
- 9.4 Equity-based compensation

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## DIRECTORS' REPORT

For the year ended 30 June 2010

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### 9.1 PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objectives of ALE's executive remuneration framework are to ensure that reward for performance is transparent, reasonable, competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and creation of value for stapled security holders, and conforms with market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to stapled security holders
- performance linkage/alignment of executive compensation with outcomes for stapled security holders
- transparency

In consultation with external remuneration consultants, the Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to stapled security holders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in stapled security holder wealth, consisting of distributions, dividends and growth in stapled security price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives
- capital risk management

Alignment to employee interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in stapled security holders' wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable pay and a blend of short and long-term incentives. As executives gain seniority within the Company, the balance of this mix shifts to a higher proportion of 'at risk' rewards, depending upon the nature of the executive's role.

The overall level of executive reward takes into account the performance of ALE over a number of periods with greater emphasis given to the current year. Over the five years ended 30 June 2010 the total return on ALE's stapled securities (inclusive of distribution returns) was 13.7% (2009: 21.1%).

#### 9.1.1 Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments were last reviewed in 2007, the first review since 2003. The Board may obtain the advice of independent remuneration consultants to ensure that non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently from the fees of the other non-executive directors, based on comparative roles in the external market. The Chairman is not present at any discussion relating to the determination of his own remuneration. Non-executive directors do not receive any equity based payments, retirement benefits or other incentive payments.

#### 9.1.2 Directors' fees

The current base remuneration was last reviewed with effect from July 2007. The directors' fees are inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit which will be periodically recommended for approval by stapled security holders. The maximum currently stands at \$475,000 per annum, comprised of \$385,000 per annum for non-executive directors and \$90,000 per annum for the executive director (inclusive of a responsible officer fee of \$5,000 per annum) and excluding the Managing Director's remuneration.

The maximum amount for non-executive directors can only be increased at a general meeting of the Company.

#### 9.1.3 Retirement allowances for directors

No retirement allowances for directors are offered by the Company in line with guidance on non-executive directors' remuneration.

#### 9.1.4 Executive pay

The executive pay and reward framework has three components, the combination of which comprises the executive's total remuneration:

- base pay and benefits
- short-term performance incentives
- long-term incentives

#### 9.1.5 Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-cash benefits at the discretion of the executives and the board.

Executives are offered a competitive base pay that is the fixed component of their remuneration. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for comparable roles. Base pay for senior executives is reviewed annually to ensure that executive pay is competitive with the market. Executive pay is also reviewed on promotion.

There is no guaranteed base pay increase in any executive contract.

### 9.1.6 Short-term incentives (STI)

The short-term incentive arrangements in place at the Company have been designed to link annual STI bonus awards to executive performance against agreed key performance indicators (KPIs) including the financial performance of the Company during the year in question.

Each executive has a target STI opportunity depending on the accountabilities of the role and the impact on the performance of ALE.

Each year the remuneration committee considers the appropriate targets and KPIs to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan and minimum levels of performance to trigger payments of STI.

For the year ended 30 June 2010, the KPIs linked to STI plans were based on Company, business and personal objectives. The KPIs required performance in seeking value accretive acquisitions, effective property sales, managing operating and funding costs, compliance with legislative requirements, risk and capital management, increasing security holder value as well as other key strategic non-financial measures linked to drivers of performance in future economic periods.

The Board is responsible for assessing whether the KPIs have been met. To facilitate this assessment, the Board receives detailed reports on performance from management.

The STI payments may be adjusted up or down, in line with over or under achievement against the target performance levels. This is at the discretion of the Board.

The STI target annual payment is reviewed annually.

### 9.1.7 Long-term incentives (LTI)

Performance Rights over unissued stapled securities have been granted to Mr Wilkinson and Mr Slade. Mr Wilkinson has the right to receive up to 160,026 stapled securities at a nil cost exercisable from 1 June 2011, or earlier if his employment had been terminated after a change of control in the company. Mr Slade has the right to receive up to 91,588 stapled securities at a nil cost exercisable progressively from 30 June 2010, or earlier if employment is terminated after a change of control in the company.

The Performance Rights provide the opportunity to receive fully paid stapled securities for nil cost. The receipt of stapled securities is contingent on achieving specific performance hurdles over a specified performance period. The performance hurdles are as follows:

- a Total Shareholder Return (TSR) performance hurdle where ALE's TSR is ranked against a comparative group consisting of companies classified as Real Estate Investment Trusts in the S&P/ASX 300 Index;
- a Total Shareholder Return (TSR) performance hurdle based on ALE's absolute TSR; and
- a service period retention hurdle, whereby the employee must be employed by ALE at the vesting date for the performance rights to vest.

Mr Slade's performance hurdles for the Performance Rights applicable to and issued relating to the period ending on 30 June 2009 were independently assessed by external consultants. Subsequent to this assessment on 20 December 2009, 11,088 securities were issued to Mr Slade. The remaining 3,173 Performance Rights applicable to this performance period did not vest and have lapsed.

## 9.2 SERVICE AGREEMENTS

On 30 June 2009, the Company agreed terms of a service agreement with Managing Director, Mr Wilkinson relating to the period starting June 2009 and ending on June 2011. The agreement stipulates the minimum base salary, inclusive of superannuation, for each year as being \$320,000 for Mr Wilkinson, to be reviewed annually each 31 December by the Board. A short-term incentive (which if earned, would be paid as a cash bonus shortly after June each year) and a long-term incentive of \$80,000 per annum, in the form of Performance Rights.

In the event of the termination of Mr Wilkinson's employment contract and depending on the reason for the termination, amounts may be payable for unpaid accrued entitlements and a proportion of bonus entitlements as at the date of termination. In the event of redundancy termination, amounts are payable for base salary, inclusive of superannuation and bonus and long term incentive entitlements for the balance of the contract.

Any Stapled Securities that Mr Wilkinson becomes entitled to receive on 1 June 2011 will be provided to Mr Wilkinson two years and one month later on (1 July 2013) provided that, in the reasonable opinion of the Board, Mr Wilkinson has not engaged in any conduct or has committed any act which:

- (i) results in ALE having to make any material financial restatement;
- (ii) causes ALE to incur a material financial loss; or
- (iii) causes any significant harm to ALE and/or its businesses.

The employment contracts of Mr Slade and Mr Clarke may be terminated at any time with three months' notice.

Mr D J Shipway is to commence as Property Manager with ALE on 20 September 2010. At the date of this report he has signed an employment contract. His employment contract does not contain any performance rights and may be terminated with one month's notice.

There are no other director or executive service agreements.

Letters of appointment have been entered into by each director (excluding the Managing Director) confirming their remuneration and obligations under the Corporations Law and Company constitution.

A letter of appointment has been entered into with MIA Services Pty Limited for the use of the services of Brendan Howell as Company Secretary and as Compliance Officer of ALE on a continuous basis that may be terminated at any time with one month's notice.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### 9.3 DETAILS OF REMUNERATION

#### Amount of remuneration

Details of the remuneration of the key management personnel for the current year and for the comparative year are set out below in tables 1 and 2. The cash bonuses were dependent on the satisfaction of performance conditions as set out in the section headed "Short-term incentives", above. Long term incentives are market and non-market based performance related as set out in 9.1.7 above. All other elements of remuneration were not directly related to performance.

**Table 1 Remuneration details 1 July 2009 to 30 June 2010**

Details of the remuneration of the Key Management Personnel for the year 30 June 2010 are set out in the following table:

Key management personnel		Short term			Post employment benefits	Other long term	Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration	
Name	Role	Salary & Fees	STI Cash Bonus	Non Monetary benefits	Total	Super annuation benefits	Termination benefits	Performance Rights	Total	%	%
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
P H Warne	Non-executive Director	137,615	–	–	137,615	12,385	–	–	150,000	–	–
J P Henderson	Non-executive Director	85,000	–	–	85,000	–	–	–	85,000	–	–
H I Wright	Non-executive Director	77,982	–	–	77,982	7,018	–	–	85,000	–	–
A F O Wilkinson	Executive Director	321,789	100,000	–	421,789	14,461	2,021	80,000	518,271	34.7%	15.4%
J T McNally	Executive Director	90,000	–	–	90,000	–	–	–	90,000	–	–
B R Howell	Company Secretary	90,000	–	–	90,000	–	–	–	90,000	–	–
A J Slade	Capital Manager	172,274	60,000	–	232,274	14,461	–	50,000	296,735	37.1%	16.9%
M J Clarke	Finance Manager	136,525	45,000	9,280	190,805	12,554	–	–	203,359	22.1%	–
		1,111,185	205,000	9,280	1,325,465	60,879	2,021	–	130,000	1,518,365	

**Table 2 Remuneration details 1 July 2008 to 30 June 2009**

Details of the remuneration of the Key Management Personnel for the year 30 June 2009 are set out in the following table:

Key management personnel		Short term			Post employment benefits	Other long term	Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration	
Name	Role	Salary & Fees	STI Cash Bonus	Non Monetary benefits	Total	Super annuation benefits	Termination benefits	Performance Rights	Total	%	%
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
P H Warne	Non-executive Director	137,615	–	–	137,615	12,385	–	–	150,000	–	–
J P Henderson	Non-executive Director	85,000	–	–	85,000	–	–	–	85,000	–	–
H I Wright	Non-executive Director	77,982	–	–	77,982	7,018	–	–	85,000	–	–
A F O Wilkinson	Executive Director	306,280	32,000	–	338,280	13,745	–	107,094	459,119	30.3%	23.3%
J T McNally	Executive Director	90,000	–	–	90,000	–	–	–	90,000	–	–
B R Howell	Company Secretary	90,000	–	–	90,000	–	–	–	90,000	–	–
A J Slade	Capital Manager	163,229	25,000	–	188,229	13,745	–	50,000	251,974	29.8%	19.8%
M J Clarke	Finance Manager	119,161	25,000	–	144,161	10,039	–	–	154,200	16.2%	–
		1,069,267	82,000	–	1,151,267	56,932	–	–	157,094	1,365,293	

#### 9.3.1 Cash bonuses

For each cash bonus included in the above tables, the percentage of the available bonus that was awarded for the year and the percentage that was forfeited because a person did not meet the performance criteria is set out below.

Name	Paid		Forfeited	
	2010 %	2009 %	2010 %	2009 %
A F O Wilkinson	125	40	–	60
A J Slade	120	50	–	50
M J Clarke	100	100	–	–

### 9.3.2 Equity Instruments

All performance rights refer to performance rights over stapled securities of the ALE Property Group, which vested on a one for one basis under the ALE Property Group Executive Performance Rights Plan.

#### 9.3.2.1 Performance rights over equity instruments granted as compensation

Details of performance rights over stapled securities that were granted as compensation during the year and details of performance rights that vested during the financial period are as follows:

Executive	Number of PR Issued	Grant Date	Performance period start date	Fair value of PR at Grant Date (\$)	Testing Date	Number of PR Vested during 2010	Number of Stapled Securities Issued <sup>1</sup>
A F O Wilkinson	160,026	1 June 2009	1 June 2009	1.00	1 July 2011	—	—
A J Slade	15,552	30 June 2008	1 July 2007	2.57	30 June 2010	3,513	3,513
A J Slade	30,206	1 July 2008	1 July 2008	1.67	30 June 2011	7,575	7,575
A J Slade	46,164	1 July 2009	1 July 2009	1.08	30 June 2012	—	—

1 Stapled Securities were issued at nil cost to the employee

#### 9.3.2.2 Modification of terms of equity settled share based payment transactions

No terms of equity settled share based payment transactions (including options and rights granted as compensation to key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

#### 9.3.2.3 Analysis of performance rights over equity instruments granted as compensation

Details of the vesting profiles of performance rights granted as remuneration are detailed below.

Executive	Number	Date	% vested in year	% forfeited in year <sup>(a)</sup>	Financial year in which grant vests
A F O Wilkinson	160,026	1 June 2009	—%	—%	1 July 2011
A J Slade	5,270	30 June 2008	66.6%	33.4%	1 July 2009
	6,813	30 June 2008	—%	—%	1 July 2010
	9,009	1 July 2008	66.6%	33.4%	1 July 2009
	11,558	1 July 2008	—%	—%	1 July 2010
	12,774	1 July 2008	—%	—%	1 July 2011
	10,592	1 July 2009	—%	—%	1 July 2010
	14,115	1 July 2009	—%	—%	1 July 2011
	21,457	1 July 2009	—%	—%	1 July 2012

(a) The % forfeited in the year represents the reduction from the maximum number of performance rights available to vest due to performance criteria not being achieved.

#### 9.3.2.4 Analysis of movements in performance rights

The movement during the reporting period, by value of performance rights over stapled securities in ALE is detailed below.

Executive	Granted in year \$ <sup>(a)</sup>	Vested and exercised in year \$ <sup>(b)</sup>	Lapsed in year \$ <sup>(c)</sup>
A F O Wilkinson	160,000	—	—
A J Slade	50,000	24,948	5,052

(a) The value of performance rights granted during the year is the assessed fair value at grant date of performance rights granted, allocated equally over the period from grant date to vesting date. The fair value at grant date has been independently determined by using a Black-Scholes option pricing model.

(b) The value of performance rights vested and exercised in the year is calculated as the market price of the stapled securities of ALE Property Group as at the close of trading on the day the performance rights vested.

(c) The value of performance rights lapsed in the year is calculated as the market price of the stapled securities of ALE Property Group as at the close of trading on the day the performance rights lapsed.

### 9.4 EQUITY BASED COMPENSATION

The performance rights value disclosed above as part of specified executive remuneration is the assessed fair value at grant date of performance rights granted, allocated equally over the period from grant date to vesting date. The fair value at grant date has been independently determined by using a Black-Scholes option pricing model. This technique takes into account factors such as the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance right, the security price at grant date and expected price volatility of the underlying security, the expected distribution yield, the risk-free interest rate for the term of the performance right and any delayed delivery in the securities to the executive.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### 10 STAPLED SECURITIES UNDER OPTION

The following performance rights over unissued stapled securities of ALE were granted during or since the end of the year.

Executive	Number of PR Issued	Effective Grant Date
A F O Wilkinson	160,026	4 Nov 2009
A J Slade	46,164	1 July 2009

### 11 STAPLED SECURITIES ISSUED ON THE EXERCISE OF OPTIONS

The following stapled securities were issued on the exercise of performance rights during the financial year.

Executive	Number of Stapled Securities Issued
A F O Wilkinson	–
A J Slade	11,088

### 12 INSURANCE OF OFFICERS

During the financial year, the Company paid a premium of \$37,750 (2009: \$25,200) to insure the directors and officers of the Company. The auditors of the Company are in no way indemnified out of the assets of the Company.

Under the constitution of the Company, current or former directors and secretaries are indemnified to the full extent permitted by law for liabilities incurred by these persons in the discharge of their duties. The constitution provides that the Company will meet the legal costs of these persons. This indemnity is subject to certain limitations.

### 13 NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The board of directors has considered the position and in accordance with the advice received from the ACRMC is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the ACRMC to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risk and rewards.

Details of amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out below:

	30 June 2010 \$	30 June 2009 \$
<b>Audit services</b>		
KPMG Australian firm:		
Audit and review of the financial reports of the Group and other audit work required under the <i>Corporations Act 2001</i>		
– in relation to current year	167,712	140,359
– in relation to prior year	30,000	30,000
<b>Total remuneration for audit services</b>	<b>197,712</b>	<b>170,359</b>
<b>Other services</b>		
KPMG Australian firm:		
Transaction compliance services	150,983	–
<b>Total other services</b>	<b>150,983</b>	–

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**14 ENVIRONMENTAL REGULATION**

While ALE is not subject to significant environmental regulation in respect of its property activities, the directors are satisfied that adequate systems are in place for the management of its environmental 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.

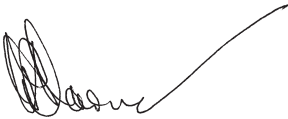
**15 AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

**16 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 17th day of August 2010

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**AUDITOR'S INDEPENDENCE DECLARATION**

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**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 audit for the financial year ended 30 June 2010, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Nigel Virgo', written over a faint, larger 'KPMG' watermark.

KPMG

A handwritten signature in black ink, appearing to read 'Nigel Virgo', written over a faint, larger 'KPMG' watermark.

**Nigel Virgo**  
*Partner*

Sydney  
17 August 2010

Liability is limited by a scheme approved under Professional Standards Legislation.



## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
<b>Revenue</b>			
Rent from investment properties	6	53,330	54,703
Interest from investment arrangements	6	–	1,011
Interest from cash deposits	7	5,607	1,697
<b>Total revenue</b>		<b>58,937</b>	<b>57,411</b>
<b>Other income</b>			
Gain on disposal of investment properties		–	3,688
Discount on debt buybacks		5,661	–
Gain on termination of interest rate derivatives		–	1,371
Fair value increments to derivatives	8	–	11,685
<b>Total other income</b>		<b>5,661</b>	<b>16,744</b>
<b>Total revenue and other income</b>		<b>64,598</b>	<b>74,155</b>
<b>Expenses</b>			
Loss on disposal of investment properties		1,271	–
Loss on termination of CPI hedging		2,025	–
Fair value decrements to investment properties	18	4,130	5,985
Fair value decrements to derivatives	8	33,915	–
Finance costs (cash and non-cash)	10	32,027	42,220
Queensland land tax expense		2,857	1,973
Other expenses	9	3,748	3,720
<b>Total expenses</b>		<b>79,973</b>	<b>53,898</b>
<b>Profit/(Loss) before income tax</b>		<b>(15,375)</b>	<b>20,257</b>
Income tax expense/(benefit)	12	149	(7,107)
<b>Profit/(Loss) after income tax</b>		<b>(15,524)</b>	<b>27,364</b>
<b>Profit/(Loss) attributable to the stapled security holders of ALE</b>		<b>(15,524)</b>	<b>27,364</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the period after income tax		–	–
<b>Total comprehensive income for the period</b>		<b>(15,524)</b>	<b>27,364</b>
<b>Profit/(Loss) attributable to:</b>			
Members of ALE		(15,524)	27,364
Minority interest		–	–
<b>Profit/(Loss) for the period</b>		<b>(15,524)</b>	<b>27,364</b>
<b>Total comprehensive income attributable to:</b>			
Members of ALE		(15,524)	27,364
Minority interest		–	–
<b>Total comprehensive income for the period</b>		<b>(15,524)</b>	<b>27,364</b>
		<b>Cents</b>	Cents
Basic and diluted earnings per stapled security	14(a)	(10.94)	31.51

The above statement of comprehensive income should be read in conjunction with the accompanying Notes.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	2010 \$'000	2009 \$'000
<b>Current assets</b>			
Cash and cash equivalents	15	132,062	35,905
Receivables	17	17,807	29,078
Other	16	863	82
<b>Total current assets</b>		<b>150,732</b>	<b>65,065</b>
<b>Non-current assets</b>			
Investment properties	18	713,850	804,765
Derivatives	11	21,190	39,839
Plant and equipment	19	40	86
Deferred tax asset	13	2,233	2,381
<b>Total non-current assets</b>		<b>737,313</b>	<b>847,071</b>
<b>Total assets</b>		<b>888,045</b>	<b>912,136</b>
<b>Current liabilities</b>			
Payables	20	6,708	6,198
Borrowings	22	158,185	–
Provisions	21	18,412	13,175
<b>Total current liabilities</b>		<b>183,305</b>	<b>19,373</b>
<b>Non-current liabilities</b>			
Borrowings	22	356,610	607,212
Derivatives	11	25,537	16,029
<b>Total non-current liabilities</b>		<b>382,147</b>	<b>623,241</b>
<b>Total liabilities</b>		<b>565,452</b>	<b>642,614</b>
<b>Net assets</b>		<b>322,593</b>	<b>269,522</b>
<b>Equity</b>			
Contributed equity	23	169,838	64,761
Retained profits	24	152,572	204,677
Reserve	25	183	84
<b>Total equity</b>		<b>322,593</b>	<b>269,522</b>
<b>Net assets per stapled security</b>		<b>\$2.10</b>	<b>\$3.08</b>

The above statement of financial position should be read in conjunction with the accompanying Notes.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Note	Share Capital \$'000	Share based payments reserve \$'000	Retained Earning \$'000	Total \$'000
<b>2010</b>					
<b>Total equity at the beginning of the year</b>		<b>64,761</b>	<b>84</b>	<b>204,677</b>	<b>269,522</b>
Profit/(Loss) for the year		–	–	(15,524)	(15,524)
Employee share based payments expense	25	–	130	–	130
Securities issued – institutional placement	23	29,596	–	–	29,596
Securities issued – rights issue	23	75,634	–	–	75,634
Securities issued – dividend reinvestment plan	23	4,636	–	–	4,636
Institutional placement and rights issue costs	23	(4,815)	–	–	(4,815)
Vesting of performance rights	25	26	(31)	5	–
Distribution paid or payable	14	–	–	(36,586)	(36,586)
<b>Total equity at the end of the year</b>		<b>169,838</b>	<b>183</b>	<b>152,572</b>	<b>322,593</b>
<b>2009</b>					
<b>Total equity at the beginning of the year</b>		<b>60,384</b>	<b>221</b>	<b>203,318</b>	<b>263,923</b>
Profit/(Loss) for the year		–	–	27,364	27,364
Employee share based payments expense	25	–	157	–	157
Costs of dividend reinvestment plan		(25)	–	–	(25)
Securities issued – dividend reinvestment plan	23	4,256	–	–	4,256
Vesting of performance rights	25	146	(294)	148	–
Distribution paid or payable	14	–	–	(26,153)	(26,153)
<b>Total equity at the end of the year</b>		<b>64,761</b>	<b>84</b>	<b>204,677</b>	<b>269,522</b>

The above statements of changes in equity should be read in conjunction with the accompanying Notes.

### RECONCILIATION OF DISTRIBUTIONS TO STAPLED SECURITY HOLDERS

	Note	2010 \$'000	2009 \$'000
<b>Profit attributable to the stapled security holders of ALE</b>		<b>(15,524)</b>	<b>27,364</b>
Adjustments for non-cash items	14	53,594	6,193
<b>Total available for distribution</b>		<b>38,070</b>	<b>33,557</b>
Distribution paid or provided for		36,586	26,153
<b>Available and undistributed for the year</b>	14	<b>1,484</b>	<b>7,404</b>

## CASH FLOW STATEMENT

For the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Receipts from tenant and others		53,394	54,948
Payments to suppliers and employees		(9,207)	(6,404)
Interest received – bank deposits and investment arrangements		4,323	2,478
Interest received – interest rate swaps		8,539	15,062
Borrowing costs paid		(26,516)	(33,814)
<b>Net cash inflow from operating activities</b>	15	<b>30,533</b>	<b>32,270</b>
<b>Cash flows from investing activities</b>			
Investment property acquisitions		–	(9)
Net proceeds from disposal of properties		98,423	8,105
Proceeds from disposal of plant and equipment		–	2
Payments for plant and equipment		–	(29)
<b>Net cash inflow from investing activities</b>		<b>98,423</b>	<b>8,069</b>
<b>Cash flows from financing activities</b>			
Proceeds from NAB borrowings		–	19,000
Proceeds from ALE Notes 2 issue		125,000	–
Repayment of short term loan		–	(8,450)
Prepaid borrowing costs		(3,405)	(283)
Proceeds from stapled securities issue		100,416	–
CPI hedge fair value termination payment		(5,760)	–
Borrowings repaid			
CPI hedge indexation payment		(4,692)	–
NAB facility		(55,000)	–
ALE Notes		(68,112)	–
CIB		(11,476)	–
CMBS		(83,070)	–
DRP implementation costs		–	(25)
Distributions paid (net of DRP securities issued)		(26,700)	(23,203)
<b>Net cash outflow from financing activities</b>		<b>(32,799)</b>	<b>(12,961)</b>
<b>Net increase in cash and cash equivalents</b>		<b>96,157</b>	<b>27,378</b>
Cash and cash equivalents at the beginning of the year		35,905	8,527
<b>Cash and cash equivalents at the end of the year</b>	15	<b>132,062</b>	<b>35,905</b>

The above cash flow statement should be read in conjunction with the accompanying Notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2010

### NOTE 1 REPORTING ENTITY

ALE, the stapled entity, was formed by stapling together the units in the Trust and the shares in the Company. For the purposes of financial reporting, the stapled entity reflects the consolidated entity. The parent entity and deemed acquirer in this arrangement is the Trust. The basis of this approach is consistent with current practice in relation to the financial reporting obligations of stapled entities under UIG 1013 Interpretation *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapled Arrangements*. The results reflect the performance of the Trust and its subsidiaries including the Company from 1 July 2009 to 30 June 2010.

The stapled securities of ALE are quoted on the Australian Stock Exchange under the code LEP and comprise one unit in the Trust and one share in the Company. The unit and the share are stapled together under the terms of their respective constitutions and cannot be traded separately. Each entity forming part of ALE is a separate legal entity in its own right under the *Corporations Act 2001* and Australian Accounting Standards.

The Company is the Responsible Entity of the Trust.

### NOTE 2 BASIS OF PREPARATION

This general purpose financial statement has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### (a) Compliance Statement

The financial statements are a general purpose financial statement which has been prepared in accordance with Australian Accounting Standards (AASs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statement of ALE also complies with the IFRS and interpretations adopted by the International Accounting Standards Board.

#### (b) Basis of measurement

The financial statements are prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- investment property is measured at fair value

The methods used to measure fair values are discussed further in Note 4.

#### (c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is ALE's functional currency.

ALE is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4(a) – investment property
- Note 4(c) and Note 35 – valuation of financial instruments
- Note 26 – measurement of share based payments

### NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. Except as described below, these policies have been consistently applied to all the years presented unless otherwise stated. The financial statements include financial statements for the ALE Property Group ("ALE"), consisting of the Australian Leisure and Entertainment Trust and its subsidiaries. Summarised financial information in relation to Australian Leisure and Entertainment Trust as the parent entity is presented in Note 36 to the financial statements.

#### (i) AASB 101 Presentation of Financial Statements

From 1 July 2009, ALE applied revised AASB 101 *Presentation of Financial Statements (2007)*, which separates owner and non-owner changes in equity. As a result, ALE presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these financial statements as of and for the year ended 30 June 2010. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

#### (ii) AASB 8 Operating Segments

As of 1 July 2009 ALE adopted AASB 8, which replaced AASB 114 *Segment Reporting*. In accordance with AASB 8, ALE determines and presents operating segments based on the information that is internally provided to the Managing Director, who is the Group's chief operating decision maker. ALE concluded that the operating segment determined in accordance with AASB 8 is the same as the business segment previously identified under AASB 114.

#### (a) Principles of consolidation

The financial statements incorporate the assets and liabilities of all subsidiaries as at balance date and the results for the period then ended. The Trust and its controlled entities together are referred to in this financial report as ALE. Entities are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

Subsidiaries are all those entities (including special purpose entities) over which ALE has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether ALE controls another entity.

All balances and effects of transactions between the subsidiaries of ALE have been eliminated in full.

#### (b) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash at bank, deposits at call and short term money market securities which are readily convertible to cash.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Receivables

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that all amounts due may not be collected according to the original terms of the receivables. The amount of any provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

#### (d) Investment property

Properties (including land and buildings) held for long term rental yields and that are not occupied by ALE are classified as investment properties.

Investment property is initially brought to account at cost which includes the cost of acquisition, stamp duty and other costs directly related to the acquisition of the properties. The properties are subsequently revalued and carried at fair value. Fair value is based on active market prices, adjusted for any difference in the nature, location or condition of the specific asset or where this is not available, an appropriate valuation method which may include discounted cash flow projections and the capitalisation method. The fair value reflects, among other things, rental income from the current leases and assumptions about future rental income in light of current market conditions. It also reflects any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the properties' carrying amount only when it is probable that future economic benefits associated with the item will flow to ALE and the cost of the item can be reliably measured. Maintenance capital expenditure is the responsibility of the tenant under the triple net leases in place over 84 of the 87 properties. ALE undertakes periodic condition and compliance reviews by a qualified independent consultant to ensure properties are properly maintained.

Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated.

The carrying value of the investment property is reviewed at each reporting date and each property is independently revalued at least every three years. Changes in the fair values of investment properties are recorded in the income statement.

Gains and losses on disposal of a property are determined by comparing the net proceeds on disposal with the carrying amount of the property at the date of disposal. Net proceeds on disposal are determined by subtracting disposal costs from the gross sale proceeds.

#### (e) Plant and equipment

Plant and equipment including office fixtures, fittings and operating equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to ALE and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### Depreciation

Land is not depreciated. Depreciation on depreciable plant and equipment (office fixtures, fittings and operating equipment) is calculated using the straight line method or diminishing method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The estimated useful life of depreciable plant and equipment is as follows:

Furniture, fittings and equipment	4–13 years
Software	3 years
Leasehold improvements	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

#### (f) Investments and financial assets

Financial assets classified as loans and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise when money and services are provided to a debtor with no intention of selling the receivable.

Loans and receivables are carried at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the financial asset are spread over its effective life.

#### (g) Trade and other payables

These amounts represent liabilities for goods and services provided to ALE prior to the end of the period which are unpaid at the balance sheet date. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (h) Borrowings

Interest bearing liabilities are initially recognised at cost, being the fair value of the consideration received, net of issue and other transaction costs associated with the borrowings.

After initial recognition, interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the financial liability are spread over the expected life of the borrowings on an effective interest rate basis.

Interest bearing liabilities are classified as current liabilities unless an unconditional right exists to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (i) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. ALE designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

### NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Derivatives (continued)

ALE documents, at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. ALE also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 11.

To date ALE has not designated any of its derivatives as cash flow hedges or fair value hedges and accordingly ALE has valued them all at fair value with movements recorded in the income statement.

#### (j) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

#### (k) Distributions and dividends

Provisions are made for the amounts of any distributions or dividends declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance date.

#### (l) Contributed equity

Ordinary units and ordinary shares are classified as contributed equity.

Incremental costs directly attributable to the issue of new units, shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

Distributions to stapled security holders that include a return of capital are shown in equity as a transfer from (reduction of) contributed equity.

#### (m) Revenue recognition

Rental income from operating leases is recognised on a straight line basis over the lease term. Rentals that are based on the future amount that changes other than the passage of time, including CPI linked rental increases, are only recognised when contractually due. An asset will be recognised to represent the portion of an operating lease revenue in a reporting period relating to fixed increases in operating lease revenue in future periods. These assets will be recognised as a component of investment properties.

Interest and investment income is brought to account on a time proportion basis using the effective interest rate method and if not received at balance date is reflected in the statement of financial position as a receivable.

#### (n) Expenses

Expenses including operating expenses, Queensland land tax and other outgoings (if any) are brought to account on an accruals basis. Borrowing costs are recognised using the effective interest rate method.

#### (o) Employee benefits

##### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave due to be settled within 12 months of the reporting date are recognised as a current liability in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised as an expense when the leave is taken and measured at the rates paid or payable.

##### (ii) Share based payments

The grant date fair value of performance rights granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the performance rights. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest, except for those that fail to vest due to performance hurdles not being met.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the performance right, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the performance right, the share price at grant date and expected price volatility of the underlying security, the expected dividend yield and the risk-free interest rate for the term of the performance right.

The fair value of the performance rights granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of performance rights, the balance of the share based payments reserve relating to those performance rights is transferred to contributed equity.

##### (iii) Bonus plans

Liabilities and expenses for bonuses are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

##### (iv) Long service leave

ALE recognises liabilities for long service leave when employees reach a qualifying period of continuous service (five years). The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with the terms to maturity and currency that match, as closely as possible, the estimated future cash flow.

##### (v) Retirement benefit obligations

ALE pays fixed contributions to employee nominated superannuation funds and ALE's legal or constructive obligations are limited to these contributions. The contributions are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (p) Income tax

##### (i) Trusts

Under current legislation, Trusts are not liable for income tax, provided that their taxable income and taxable realised gains are fully distributed to security holders each financial year.

##### (ii) Companies

The income tax expense or benefit for the reporting period is the tax payable on the current reporting period's taxable income based on the Australian company tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of the assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax balances are calculated using the balance sheet method. Under this method, temporary differences arise between the carrying amount of assets and liabilities in the financial statements and the tax bases for the corresponding assets and liabilities. However, an exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not effect either accounting profit or taxable profit or loss. Similarly, no deferred tax asset or liability is recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled.

Deferred tax assets are recognised for temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### (q) Earnings per stapled security

##### (i) Basic earnings per stapled security

Basic earnings per stapled security are calculated by dividing the profit attributable to the equity holders of ALE by the weighted average number of stapled securities outstanding during the reporting period.

##### (ii) Diluted earnings per stapled security

Diluted earnings per stapled security adjusts the figures used in the determination of basic earnings per stapled security to take into account the after income tax effect of interest and other financing costs associated with dilutive potential stapled securities and the weighted average number of stapled securities assumed to have been issued for no consideration in relation to dilutive potential stapled securities.

#### (r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

#### (s) Financial risk management

ALE's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. ALE's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of ALE. ALE uses derivative financial instruments such as interest rate swaps and CPI Hedges to hedge certain risk exposures (Notes 5 and 35 provide further information).

#### (t) New accounting standards and UIG interpretation

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for ALE's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. ALE has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for ALE's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the ALE's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for ALE's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.



### NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (t) New accounting standards and UIG interpretation (continued)

– AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010)* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for ALE's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

#### (u) Segment reporting

As of 1 July 2009 ALE determines and presents operating segments based on the information that is provided internally to the Managing Director, who is ALE's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of ALE that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of ALE's other entities. All operating segments' operating results are regularly reviewed by ALE's Managing Director to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

### NOTE 4 DETERMINATION OF FAIR VALUES

A number of ALE's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Investment property

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss. ALE has a valuation process for determining the fair value at each reporting date. An independent valuer, having an appropriate professional qualification and recent experience in the location and category of property being valued, values individual properties every three years on a rotation basis or on a more regular basis if considered appropriate and as determined by management in accordance with Board approved valuation policy. These external independent valuations are taken into consideration when determining the fair value of the investment properties. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The average weighted lease term of the properties is 15 years.

The valuations of each independent property are prepared by considering the aggregate of the net annual passing rental receivable from the individual properties and where relevant, associated costs. A capitalisation rate, which reflects the specific risks inherent in the net cash flows, is then applied to the net annual passing rentals to arrive at the property valuation. The independent valuer may have regard to other valuation methods in cross-checking the primary capitalisation of income method. A table showing the range of capitalisation rates applied to individual properties for each state in which the property is held is included below.

	2010 Yields	2009 Yields
New South Wales	5.80% – 7.30%	5.79% – 7.25%
Victoria	5.50% – 7.25%	5.52% – 7.20%
Queensland	5.80% – 7.25%	5.45% – 6.75%
South Australia	6.50% – 6.80%	6.00% – 6.49%
Western Australia	6.00% – 6.80%	5.78% – 6.58%

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their creditworthiness, the allocation of maintenance, land tax (except Queensland) and insurance responsibilities between lessor and lessee, and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices, and where appropriate, counter-notices have been served validly and within the appropriate time.

#### (b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work-in-progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### (c) Derivatives

The fair value of interest rate swaps is based on mark-to-market valuation provided by swap counterparties. Those mark-to-market quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using the appropriate market interest rates (including credit margins where appropriate) for a similar instrument at the measurement date.

The fair value of CPI hedges are calculated based on the present value of future principal and interest cash flows, discounted at the appropriate market rate of interest (including credit margins where appropriate) as at the reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 5 FINANCIAL RISK MANAGEMENT

#### Overview

ALE has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about ALE's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit, Compliance and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by ALE, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and ALE's activities. ALE through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Compliance and Risk Management Committee oversees how management monitors compliance with ALE's risk management policies and procedures and reviews the adequacy of the risk management framework.

#### Credit risk

Credit risk is the risk of financial loss to ALE if its tenant or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from ALE's receivables from the tenant, investment securities and derivatives contracts.

##### *Trade and other receivables*

ALE's exposure to credit risk is influenced mainly by the individual characteristic of its tenant. ALE has one tenant (Australian Leisure and Hospitality Group Limited) and therefore there is significant concentration of credit risk with that tenant. Credit risk has been minimised primarily by ensuring, on a continuous basis, that the tenant has appropriate financial standing, there are also cross default provisions in the leases and the properties are essential to the tenant's business operations.

#### Liquidity risk

Liquidity risk is the risk that ALE will not be able to meet its financial obligations as they fall due. ALE's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to ALE's reputation. ALE manages its liquidity risk by using detailed forward cash flow planning and by maintaining strong relationships with banks and investors in the capital markets.

ALE has liquidity risk management policies, which assist it in monitoring cash flow requirements and optimising its cash return on investments. Typically ALE ensures that it has sufficient cash on demand to meet expected operational expenses and commitments for the purchase/sale of assets for a period of 90 days (or longer if deemed necessary), including the servicing of financial obligations.

#### Market risk

Market risk is the risk that changes in market prices, such as the consumer price index and interest rates will affect ALE's income or the value of its holdings of leases and financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

ALE enters into derivatives and financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit, Compliance and Risk Management Committee.

##### *Interest rate risk and consumer price index risk*

ALE adopts a policy of ensuring that all exposure to changes in interest rates on borrowings is hedged. This is achieved by entering into interest rate swaps to fix the interest rate and CPI hedges to match, where possible, liability movements with movement in property values.

##### *Property Valuation risk*

ALE owns a number of investment properties. Those property valuations may increase or decrease from time to time. Some of ALE's financing facilities contain gearing covenants. ALE manages the risk of gearing covenant breaches by constantly monitoring gearing levels and taking steps to ensure that sufficient headroom is maintained.

#### Capital management

ALE regards share capital and some of its financial liabilities as capital and monitors and manages these to address risks and add value where appropriate.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which ALE defines as distributable income, divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of distributions to stapled security holders.

The Board seeks to maintain a balance between the higher returns that may be achieved with higher levels of borrowings and the advantages and security afforded by a sound capital position. While ALE does not have a specific return on capital target, it seeks to ensure that capital is being used most efficiently at all times. In seeking to manage its capital efficiently, ALE from time to time may undertake on-market buybacks of both ALE stapled securities, ALE Notes and ALE Notes 2. ALE has also previously made ongoing capital distribution payments to stapled security holders on a fully transparent basis. Additionally, the available total returns on all new acquisitions are tested against the anticipated weighted cost of capital at the time of the acquisition.

ALE assesses the adequacy of its capital requirements, cost of capital and gearing as part of its broader strategic plan.

Gearing ratios are monitored and increased or decreased progressively, based on acquisition opportunities available, the availability of financing and a range of prudent financial metrics both at the time and on a projected basis going forward.

The outcomes of ALE's strategic planning process play an important role in determining acquisition and financing priorities over time.

The total gearing ratios at 30 June 2010 and 30 June 2009 were 63.7% and 69.0% respectively.

The net gearing ratios at 30 June 2010 and 30 June 2009 were 50.1% and 65.4% respectively.

	2010 \$'000	2009 \$'000
<b>NOTE 6 RENT FROM INVESTMENT PROPERTIES AND INTEREST FROM INVESTMENT ARRANGEMENTS</b>		
Rent from investment properties	53,330	54,703
Interest from investment arrangements	–	1,011
	<b>53,330</b>	<b>55,714</b>
ALE's investment property lease rentals and interest from investment arrangements are reviewed to state based CPI annually and are not subject to fixed increases, apart from the lease for the Pritchard's Hotel which has fixed increases.		
<b>NOTE 7 INTEREST INCOME</b>		
Operating bank and term deposit interest	<b>5,607</b>	<b>1,697</b>
As at 30 June 2010 the weighted average interest rate earned on cash was 5.73% (2009: 3.47%)		
<b>NOTE 8 CURRENT YEAR FAIR VALUE ADJUSTMENTS TO DERIVATIVES</b>		
Fair value increments/(decrements) to interest rate swap derivatives	(8,747)	7,267
Fair value increments/(decrements) CPI hedge derivatives	(22,676)	4,418
CPI hedge realised fair value net gain/(loss) for the period	(2,492)	–
	<b>(33,915)</b>	<b>11,685</b>
<b>NOTE 9 OTHER EXPENSES</b>		
Annual reports	73	102
Audit, accounting, tax and professional fees	264	219
Corporate advisory services	97	200
Depreciation expense – plant and equipment	46	53
Insurance	97	72
Legal fees	223	418
Dispute costs	300	293
Occupancy costs	122	118
Other expenses	332	395
Property condition and compliance audits	141	–
Registry fees	125	100
Salaries, fees and related costs	1,705	1,558
Staff training	33	25
Travel and accommodation	43	22
Trustee and custodian fees	147	145
	<b>3,748</b>	<b>3,720</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
<b>NOTE 10 FINANCE COSTS (CASH AND NON-CASH)</b>			
<b>Finance costs – cash</b>			
Capital Indexed Bonds	22(a)	4,553	4,684
Commercial Mortgage Backed Securities	22(b)	5,002	6,213
ALE Notes	22(e)	4,101	4,571
ALE Notes 2	22(f)	1,864	–
National Australia Bank Facility	22(d)	2,296	2,614
Other finance expenses	(ii)	212	236
	(i)	<b>18,028</b>	<b>18,318</b>
<b>Finance costs – non-cash</b>			
Accumulating indexation – CIB	22(a)	2,666	5,843
Accumulating indexation – CPI Hedges	22(c)	8,481	15,563
Amortisation – CMBS & CIB	(iii)	259	239
Amortisation – NAB facility	(iii)	206	156
Amortisation – CPI Hedges	(iii)	4	4
Amortisation – ALE Notes	(iii)	1,727	1,585
Amortisation – ALE Notes premium	(iv)	547	512
Amortisation – ALE Notes 2	(iii)	109	–
		<b>13,999</b>	<b>23,902</b>
<b>Finance costs (cash and non-cash)</b>		<b>32,027</b>	<b>42,220</b>
<p>(i) Amounts represent net cash finance costs after derivative payments and receipts.</p> <p>(ii) Other borrowing costs such as rating agency fees and liquidity fees.</p> <p>(iii) Establishment costs of the various borrowings are amortised over the period of the borrowing on an effective rate basis.</p> <p>(iv) Premium of \$2.50 per outstanding note payable on maturity of ALE Notes is accruing over the period of November 2003 to September 2011 on an effective rate basis.</p>			
<b>NOTE 11 DERIVATIVES</b>			
Asset		21,190	39,839
Liability		(25,537)	(16,029)
<b>Net asset/(liability)</b>		<b>(4,347)</b>	<b>23,810</b>

### Instruments used by ALE

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 ALE's financial risk management policies. As at 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.

Note 22 contains further information on the derivative financial instruments in place over current borrowings.

	2010 \$'000	2009 \$'000
<b>NOTE 12 INCOME TAX</b>		
Current tax expense/(benefit)	1	–
Deferred tax expense	148	(7,107)
<b>Income tax expense/(benefit)</b>	<b>149</b>	<b>(7,107)</b>
<b>Deferred income tax expense included in income tax expense/(benefit) comprises:</b>		
Decrease/(increase) in deferred tax asset (Note 13)	148	(1,517)
	148	(1,517)
<b>Reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) before income tax expense	(15,375)	20,257
Profit/(loss) attributable to entities not subject to tax	(15,680)	44,067
Profit/(loss) before income tax expense subject to tax	305	(23,810)
Tax at the Australian tax rate of 30%	92	(7,143)
<b>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</b>		
Share based payments	39	47
Other	23	(4)
Under/(over) provision in prior years	(5)	(7)
<b>Income tax expense/(benefit)</b>	<b>149</b>	<b>(7,107)</b>
<b>NOTE 13 DEFERRED TAX ASSET</b>		
Deferred tax asset	<b>2,233</b>	<b>2,381</b>
<b>The balance is attributable to :</b>		
Derivatives – interest rate swaps	2,187	2,214
Employee benefits	3	6
Acquisition proposal due diligence costs	4	109
Amortised borrowing costs	(246)	(195)
Accruals	128	238
Other items	(15)	(23)
Tax losses	172	32
<b>Net deferred tax assets</b>	<b>2,233</b>	<b>2,381</b>
<b>Movements:</b>		
Opening balance	2,381	(4,726)
Credited/(charged) to the statement of comprehensive income (Note 12)	(148)	7,107
Credited/(charged) to equity	–	–
<b>Closing balance</b>	<b>2,233</b>	<b>2,381</b>
Deferred tax assets to be recovered within 12 months	206	317
Deferred tax assets to be recovered after more than 12 months	2,027	2,064
	<b>2,233</b>	<b>2,381</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
<b>NOTE 14 DISTRIBUTIONS AND EARNINGS PER STAPLED SECURITY</b>			
Reconciliation of profit/(loss) after tax to amounts available for distribution:			
<b>Profit/(loss) after income tax for the year</b>	(a)	<b>(15,524)</b>	<b>27,364</b>
Plus/(less)			
Loss/(profit) on sale of investment properties		1,271	(3,688)
Gain on termination of interest rate derivatives		–	(1,371)
Fair value decrements to investment properties		4,130	5,985
Fair value increments/(decrements) to derivatives		33,915	(11,685)
Employee share based payments		130	157
Finance costs – non-cash	10	13,999	23,902
Income tax expense/(benefit)		149	(7,107)
<b>Adjustments for non-cash items</b>		<b>53,594</b>	<b>6,193</b>
<b>Total available for distribution</b>	(b)	<b>38,070</b>	<b>33,557</b>
Distribution paid or provided for	(d)	36,586	26,153
<b>Available and under/(over) distributed for the year</b>	(e)	<b>1,484</b>	<b>7,404</b>
		<b>Number of Stapled Securities On Issue 2010</b>	<b>Number of Stapled Securities On Issue 2009</b>
Weighted average number of stapled securities used as the denominator in calculating earnings per stapled security at (a) and (b) below		141,837,573	86,845,689
Weighted average number of stapled securities and potential stapled securities used as the denominator in calculating diluted earnings per stapled security		141,837,573	86,845,689
Stapled securities on issue at the end of the year used in calculating distribution per stapled security at (c) below		153,354,571	87,692,019
		<b>2010 cps</b>	<b>2009 cps</b>
(a) Basic and diluted earnings per stapled security		(10.94)	31.51
(b) Basic and diluted earnings per stapled security excluding non cash items (Free Cash Flow)		26.84	38.64
(c) Total available for distribution		24.82	38.64
(d) Distribution per stapled security		24.00	30.00
(e) Available and under/(over) distributed for the year		0.82	8.64

cps = cents per security.

	2010 \$'000	2009 \$'000
<b>NOTE 15 CASH ASSETS AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	3,494	20,339
Deposits at call	123,068	10,066
Cash reserve	5,500	5,500
	<b>132,062</b>	<b>35,905</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.

During the year ended 30 June 2010 all cash assets were placed on deposit with either the ANZ Banking Group Limited, National Australia Bank Limited, Westpac Banking Corporation, Commonwealth Bank of Australia Limited, Bankwest Limited, or Macquarie Bank Limited. As at 30 June 2010 the weighted average interest rate on all cash assets was 5.73% (2009: 3.61%).

*Reconciliation of profit/(loss) after income tax to net cash inflows from operating activities*

Profit/(loss) for the year	(15,524)	27,364
Plus/(less):		
Fair value decrements/(increments) to investment property	4,130	5,985
Fair value decrements/(increments) to derivatives	33,915	(13,055)
Finance costs amortisation	2,852	2,496
Loss/(Gain) on disposal of investment property	1,271	(3,688)
Discount of debt buybacks	(5,661)	–
Accumulated indexation on CIB	2,666	5,843
Accumulated indexation on CPI Hedges	8,481	15,563
Share based payments expense	130	157
Depreciation	46	52
Decrease/(increase) in receivables	(1,638)	67
Decrease/(increase) in deferred tax asset	148	(7,107)
Decrease/(increase) in other assets	(781)	482
Increase/(decrease) in payables	510	(1,672)
Increase/(decrease) in provisions	(12)	(16)
Increase/(decrease) in other liabilities	–	(201)
<b>Net cash inflow from operating activities for the year</b>	<b>30,533</b>	<b>32,270</b>

- (a) During February/March 2010 five properties were sold. Settlement of one of these properties occurred post 30 June 2010, therefore proceeds from that disposal of property were not received in the current year. Disposal costs have been deducted from the gross sale proceeds received.
- (b) During June 2009 five properties were sold. Settlement of these properties occurred during the current financial year. Disposal costs have been deducted from the gross sale proceeds received.
- (c) Distribution payments totalling \$4,636,248 were satisfied by the issue of securities under the Distribution Reinvestment Plan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	2010 \$'000	2009 \$'000
<b>NOTE 16 OTHER</b>		
<b>Current</b>		
Prepaid expenses	863	82
<b>NOTE 17 RECEIVABLES</b>		
Accounts receivable	9,141	790
Net property sale proceeds receivable	6,250	27,239
Interest receivable	2,416	1,049
	<b>17,807</b>	<b>29,078</b>
<b>NOTE 18 INVESTMENT PROPERTIES</b>		
Investment properties – at fair value	<b>713,850</b>	<b>804,765</b>
<b>Reconciliation</b>		
A reconciliation of the carrying amounts of investment properties at the beginning and end of the year is set out below:		
Carrying amount at beginning of the year	804,765	820,270
Acquisitions	–	15,640
Disposals – at fair value	(78,705)	(25,160)
Resumptions – at fair value	(8,080)	–
Net gain/(loss) from fair value adjustments	(4,130)	(5,985)
<b>Carrying amount at the end of the year</b>	<b>713,850</b>	<b>804,765</b>

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 30 June 2010 the weighted average investment property capitalisation rate used to determine the value of all investment properties was 6.60% (2009: 6.45%).

### 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.



**NOTE 18 INVESTMENT PROPERTIES (CONTINUED)**

Property	Date acquired	Cost including additions \$'000	Valuation type and date	Fair value at 30 June 2010 \$'000	Fair value at 30 June 2009 \$'000	Fair value gains/ (losses) 30 June 2010 \$'000
<b>New South Wales</b>						
Blacktown Inn, Blacktown	Nov-03	5,472	A	7,930	7,830	100
Brown Jug Hotel, Fairfield Heights	Nov-03	5,660	B	8,140	8,090	50
Colyton Hotel, Colyton	Nov-03	8,208	B	12,690	12,550	140
Crows Nest Hotel, Crows Nest	Nov-03	8,772	A	11,750	11,590	160
Melton Hotel, Auburn	Nov-03	3,114	B	5,110	5,050	60
Narrabeen Sands Hotel, Narrabeen	Mar-09	8,945	B	10,020	9,880	140
New Brighton Hotel, Manly	Nov-03	8,867	B	11,950	11,800	150
Pioneer Tavern, Penrith	Nov-03	5,849	B	8,460	8,350	110
Pritchard's Hotel, Mount Pritchard	Oct-07	21,130	B	18,710	18,290	420
Smithfield Tavern, Smithfield	Nov-03	4,151	A	6,140	6,300	(160)
<b>Total New South Wales properties</b>		<b>80,168</b>		<b>100,900</b>	<b>99,730</b>	<b>1,170</b>
<b>Queensland</b>						
Albany Creek Tavern, Albany Creek	Nov-03	8,396	A	10,160	10,560	(400)
Albion Hotel, Albion	Nov-03	—	C	—	6,325	—
Alderley Arms Hotel, Alderley	Nov-03	3,303	B	4,600	4,740	(140)
Anglers Arms Hotel, Southport	Nov-03	4,434	A	6,550	6,590	(40)
Balaclava Hotel, Cairns	Nov-03	3,304	B	4,830	5,020	(190)
Breakfast Creek Hotel, Breakfast Creek	Nov-03	10,659	A	11,760	11,500	260
Burleigh Heads Hotel, Burleigh Heads	Nov-08	6,685	A	9,840	9,090	750
Camp Hill Hotel, Camp Hill	Nov-03	2,265	B	2,980	3,280	(300)
CBX Caloundra Hotel, Caloundra	Oct-05	—	C	—	6,550	—
Chardons Corner Hotel, Annerly	Nov-03	1,416	B	1,600	2,010	(410)
Dalrymple Hotel, Townsville	Nov-03	3,208	B	4,820	5,125	(305)
Edge Hill Tavern, Manoora	Nov-03	2,359	B	3,920	4,075	(155)
Edinburgh Castle Hotel, Kedron	Nov-03	3,114	A	4,260	5,040	(780)
Ferny Grove Tavern, Ferny Grove	Nov-03	—	D	—	7,900	180
Four Mile Creek, Strathpine	Jun-04	3,672	B	5,380	5,680	(300)
Hamilton Hotel, Hamilton	Nov-03	6,604	B	6,530	7,230	(700)
Holland Park Hotel, Holland Park	Nov-03	3,774	A	5,500	5,650	(150)
Kedron Park Hotel, Kedron Park	Nov-03	2,265	A	2,850	3,020	(170)
Kirwan Tavern, Townsville	Nov-03	4,434	B	7,210	7,700	(490)
Lawnton Tavern, Lawnton	Nov-03	4,434	A	6,030	6,770	(740)
Miami Tavern, Miami	Nov-03	4,057	B	6,620	5,980	640
Mount Gravatt Hotel, Mount Gravatt	Nov-03	3,208	B	4,440	4,620	(180)
Mount Pleasant Tavern, Mackay	Nov-03	1,794	A	2,950	3,240	(290)
Noosa Reef Hotel, Noosa Heads	Jun-04	6,874	B	10,650	10,750	(100)
Nudgee Beach Hotel, Nudgee	Nov-03	3,020	B	3,770	3,910	(140)
Oxford 152, Bulimba	Nov-03	—	C	—	6,310	160
Palm Beach Hotel, Palm Beach	Nov-03	6,886	B	9,580	9,940	(360)
Pelican Waters, Caloundra	Jun-04	4,237	B	6,020	6,040	(20)
Prince of Wales Hotel, Nundah	Nov-03	3,397	B	4,970	5,210	(240)
Racehorse Hotel, Booval	Nov-03	1,794	A	1,610	1,760	(150)
Redland Bay Hotel, Redland Bay	Nov-03	5,189	B	3,800	7,450	(3,650)
Royal Exchange Hotel, Toowong	Nov-03	5,755	B	7,620	7,950	(330)
Springwood Hotel, Springwood	Nov-03	9,150	B	11,710	12,150	(440)
Stones Corner Hotel, Stones Corner	Nov-03	5,377	A	7,810	7,940	(130)
Sunnybank Hotel, Sunnybank	Nov-03	—	C	—	8,000	—
Vale Hotel, Townsville	Nov-03	5,661	A	8,950	9,510	(560)
Wilsonton Hotel, Toowoomba	Nov-03	4,529	B	6,820	6,930	(110)
<b>Total Queensland properties</b>		<b>145,254</b>		<b>196,140</b>	<b>241,545</b>	<b>(9,980)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 18 INVESTMENT PROPERTIES (CONTINUED)

Property	Date acquired	Cost including additions \$'000	Valuation type and date	Fair value at 30 June 2010 \$'000	Fair value at 30 June 2009 \$'000	Fair value gains/ (losses) 30 June 2010 \$'000
<b>South Australia</b>						
Aberfoyle Hub Tavern, Aberfoyle Park	Nov-03	3,303	B	5,120	5,420	(300)
Enfield Hotel, Clearview	Nov-03	—	C	—	4,450	—
Eureka Tavern, Salisbury	Nov-03	3,303	B	5,290	5,590	(300)
Exeter Hotel, Exeter	Nov-03	1,888	B	3,210	3,430	(220)
Finsbury Hotel, Woodville North	Nov-03	1,605	A	2,680	2,870	(190)
Gepps Cross Hotel, Blair Athol	Nov-03	2,171	B	3,800	4,020	(220)
Hendon Hotel, Royal Park	Nov-03	1,605	A	2,810	3,000	(190)
Ramsgate Hotel, Henley Beach	Nov-03	—	C	—	5,950	—
Stockade Tavern, Salisbury	Nov-03	4,435	B	6,770	7,250	(480)
<b>Total South Australian properties</b>		<b>18,310</b>		<b>29,680</b>	<b>41,980</b>	<b>(1,900)</b>
<b>Victoria</b>						
Ashley Hotel, Braybrook	Nov-03	3,963	B	6,190	6,410	(220)
Bayswater Hotel, Bayswater	Nov-03	9,905	A	15,780	15,450	330
Berwick Inn, Berwick	Feb-06	15,888	B	17,220	16,220	1,000
Blackburn Hotel, Blackburn	Nov-03	9,433	A	12,650	12,400	250
Blue Bell Hotel, Wendouree	Nov-03	1,982	B	3,770	3,740	30
Boundary Hotel, East Bentleigh	Jun-08	17,943	A	19,810	19,400	410
Burvale Hotel, Nunawading	Nov-03	9,717	B	14,720	13,610	1,110
Club Hotel – FTG, Ferntree Gully	Nov-03	5,095	A	8,400	8,250	150
Cramers Hotel, Preston	Nov-03	8,301	B	13,220	12,940	280
Daveys Hotel, Frankston	Nov-03	—	C	—	4,860	—
Deer Park Hotel, Deer Park	Nov-03	6,981	B	10,630	10,490	140
Doncaster Inn, Doncaster	Nov-03	12,169	B	17,580	17,210	370
Eltham Hotel, Eltham	Nov-03	—	C	—	8,080	50
Ferntree Gully Hotel/Motel, Ferntree Gully	Nov-03	4,718	B	8,250	8,100	150
Gateway Hotel, Corio	Nov-03	3,114	B	5,570	5,540	30
Keysborough Hotel, Keysborough	Nov-03	9,622	A	12,850	12,670	180
Mac's Melton Hotel, Melton	Nov-03	6,886	A	10,160	10,030	130
Meadow Inn Hotel/Motel, Fawkner	Nov-03	8,113	B	11,980	11,820	160
Mitcham Hotel, Mitcham	Nov-03	8,584	B	12,260	12,100	160
Morwell Hotel, Morwell	Nov-03	1,511	B	3,090	3,020	70
Mountain View Hotel, Glen Waverley	Nov-03	—	C	—	11,150	70
Olinda Creek Hotel, Lilydale	Nov-03	3,963	B	6,070	6,550	(480)
Pier Hotel, Frankston	Nov-03	8,019	A	11,030	11,290	(260)
Plough Hotel, Mill Park	Nov-03	8,490	A	11,630	12,420	(790)
Prince Mark Hotel, Doveton	Nov-03	9,810	A	14,630	14,380	250
Royal Hotel – Essendon, Essendon	Nov-03	—	C	—	7,050	40
Royal Exchange, Traralgon	Nov-03	2,171	B	4,300	4,210	90
Royal Hotel – Sunbury, Sunbury	Nov-03	—	C	—	4,920	—
Sandbelt Club Hotel, Moorabbin	Nov-03	10,849	B	15,510	15,190	320
Sandown Park Hotel/Motel, Noble Park	Nov-03	6,321	B	9,110	8,920	190
Sandringham Hotel, Sandringham	Nov-03	4,529	B	8,070	7,380	690
Somerville Hotel, Somerville	Nov-03	2,642	A	4,940	4,840	100
Stamford Inn, Rowville	Nov-03	12,733	B	17,640	16,210	1,430
Sylvania Hotel, Campbellfield	Nov-03	5,377	A	8,860	8,690	170
Tudor Inn, Cheltenham	Nov-03	5,472	B	8,420	8,240	180
The Vale Hotel, Mulgrave	Nov-03	5,566	B	8,330	8,150	180
Victoria Hotel, Shepparton	Nov-03	2,265	B	4,090	4,250	(160)
Village Green Hotel, Mulgrave	Nov-03	12,546	A	16,290	15,960	330
Westmeadows Tavern, Westmeadows	Nov-03	—	C	—	4,710	30
Young & Jackson, Melbourne	Nov-03	6,132	B	8,910	8,830	80
<b>Total Victorian properties</b>		<b>250,810</b>		<b>361,960</b>	<b>395,680</b>	<b>7,240</b>

**NOTE 18 INVESTMENT PROPERTIES (CONTINUED)**

Property	Date acquired	Cost including additions \$'000	Valuation type and date	Fair value at 30 June 2010 \$'000	Fair value at 30 June 2009 \$'000	Fair value gains/ (losses) 30 June 2010 \$'000
<b>Western Australia</b>						
Balmoral Hotel, East Victoria Park	Jul-07	6,377	B	6,150	6,210	(60)
The Brass Monkey Hotel, Northbridge	Nov-07	7,815	B	7,400	7,750	(350)
Queens Tavern, Highgate	Nov-03	4,812	B	6,990	7,120	(130)
Sail & Anchor Hotel, Fremantle	Nov-03	3,114	B	4,630	4,750	(120)
<b>Total Western Australian properties</b>		<b>22,118</b>		<b>25,170</b>	<b>25,830</b>	<b>(660)</b>
<b>Total investment properties</b>		<b>516,660</b>		<b>713,850</b>	<b>804,765</b>	<b>(4,130)</b>
<b>Reconciliation of fair value gains/losses for year ending 30 June 2010</b>						
Fair value as at 30 June 2009						804,765
Disposals during the year ended 30 June 2010						(78,705)
Resumptions during the year ended 30 June 2010						(8,080)
Additions during year ended 30 June 2010						–
Carrying amount before 30 June 2010 valuations						717,980
Fair value at 30 June 2010						713,850
<b>Fair value gain/(loss) for year ended 30 June 2010</b>						<b>(4,130)</b>

**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** Properties sold during the financial year.

**D** Property resumed by Queensland Government on 11 June 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	2010 \$'000	2009 \$'000
<b>NOTE 19 PLANT AND EQUIPMENT</b>		
<i>Furniture, fittings and equipment</i>		
At Cost	52	52
Accumulated depreciation	(37)	(34)
	15	18
<i>Computer equipment</i>		
At Cost	111	111
Accumulated depreciation	(97)	(83)
	14	28
<i>Office fitout</i>		
At Cost	180	180
Accumulated depreciation	(169)	(140)
	11	40
<i>Total</i>		
At Cost	343	343
Accumulated depreciation	(303)	(257)
Net book value	<b>40</b>	<b>86</b>
<b>Movement in Plant and Equipment</b>		
<i>Furniture, fittings and equipment</i>		
Net book value at the beginning of the year	18	23
Additions	–	3
Disposals	–	(3)
Depreciation charge	(3)	(5)
Net book value at the end of the year	15	18
<i>Computer equipment</i>		
Net book value at the beginning of the year	28	20
Additions	–	26
Disposals	–	–
Depreciation charge	(14)	(18)
Net book value at the end of the year	14	28
<i>Office fitout</i>		
Net book value at the beginning of the year	40	68
Additions	–	–
Disposals	–	–
Depreciation charge	(29)	(28)
Net book value at the end of the year	11	40
<i>Total</i>		
Net book value at the beginning of the year	86	111
Additions	–	29
Disposals	–	(3)
Depreciation charge	(46)	(51)
Net book value at the end of the year	<b>40</b>	<b>86</b>

	Note	2010 \$'000	2009 \$'000
<b>NOTE 20 PAYABLES</b>			
Trade creditors		315	258
Interest accrued on CMBS		881	940
Interest accrued on CIB		484	528
Interest accrued on NAB Facility		–	280
Interest accrued on ALE Notes		1,535	2,747
Interest accrued on ALE Notes 2		1,864	–
Other accruals		1,629	1,445
		<b>6,708</b>	<b>6,198</b>
<b>NOTE 21 PROVISIONS</b>			
Provision for distribution		18,403	13,154
Provision for employee entitlements		9	21
		<b>18,412</b>	<b>13,175</b>
<b>NOTE 22 BORROWINGS</b>			
<b>Current borrowings</b>		<b>158,185</b>	<b>–</b>
<b>Non-current borrowings</b>		<b>356,610</b>	<b>607,212</b>
<b>Current borrowings</b>			
CMBS – maturing May 2011	(b)	158,185	–
<b>Non-current borrowings</b>			
CIB – maturing November 2023	(a)	126,349	138,362
CMBS – maturing May 2011	(b)	–	244,557
CPI Hedge – maturing November 2023	(c)	20,449	15,218
CPI Hedge – maturing May 2023	(c)	4,496	5,932
NAB Facility – repaid	(d)	–	54,794
ALE Notes – maturing September 2011	(e)	83,603	148,349
ALE Notes 2 – maturing August 2014	(f)	121,713	–
		<b>356,610</b>	<b>607,212</b>
The maturity dates indicated are the scheduled maturity dates.			
<b>CIB</b>			
Opening balance		138,362	132,492
Repayment of borrowings		(14,710)	–
Accumulating indexation		2,666	5,843
Amortisation of establishment costs		31	27
<b>Closing balance</b>		<b>126,349</b>	<b>138,362</b>
<b>CMBS</b>			
Opening balance		244,557	244,345
Repayment of borrowings		(86,600)	–
Amortisation of establishment costs		228	212
<b>Closing balance</b>		<b>158,185</b>	<b>244,557</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	2010 \$'000	2009 \$'000
<b>NOTE 22 BORROWINGS (CONTINUED)</b>		
<b>CPI Hedge – Maturing November 2023</b>		
Opening balance	15,218	5,593
Accumulating indexation	5,226	9,622
Amortisation of establishment costs	5	3
<b>Closing balance</b>	<b>20,449</b>	<b>15,218</b>
<b>CPI Hedge – Maturing May 2023</b>		
Opening balance	5,932	–
Repayment of borrowings	(4,692)	–
Accumulating indexation	3,255	5,941
Borrowing establishment costs capitalised	–	(10)
Amortisation of establishment costs	1	1
<b>Closing balance</b>	<b>4,496</b>	<b>5,932</b>
<b>NAB – Working capital facility</b>		
Opening balance	54,794	35,911
Repayment of borrowings	(55,000)	–
Drawdown – July 2008	–	19,000
Borrowing establishment costs capitalised	–	(273)
Amortisation of establishment costs	206	156
<b>Closing balance</b>	<b>–</b>	<b>54,794</b>
<b>ALE Notes</b>		
Opening balance	148,349	146,252
Repayment of borrowings	(67,020)	–
Amortisation of establishment costs	1,727	1,585
Premium payable at maturity – accrued	547	512
<b>Closing balance</b>	<b>83,603</b>	<b>148,349</b>
<b>ALE Notes 2</b>		
Opening balance	–	–
Proceeds of borrowings	125,000	–
Borrowing establishment costs capitalised	(3,396)	–
Amortisation of establishment costs	109	–
<b>Closing balance</b>	<b>121,713</b>	<b>–</b>

### (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. During the year \$13.1 million of the notional balance of the CIB's with a book value of \$14.7 million were bought back by ALE at a discount of \$3.23 million to their face value.

### (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. During the year \$86.6 million of CMBS were bought back by ALE at a discount of \$3.350 million to their face value.

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 (May 2011), 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 is obliged to receive floating rate interest and pay fixed rate interest. On 7 December 2007, contracts were entered into which offset the pre-existing swap contracts for interest on the \$245 million 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.

**NOTE 22 BORROWINGS (CONTINUED)****(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 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 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 year ending 30 June 2010, \$0.375 million of net swap interest from the CPI Hedge was received/receivable (2009: \$3.965 million received/receivable).

**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 year ending 30 June 2010, \$0.263 million of net swap interest from the CPI Hedge was paid/payable (2009: \$3.546 million received/receivable).

**(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. During the year the facility was repaid in full.

**(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 interest rate 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 buyback of ALE Notes 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 \$84.29 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.

**(g) Interest rate swaps**

At 30 June 2010, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2010 \$'000	2009 \$'000
Less than 1 year	–	–
1–2 years	–	–
2–3 years	–	–
3–4 years	–	–
4–5 years	–	–
Greater than 5 years*	325,000	450,000
	325,000	450,000

\* The periods of expiry shown assume the rights not to break and rights to extend are exercised by the hedge counterparties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 22 BORROWINGS (CONTINUED)

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 14.0 years at 30 June 2009 to 12.9 years at 30 June 2010.

The gain or loss from marking to market the interest rate hedges (derivatives) at fair value is taken directly to the statement of comprehensive income. In the year ended 30 June 2010 a decrement in value of \$33.915 million was recognised to the statement of comprehensive income (2009: increment in value of \$11.685 million).

#### Assets pledged as security

The ALE Notes and ALE Notes 2 are unsecured. The carrying amounts of assets pledged as security as at the balance date for CMBS borrowings, CIB borrowings, and certain interest rate derivatives are:

	2010 \$'000	2009 \$'000
<b>Current assets</b>		
Cash reserve	5,500	5,500
<b>Non-current assets</b>		
Total investment properties	713,850	804,765
<i>Less: Properties not subject to mortgages</i>		
Boundary Hotel, VIC	(19,810)	(19,400)
Pritchard's Hotel, Mt Pritchard NSW	(18,710)	(18,290)
The Brass Monkey Hotel, Northbridge WA	(7,400)	(7,750)
<b>Properties subject to first mortgages</b>	<b>667,930</b>	<b>759,325</b>
<b>Total assets pledged as security (including cash reserve)</b>	<b>673,430</b>	<b>764,825</b>

In the event of a default by the properties' tenant, Australian Leisure and Hospitality Group Limited (ALH), and 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.

#### 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 borrowing  
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 interest  
Interest amounts include all derivative rate swap payments and receipts

At 30 June 2010 and 30 June 2009 ALE was in compliance with all of the above covenants.



	2010 \$'000	2009 \$'000
<b>NOTE 23 CONTRIBUTED EQUITY</b>		
Balance at the beginning of the period	64,761	60,384
DRP implementation costs	–	(25)
Securities issued – ALE Executive Performance Rights Plan	26	146
Securities issued – Dividend Reinvestment Plan	4,636	4,256
Securities issued – institutional placement	29,596	–
Securities issued – rights issue	75,634	–
Institutional placement and rights issue costs	(4,815)	–
	<b>169,838</b>	<b>64,761</b>

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

	2010 Number of Stapled Securities	2009 Number of Stapled Securities
Stapled securities on issue:		
Balance at the beginning of the period	87,692,019	85,813,747
Securities issued – ALE Executive Performance Rights Plan	11,088	61,826
Securities issued – Dividend Reinvestment Plan	2,074,471	1,816,446
Securities issued – institutional placement	13,153,803	–
Securities issued – rights issue	50,423,190	–
<b>Balance at the end of the period</b>	<b>153,354,571</b>	<b>87,692,019</b>

**Stapled securities**

Each stapled security comprises one share in the Company and one unit in the Trust. They cannot be traded or dealt with separately. Stapled securities entitle the holder to participate in dividends/distributions and the proceeds on any winding up of ALE in proportion to the number of, and amounts paid on, the securities held. On a show of hands every holder of stapled securities present at a meeting, in person or by proxy, is entitled to one vote. On a poll each ordinary shareholder is entitled to one vote for each fully paid share and each unit holder is entitled to one vote for each fully paid unit.

**Non-income voting units (NIVUS)**

The Trust issued 9,080,010 of non-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.

**Institutional placement and rights issue**

During the year the ALE Property Group undertook an Institutional Placement of stapled securities of 15% of the issued stapled securities. These stapled securities were issued at \$2.25 each. In addition a 1 for 2 rights issue was conducted, with the stapled securities issued at \$1.50 per stapled security.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	2010 \$'000	2009 \$'000
<b>NOTE 24 RETAINED PROFITS</b>		
Balance at the beginning of the year	204,677	203,318
Profit/(loss) attributable to stapled security holders	(15,524)	27,364
Transfer from share based payments reserve	5	148
Total available for appropriation	189,158	230,830
Distributions provided for or paid during the year	(36,586)	(26,153)
<b>Balance at the end of the year</b>	<b>152,572</b>	<b>204,677</b>
<b>NOTE 25 SHARE BASED PAYMENTS RESERVE</b>		
Balance at the beginning of the year	84	221
Employee share based payments	130	157
Transfer to Retained Profits on lapsing of performance rights	(5)	(148)
Vesting of performance rights transferred to equity	(26)	(146)
	<b>183</b>	<b>84</b>

Share based payments are detailed further in Note 26.

### NOTE 26 SHARE BASED PAYMENTS

During 2007 ALE established a Performance Rights Plan that entitles key management personnel, subject to performance, to become entitled to acquire stapled securities at nil cost to the employee. Under the Performance Rights Plan grants of performance rights (PR) have been made to Mr Wilkinson and Mr Slade respectively. In accordance with the plan the performance rights vest upon performance hurdles being achieved. The securities issued under the plan are issued at nil cost to the employee.

The terms and conditions of the grants are as follows:

Employee entitled	Grant date	Number of PRs	Vesting conditions	Contractual Life of PRs
Mr A F O Wilkinson	1 June 2009	160,026	1. Service period 2. Total Shareholder Return (TSR) compared to comparative group 3. Absolute TSR	1 June 2011
Mr A J Slade	30 June 2008 1 July 2008 1 July 2009	15,552 30,206 46,146	1. Service period 2. Total Shareholder Return (TSR) compared to comparative group 3. Absolute TSR	30 June 2010 30 June 2011 30 June 2012

The vesting conditions for Mr Slade's performance rights are tested annually, soon after 30 June each year. One third of the number of performance rights issued are tested at each 30 June over a three year period.

The number and weighted average fair values of the performance rights on issue are as follows:

	Number of performance rights 2010	Weighted average fair value 2010	Number of performance rights 2009	Weighted average fair value 2009
Outstanding at 1 July	41,013	1.88	106,068	3.03
Granted during period	210,583	0.98	30,206	1.67
Vested during year	(11,088)	1.97	(61,826)	2.37
Lapsed during year	(3,173)	1.97	(33,435)	2.37
Outstanding at 30 June	237,335	1.11	41,013	1.88

The performance rights value is the assessed fair value at grant date of the performance rights, allocated equally over the period from grant date to vesting date. The fair value at grant date has been independently determined by using a Black-Scholes option pricing model. This technique takes into account factors such as the exercise price, the term of the performance rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance rights, the security price at grant date and expected price volatility of the underlying security, the expected distribution yield and the risk-free interest rate for the term of the performance rights.

**NOTE 27 KEY MANAGEMENT PERSONNEL DISCLOSURES****(a) Directors**

The following persons were Directors of ALE Property Group, comprising Australian Leisure and Entertainment Property Trust and its controlled entities, during the financial year:

Name	Type	Appointed
P H Warne (Chairman)	Non-executive	8 September 2003
J P Henderson	Non-executive	19 August 2003
H I Wright	Non-executive	8 September 2003
A F O Wilkinson (Managing Director)	Executive	16 November 2004
J T McNally	Executive	26 June 2003

**(b) Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of ALE, directly or indirectly, during the year:

Name	Title
Andrew Slade	Capital Manager
Brendan Howell	Company Secretary and Compliance Officer
Michael Clarke	Finance Manager

**(c) Compensation for key management**

The following table sets out the compensation for key management personnel in aggregate. Refer to the Remuneration Report in the Directors' Report for details of the remuneration policy and compensation details by individual.

	2010 \$	2009 \$
Short term employee benefits	1,325,465	1,151,267
Post employment benefits	60,879	56,932
Other long term benefits	2,021	–
Share based payments	130,000	157,094
	<b>1,518,365</b>	<b>1,365,293</b>

**NOTE 28 REMUNERATION OF AUDITORS****Audit services**

*KPMG Australian firm:*

Audit and review of the financial reports of the Group and other audit work under the *Corporations Act 2001*

– in relation to current year

167,712

140,359

– in relation to prior year

30,000

30,000

**Total remuneration for audit services**

**197,712**

**170,359**

**Other Services**

*KPMG Australian firm:*

Transaction compliance services

150,983

–

**Total other services**

**150,983**

–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 29 RELATED PARTY TRANSACTIONS

#### (a) Parent entity, subsidiaries and associates

Details are set out in Note 36.

#### (b) Key management personnel

Key management personnel and their compensation is set out in Note 27.

#### (c) Transactions with related parties

For the year ended 30 June 2010 the Company received \$3,034,011 of expense reimbursement from the Trust (2009: \$3,205,958) and the Finance Company charged the Sub Trust \$20,704,572 in interest (2009: \$26,348,861).

Peter Warne is also a director of Next Financial Limited (Next Financial) which acts as an Investment Manager. At 30 June 2010 Next Financial held on behalf of its clients (other than Peter Warne) 3,396,558 (2009: 2,483,714) stapled securities in the ALE Property Group. With the exception of his own holding, Peter Warne is not involved in any of the decision making processes regarding those securities in ALE Property Group that are held by Next Financial for its clients. Procedures have been put into place to ensure Peter Warne's independence and confidentiality of information are maintained.

Peter Warne is a non-executive director of Macquarie Group Limited ("Macquarie"). Macquarie has provided banking services and corporate advice to ALE in the past and may continue to do so in the future. Mr Warne does not take part in any decisions to appoint Macquarie in relation to banking services and corporate advice provided by Macquarie to ALE.

#### (d) Terms and conditions

All related party transactions are conducted on normal commercial terms and conditions.

Outstanding balances are unsecured and are repayable in cash and callable on demand.

### NOTE 30 COMMITMENTS

#### (a) Capital commitments

The Directors are not aware of any capital commitments as at the date of this report.

#### (b) Lease commitments

ALE has entered into a non-cancellable operating lease for its office premises at Level 7, 1 O'Connell Street, Sydney, this lease expires in November 2010. The Company has entered into a non-cancellable operating lease for new office premises at Level 10, 6 O'Connell Street, Sydney starting November 2010. The Company has also entered into a non-cancellable operating lease for office equipment. The minimum net lease commitments under these leases are:

	2010 \$	2009 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	88	114
Later than one year but not later than five years	253	55
Later than five years	22	—
	<b>363</b>	<b>169</b>

### NOTE 31 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

#### Put and call options

For each of the investment properties, at the end of the initial lease term of 25 years (2028 for most of the portfolio), and at the end of each further term (four lots of 10 year terms), there is a call option for ALE (or its nominee) and a put option for the tenant to require the landlord (or its nominee) to buy plant, equipment, goodwill, inventory, all then current consents, licences, permits, certificates, authorities or other approvals, together with any liquor licence, held by the tenant in relation to the premises. The gaming licence is to be included or excluded at the tenant's option. These assets are to be purchased at current value as determined by the valuation methodology set out in the lease. ALE must pay the purchase price on expiry of the lease.

#### Bank guarantee

ALE has entered into a bank guarantee of \$58,135 in respect of its office tenancy at Level 7, 1 O'Connell Street, Sydney.

ALE has entered into a bank guarantee of \$184,464 in respect of a new office tenancy at Level 10, 6 O'Connell Street, Sydney.

### NOTE 32 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 IFRS.

In addition, the Trust owns 100% of the issued equity of ALE Direct Property Trust No.2 which in turn owns 100% of the issued equity of ALE Finance Company No.2 Pty Limited. Both of these trust subsidiaries are dormant.

**NOTE 33 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 14.

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

**Geographical segment**

ALE owns property solely within Australia.

**NOTE 34 EVENTS OCCURRING AFTER REPORTING DATE**

On 8 July 2010 ALE put in place a counter swap over an existing \$150 million interest rate swap 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.

Since the end of the financial year ALE has bought back an additional \$10.1 million in CMBS debt. The debt was bought back at a discount to face value of \$0.25 million.

On 31 July 2010 the settlement for the sale of Oxford 152 took place. All sale proceeds were received.

Apart from the matters described above, there has not arisen in the interval between the end of the financial year 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 the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**NOTE 35 FINANCIAL INSTRUMENTS****(a) Credit risk**

ALE's major credit risk is the risk that the tenant will fail to perform its contractual obligations, including honouring the terms of the lease agreements, either in whole or in part. Credit risk is monitored on a continuous basis to determine if the tenant has appropriate financial standing having regard to the various security arrangements that are in place.

Credit risk on cash is managed through ensuring all cash deposits are held with major domestic banks.

The credit risk on financial assets of ALE which have been recognised in the statement of financial position is generally the carrying amount, net of any provision for doubtful debts.

**Exposure to credit risk**

	Note	2010 \$'000	2009 \$'000
Receivables	17	17,807	29,078
Derivatives	11	21,190	39,839
Cash and cash equivalents	15	132,062	35,905
		<b>171,059</b>	<b>104,822</b>

**Impairment losses**

The ageing of trade receivables at balance date was:

	2010 Gross Impairment \$'000		2009 Gross Impairment \$'000	
	\$'000	\$'000	\$'000	\$'000
Not past due	16,980	—	28,423	—
Past due 0–30 days	—	—	77	—
Past due 31–120 days	—	—	65	—
Past due 121–365 days	—	—	46	—
More than one year	827	795	467	—
	<b>17,807</b>	<b>795</b>	<b>29,078</b>	<b>—</b>

Based on historic default rates, ALE believes that no impairment allowances are necessary in respect of trade receivables, as the receivables relate to tenants assessed by ALE as having good credit history.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 35 FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Liquidity risk

The following are the contracted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

30 June 2010	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	More than 5 years \$'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	6,708	(6,708)	(6,708)	–	–	–	–
CIB	126,349	(246,133)	(2,189)	(2,218)	(4,521)	(14,250)	(222,955)
CMBS	158,185	(169,713)	(5,907)	(163,806)	–	–	–
ALE Notes	83,603	(91,455)	(3,087)	(3,037)	(85,331)	–	–
ALE Notes 2 <sup>1</sup>	121,713	(171,084)	(5,516)	(5,529)	(11,181)	(148,858)	–
NAB Facility	–	–	–	–	–	–	–
<b>Derivative financial instruments</b>							
Interest rate swaps	4,347	14,659	3,160	2,930	7,003	1,566	–
CPI Hedges <sup>2</sup>	24,945	(146,692)	915	1,801	3,388	8,152	(160,948)
	<b>525,850</b>	<b>(817,126)</b>	<b>(19,332)</b>	<b>(169,859)</b>	<b>(90,642)</b>	<b>(153,390)</b>	<b>(383,903)</b>

1 Assumes the rights to extend for a further one or two years are not exercised.

2 Assumes the counterparty's right to extend is exercised and the counterparty's right to break is not exercised.

30 June 2009	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	More than 5 years \$'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	6,198	(6,198)	(6,198)	–	–	–	–
CIB	138,362	(296,946)	(2,380)	(2,414)	(4,939)	(15,725)	(271,488)
CMBS	244,557	(261,397)	(4,272)	(4,224)	(252,901)	–	–
ALE Notes	148,349	(177,928)	(5,494)	(5,404)	(10,897)	(156,133)	–
NAB Facility	54,794	(59,847)	(1,270)	(1,255)	(57,322)	–	–
Current borrowings	–	–	–	–	–	–	–
<b>Derivative financial instruments</b>							
Interest rate swaps	(23,810)	44,828	4,928	1,614	5,315	26,785	6,186
CPI Hedges <sup>1</sup>	21,150	(350,760)	(1,282)	(1,404)	(3,199)	(12,896)	(331,979)
	<b>589,600</b>	<b>(1,108,248)</b>	<b>(15,968)</b>	<b>(13,087)</b>	<b>(323,943)</b>	<b>(157,969)</b>	<b>(597,281)</b>

1 Assumes the counterparty's right to extend is exercised and the counterparty's right to break is not exercised.

#### Interest rates used to determine contractual cash flows

The interest rates used to determine the contractual cash flows, where applicable, are based on interest rates, including the relevant credit margin, applicable to the financial liabilities at balance date. The contractual cash flows have not been discounted. The inflation rates used to determine the contractual cash flows, where applicable, are based on inflation rates applicable at balance date.

#### (c) Interest rate risk

Potential variability in future distributions arise predominantly from financial assets and liabilities bearing variable interest rates. For example, if financial liabilities exceed financial assets and interest rates rise, to the extent that interest rate derivatives (swaps) are not available to fully hedge the exposure, distribution levels would be expected to decline from the levels that they would otherwise have been.

ALE also has long term leased property assets and fixed interest rate liabilities that are currently intended to be held until maturity. The market value of these assets and liabilities are also expected to change as long term interest rates fluctuate. For example, as long term interest rates rise, the market value of both property assets and fixed or hedged interest rate liabilities may fall (all other market variables remaining unchanged). These movements in property assets and fixed interest rate liabilities impact upon the net equity value of ALE.

**NOTE 35 FINANCIAL INSTRUMENTS (CONTINUED)***Profile*

At the reporting date the interest rate profile of ALE's interest rate sensitive financial instruments was as follows:

	<b>2010</b>	2009
	<b>\$</b>	<b>\$</b>
Derivative financial assets	21,190	39,839
Derivative financial liabilities	(25,537)	(16,029)
CIB	(126,349)	(138,362)
CMBS	(158,185)	(244,557)
CPI Hedge – maturing November 2023	(20,449)	(15,218)
CPI Hedge – maturing May 2023	(4,496)	(5,932)
NAB Facility	–	(54,794)
ALE Notes	(83,603)	(148,349)
ALE Notes 2	(121,713)	–
	<b>(519,142)</b>	<b>(583,402)</b>

*Sensitivity analysis*

A change of 100 basis points in the prevailing nominal market interest rates at the reporting date would have increased/(decreased) equity and statement of comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular the CPI, remain constant. The analysis is performed on the same basis for 2009.

	Statement of Comprehensive Income		Equity	
	100 bps increase \$'000	100 bps decrease \$'000	100 bps increase \$'000	100 bps decrease \$'000
<b>30 June 2010</b>				
Interest rate swaps	(1,868)	1,851	(1,868)	1,851
CPI hedges	31,400	(35,500)	31,400	(35,500)
CIB	–	–	–	–
CMBS	–	–	–	–
CPI Hedge – maturing November 2023	–	–	–	–
CPI Hedge – maturing May 2023	–	–	–	–
NAB Facility	–	–	–	–
ALE Notes	–	–	–	–
ALE Notes 2	–	–	–	–
	<b>29,532</b>	<b>(33,649)</b>	<b>29,532</b>	<b>(33,649)</b>
<b>30 June 2009</b>				
Interest rate swaps	(3,584)	3,668	(3,584)	3,668
CPI hedges	24,200	(61,900)	24,200	(61,900)
CIB	–	–	–	–
CMBS	–	–	–	–
CPI Hedge – maturing November 2023	–	–	–	–
CPI Hedge – maturing May 2023	–	–	–	–
NAB Facility	–	–	–	–
ALE Notes	–	–	–	–
	<b>20,616</b>	<b>(58,232)</b>	<b>20,616</b>	<b>(58,232)</b>

The impact on the statement of comprehensive income and equity arising from a 100 bps movement in interest rates is based on shifting the projected forward rates by 100 bps at the reporting date, in order to determine the present value of future principal and interest cash flows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 35 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Consumer price index risk

Potential variability in future distributions arise predominantly from financial assets and liabilities through movements in the consumer price index (CPI). For example, ALE's Investment properties are subject to annual rental increases based on movements in the CPI. This will in turn, flow through to investment property valuations. ALE's CPI Hedge liabilities are also impacted by movements in the CPI.

#### Profile

At the reporting date ALE's CPI sensitive financial instruments were as follows:

	2010 \$	2009 \$
<b>Financial instruments</b>		
Investment properties	713,850	804,765
CPI Hedge – fair value of derivative	(14,880)	20,830
CPI Hedge – accumulating indexation	(24,945)	(21,150)
CIB	(126,349)	(138,362)
	<b>547,676</b>	<b>666,083</b>

#### Sensitivity analysis for variable rate instruments

A change of 100 bps in CPI at the reporting date would have increased/(decreased) equity and statement of comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates and capitalisation rates applicable to investment properties, remain constant. The analysis is performed on the same basis for 2008.

	Statement of Comprehensive Income		Equity	
	100 bps increase \$'000	100 bps decrease \$'000	100 bps increase \$'000	100 bps decrease \$'000
<b>30 June 2010</b>				
Investment properties	6,826	(7,444)	6,826	(7,444)
CPI Hedge – fair value of derivative	(33,300)	30,200	(33,300)	(59,500)
CPI Hedge – accumulated indexation	–	–	–	–
CIB	–	–	–	–
	<b>(26,474)</b>	<b>22,756</b>	<b>(26,474)</b>	<b>(66,944)</b>
<b>30 June 2009</b>				
Investment properties	8,233	(7,866)	8,233	(7,866)
CPI Hedge – fair value of derivative	(59,500)	23,300	(59,500)	23,300
CPI Hedge – accumulated indexation	–	–	–	–
CIB	–	–	–	–
	<b>(51,267)</b>	<b>15,434</b>	<b>(51,267)</b>	<b>15,434</b>

Investment properties have been included in the sensitivity analysis, although they are not financial instruments, as the long term CPI linked leases attaching to the investment properties are similar in nature to financial instruments.

There is no impact on the statement of comprehensive income or equity arising from a 100 bps movement in CPI at the reporting date on the CIB or CPI Hedge – capitalised interest, as the terms of these instruments use CPI rates for the quarters ending the preceding March and December to determine their values at 30 June.



**NOTE 35 FINANCIAL INSTRUMENTS (CONTINUED)****(e) Fair values***Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2010		2009	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	132,062	132,062	35,905	35,905
Receivables	17,807	17,807	29,078	29,078
Derivatives	(4,347)	(4,347)	23,810	23,810
Other assets	863	863	82	82
Trade and other payables	(6,708)	(6,708)	(6,198)	(6,198)
CIB	(126,349)	(100,710)	(138,362)	(117,094)
CMBS	(158,185)	(153,847)	(244,557)	(229,620)
ALE Notes	(83,603)	(87,662)	(148,349)	(138,375)
ALE Notes 2	(121,713)	(126,876)	–	–
NAB Facility	–	–	(54,794)	(55,000)
	<b>(350,173)</b>	<b>(329,418)</b>	<b>(503,385)</b>	<b>(457,412)</b>

*Basis for determining fair values*

The basis for determining fair values is disclosed in Note 4. The ALE Notes and ALE Notes 2 are a traded debt security on the Australian Securities Exchange. The fair value disclosed above reflects the market value of the ALE Notes and ALE Notes 2 at balance date.

**(f) Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	\$'000 Level 1	\$'000 Level 2	\$'000 Level 3	\$'000 Total
<b>30 June 2010</b>				
Derivative financial assets	–	21,190	–	21,190
Derivative financial liabilities	–	(25,537)	–	(25,537)
	–	<b>(4,347)</b>	–	<b>(4,347)</b>
<b>30 June 2009</b>				
Derivative financial assets	–	39,839	–	39,839
Derivative financial liabilities	–	(16,029)	–	(16,029)
	–	<b>23,810</b>	–	<b>23,810</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 36 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2010 the parent entity of the Group was Australian Leisure and Entertainment Property Trust.

	2010 \$	2009 \$
<i>Result of the parent entity</i>		
Profit for the period	36,598	26,153
Other comprehensive income	–	–
<b>Total comprehensive income for the period</b>	<b>36,598</b>	<b>26,153</b>
<i>Financial position of the parent entity</i>		
<b>Current assets</b>		
Cash	65,315	56
Receivables	30,229	25,577
Other	13	13
<b>Non current assets</b>		
Investments in controlled entities	275,656	180,656
<b>Total assets</b>	<b>371,213</b>	<b>206,302</b>
<b>Current liabilities</b>		
Payables	3,433	2,780
Provisions	18,403	13,154
<b>Non current liabilities</b>		
Borrowings	205,316	148,349
<b>Total liabilities</b>	<b>227,152</b>	<b>164,283</b>
<b>Net assets</b>	<b>144,061</b>	<b>42,019</b>
<b>Total equity of the parent entity comprising of:</b>		
Issued units	167,056	65,027
Retained earnings	(22,995)	(23,008)
<b>Total equity</b>	<b>144,061</b>	<b>42,019</b>

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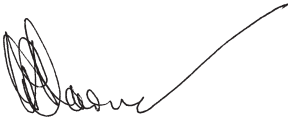
**DIRECTORS' DECLARATION**

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In the opinion of the directors of ALE Property Group:

- (a) the financial statements and notes that are set out on pages 15 to 48 and the Remuneration Report contained in Section 9 of the Directors' report, are in accordance with the *Corporations Act 2001*, including
  - (i) giving a true and fair view of ALE's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that ALE will be able to pay its debts as and when they become due and payable.
- (c) The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director, Finance Manager, and Company Secretary as required for the financial year ended 30 June 2010.
- (d) The directors draw attention to Note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards

This declaration is made in accordance with a resolution of the Directors.



**Peter H Warne**

*Director*

Sydney

Dated this 17th day of August 2010

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**INDEPENDENT AUDITOR'S REPORT**

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**INDEPENDENT AUDITOR'S REPORT TO THE STAPLED SECURITY HOLDERS OF ALE PROPERTY GROUP****Report on the financial report**

We have audited the accompanying financial report of ALE Property Group comprising Australian Leisure and Entertainment Property Trust ("the Trust") and the entities it controlled at the year's end or from time to time during the financial year, which comprises the statement of financial position as at 30 June 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 36 and the directors' declaration set out on pages 15 to 49.

*Directors' responsibility for the financial report*

The directors of the Australian Leisure and Entertainment Property Management Limited, the Responsible Entity of the Trust are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

**Report on the remuneration report**

We have audited the Remuneration Report included in section 9 on pages 7 to 11 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of ALE Property Group for the year ended 30 June 2010, complies with Section 300A of the Corporations Act 2001.

KPMG

**Nigel Virgo**

Partner  
Sydney

17 August 2010



**\$8.9m**

Young & Jackson Hotel, valued at \$8.9m, remains by any measure 'one of Melbourne's iconic institutions'. It is famous for a vast array of boutique beers and has recently added a rooftop beer garden.

**AUSTRALIAN LEISURE AND ENTERTAINMENT  
PROPERTY MANAGEMENT LIMITED**  
ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

ABN 45 105 275 278

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## DIRECTORS' REPORT

For the year ended 30 June 2010

The Directors of Australian Leisure and Entertainment Property Management Limited (the "Company") present their report for the year ended 30 June 2010.

The registered office and principal place of business of the Company is:

Level 7  
1 O'Connell Street  
Sydney 2000

### 1. DIRECTORS

The following persons were directors of the Company during the whole of the 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

### 2. PRINCIPAL ACTIVITIES

During the year the principal activities of the Company consisted of property funds management and acting as responsible entity for the Australian Leisure and Entertainment Property Trust (the "Trust"). There has been no significant change in the nature of these activities during the year.

### 3. DIVIDENDS

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

### 4. REVIEW OF OPERATIONS

A summary of the revenue and results for the year is set out below:

	30 June 2010 \$	30 June 2009 \$
<b>Revenue</b>		
Management fees	3,034,011	3,205,958
Interest income	13,607	48,985
<b>Total revenue</b>	<b>3,047,618</b>	<b>3,254,943</b>
<b>Expenses</b>		
Salaries, fees and related costs	1,680,565	1,544,123
Other expenses	858,446	1,784,465
<b>Total expenses</b>	<b>2,539,011</b>	<b>3,328,588</b>
<b>Profit/(loss) before income tax</b>	<b>508,607</b>	<b>(73,645)</b>
Income tax expense/(benefit)	187,184	18,302
<b>Profit/(loss) attributable to the shareholders of the Company</b>	<b>321,423</b>	<b>(91,947)</b>
	<b>Cents</b>	Cents
Basic and diluted earnings per share	0.23	(0.11)
Dividend per share for the year	-	-
Net assets per share	7.33	8.85



## 5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year.

## 6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has not arisen in the interval between the end of the financial year 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 the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## 7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company will continue to maintain its defined strategy of identifying opportunities to increase the profitability of the Company and its value to its shareholders.

The Directors are not aware of any future developments likely to significantly affect the operations and/or results of the Company.

## 8. INFORMATION ON DIRECTORS

### Mr Peter Warne B.A., Chairman and Non-Executive Director.

#### *Experience and expertise*

Peter was appointed as Chairman and Non-executive Director of the Company in September 2003.

Peter began his career with the NSW Government Actuary's Office and the NSW Superannuation Board before joining Bankers Trust Australia Limited ("BTAL") in 1981. Peter held senior positions in the Fixed Income Department, the Capital Markets Division and the Financial Markets Group of BTAL and acted as a consultant to assist with integration issues when the investment banking business of BTAL was acquired by Macquarie Bank Limited in 1999.

Peter is also a board member of three other listed entities, being ASX Limited, Macquarie Bank Limited and WHK Group Limited.

Peter graduated from Macquarie University with a Bachelor of Arts, majoring in Actuarial Studies. He qualified as an associate of, and received a Certificate of Finance and Investment from, the Institute of Actuaries, London.

### Mr John Henderson B.Bldg, MRICS, AAPI, Non-Executive Director.

#### *Experience and expertise*

John was appointed as a Non-executive Director of the Company in August 2003.

John has been a Director of Marks Henderson Pty Ltd since 2001 and is actively involved in the acquisition of investment property. Previously an International Director at Jones Lang LaSalle and Managing Director of the Sales and Investment Division, he was responsible for overseeing the larger property sales across Australasia, liaising with institutional and private investors, and coordinating international investment activities.

John graduated from the University of Melbourne and is a member of the Royal Institution of Chartered Surveyors, is an associate of the Australian Property Institute and is a licensed real estate agent.

### Ms Helen Wright LL.B, MAICD, Non-Executive Director.

#### *Experience and expertise*

Helen was appointed as a Non-executive Director of the Company in September 2003.

Helen was a partner of Freehills, a leading Australian firm of lawyers, from 1986 to 2003. She practised as a commercial lawyer specialising in real estate projects, including development and financing and related taxation and stamp duties. Helen is the Local Government Remuneration Tribunal for NSW and until recently was the Statutory and Other Offices Remuneration Tribunal. Prior appointments included the Boards of Sydney Harbour Foreshore Authority and subsidiaries, Australia Day Council of NSW, Darling Harbour Authority, UNSW Press Limited and MLC Homepack Limited.

Helen has a Bachelor of Laws from University of NSW, and in 1994 completed the Advanced Management Program at the Harvard Graduate School of Business.

### Mr Andrew Wilkinson B.Bus. CFTP, Managing Director.

#### *Experience and expertise*

Andrew was appointed Managing Director of the Company in November 2004. He joined ALE as Chief Executive Officer at the time of its listing in November 2003.

Andrew has over 30 years experience in banking, corporate finance and funds management.

He was previously a corporate finance partner with PricewaterhouseCoopers and spent 15 years in finance and investment banking with organisations including ANZ Capel Court and Schroders.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### 8. INFORMATION ON DIRECTORS (CONTINUED)

**Mr James McNally B.Bus (Land Economy), Dip. Law, Executive Director.**

*Experience and expertise*

James was appointed as an Executive Director of the Company in June 2003.

James has over 16 years experience in the funds management industry, having worked in both property trust administration and compliance roles for Perpetual Trustees Australia Limited and MIA Services Pty Limited, a company that specialises in compliance services to the funds management industry.

James provides compliance and management services to several Australian fund managers. He is currently an external member on a number of compliance committees for various responsible entities and acts as a Responsible Manager for a number of companies that hold an Australian Financial Services Licence, including the Company.

James' qualifications include a Bachelor of Business in Land Economy (Hawkesbury Agricultural College) and a Diploma of Law (Legal Practitioners Admission Board). He is a registered valuer and licensed real estate agent.

**Brendan Howell B.Econ, G.Dip App Fin (Sec Inst), Company Secretary.**

*Experience and expertise*

Brendan was appointed to the position of company secretary in April 2007, having previously held the position from September 2003 to September 2006.

Brendan has a Bachelor of Economics from the University of Sydney and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia, and over 19 years experience in the funds management industry. He was formerly an associate member of both the Securities Institute of Australia and the Institute of Chartered Accountants in Australia. Brendan has a property and accounting background and has previously held senior positions with a leading Australian trustee company administering listed and unlisted property trusts. For over ten years Brendan has been directly involved with MIA Services Pty Limited, a company which specialises in funds management compliance, and acts as an independent consultant and external compliance committee member for a number of property, equity and infrastructure funds managers. Brendan also acts as an Independent Director for several unlisted public companies, some of which act as responsible entities.

### Independent member of the Audit, Compliance and Risk Management Committee (ACRMC)

**Mr David Lawler B.Bus, CPA, Independent ACRMC Member.**

*Experience and expertise*

David was appointed to ALE's ACRMC on 9 December 2005 and has 25 years experience in internal auditing in the banking and finance industry. He was the Chief Audit Executive for Citibank in the Philippines, Italy, Switzerland, Mexico, Brazil, Australia and Hong Kong. He was Group Auditor for the Commonwealth Bank of Australia.

David is an audit committee member of the Australian Office of Financial Management, the Defence Materiel Organisation, the Australian Trade Commission, the Australian Sports Anti-Doping Authority, the Australian Agency for International Development and National ICT Australia.

David is a Director of Australian Settlements Limited and chairman of its audit and risk committee.

David has a Bachelor of Business Studies from Manchester Metropolitan University in the UK. He is a Fellow of CPA Australia and a past President of the Institute of Internal Auditors-Australia.

### Directorships of listed companies within the last three years

The following Director held directorships of other listed entities within the last three years and from the date appointed up to the date of this report unless otherwise stated:

Director	Directorships of listed entities	Type	Appointed	Resigned
P H Warne	ASX Limited	Non-executive	July 2006	
P H Warne	WHK Group Limited	Non-executive	May 2007	
P H Warne	Macquarie Group Limited	Non-executive	July 2007	
P H Warne	Teys Limited	Non-executive	October 2007	June 2009

### Special responsibilities of Directors

The following are the special responsibilities of each Director:

Director	Special responsibilities
P H Warne	Chairman of the Board. Member of the Audit, Compliance and Risk Management Committee (ACRMC). Chair of the Nominations Committee.
H I Wright	Chair of the Remuneration Committee. Chair of the ACRMC. Member of the Nominations Committee.
J P Henderson	Member of the Remuneration Committee. Member of the ACRMC. Member of the Nominations Committee.
A F O Wilkinson	Member of the Remuneration Committee. Chief Executive Officer and Managing Director of the Company.
J T McNally	Responsible Manager of the Company under the Company's Australian Financial Services Licence (AFSL). Responsible Manager of the Company under the Company's AFSL.

### Directors' and key management personnel interests in stapled securities and options

The following Directors, key management personnel and their associates hold the following stapled security interests in the Company:

Name	Role	Number held at the start of the year	Net movement	Number held at 30 June 2010
P H Warne	Non-executive Director	790,000	395,000	1,185,000
J P Henderson	Non-executive Director	239,910	115,455	355,365
H I Wright	Non-executive Director	130,000	20,000	150,000
A F O Wilkinson	Executive Director	146,312	37,156	183,468
A J Slade	Capital Manager	20,000	11,064	31,064
M J Clarke	Finance Manager	2,613	1,951	4,564

The following key management personnel currently hold performance rights over stapled securities in ALE:

Name	Role	Number held at the start of the year	Net movement	Number held at 30 June 2010
A F O Wilkinson	Executive Director	—	160,026	160,026
A J Slade	Capital Manager	31,735	45,574	77,309

### Meetings of Directors

The number of meetings of the Company's Board of Directors held and of each Board committee during the year ended 30 June 2010 and the number of meetings attended by each Director at the time the Director held office during the year were:

Director	Board Meetings		Management Committee meetings		Remuneration Committee meetings	
	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended
P H Warne	19	18	6	6	3	3
J P Henderson	19	16	6	6	3	3
H I Wright	19	19	6	6	3	3
A F O Wilkinson	19	19	n/a	n/a	n/a	n/a
J T McNally	19	17	n/a	n/a	n/a	n/a

Member of Audit, Compliance and Risk Management Committee

D J Lawler	n/a	n/a	6	6	n/a	n/a
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<sup>1</sup> "Held" reflects the number of meetings which the Director or member was eligible to attend.

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## DIRECTORS' REPORT

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For the year ended 30 June 2010

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### 9. REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- 9.1 Principles used to determine the nature and amount of remuneration
- 9.2 Service agreements
- 9.3 Details of remuneration
- 9.4 Equity-based compensation

#### 9.1. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objectives of ALE's executive reward framework are to ensure that reward for performance is transparent, reasonable, competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and creation of value for stapled security holders, and conforms with market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to stapled security holders
- performance linkage/alignment of executive compensation with outcomes for stapled security holders
- transparency

In consultation with external remuneration consultants, the Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to stapled security holders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in stapled security holder wealth, consisting of distributions, dividends and growth in stapled security price and delivering constant return on assets, as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives
- capital management

Alignment to employee' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in stapled security holders' wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable pay and a blend of short and long-term incentives. As executives gain seniority within the Company, the balance of this mix shifts to a higher proportion of 'at risk' rewards, depending upon the nature of the executive's role.

The overall level of executive reward takes into account the performance of ALE over a number of periods with greater emphasis given to the current year. Over the five years ended 30 June 2010 the total return on ALE's stapled securities (inclusive of distribution returns) was 13.7%. (2009: 21.1%). The one year return for 30 June 2010 was 22.9%.

#### 9.1.1 Non-executive Directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive directors' fees and payments were last reviewed in 2007, the first review since 2003. The Board may obtain the advice of independent remuneration consultants to ensure that non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently from the fees of the other non-executive directors, based on comparative roles in the external market. The Chairman is not present at any discussion relating to the determination of his own remuneration. Non-executive directors do not receive any equity based payments, retirement benefits or other incentive payments.

#### 9.1.2 Directors' fees

The current base remuneration was last reviewed with effect from July 2007. The Directors' fees are inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit which will be periodically recommended for approval by stapled security holders. The maximum currently stands at \$475,000 per annum, comprised of \$385,000 per annum for non-executive directors and \$90,000 per annum for the executive director (inclusive of a responsible officer fee of \$5,000 per annum) and excluding the Managing Director's remuneration. The maximum amount for non-executive directors can only be increased at a general meeting of the Company.

### 9.1.3 Retirement allowances for Directors

No retirement allowances for directors are offered by the Company in line with guidance on non-executive directors' remuneration.

### 9.1.4 Executive pay

The executive pay and reward framework has three components, the combination of which comprises the executive's total remuneration:

- base pay and benefits;
- short-term performance incentives; and
- long-term incentives.

### 9.1.5 Base pay and benefits

Structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-cash benefits at the discretion of the executives and the Board.

Executives are offered a competitive base pay that comprises the fixed component of their remuneration. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for comparable roles. Base pay for senior executives is reviewed annually to ensure that executive pay is competitive with the market. Executive pay is also reviewed on promotion.

There is no guaranteed base pay increase in any executive contract.

### 9.1.6 Short-term incentives (STI)

The short-term incentive arrangements in place at the Company have been designed to link annual STI bonus awards to executive performance against agreed key performance indicators (KPIs) including the financial performance of the Company during the year in question.

Each executive has a target STI opportunity, depending on the accountabilities of the role and the impact on the performance of the Company.

Each year the remuneration committee considers the appropriate targets and KPIs to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan and minimum levels of performance to trigger payments of STI.

For the year ended 30 June 2010, the KPIs linked to STI plans were based on Company, business and personal objectives. The KPIs required performance in effective property disposals, seeking value accretive acquisitions, managing operating and funding costs, compliance with legislative requirements, risk and capital management, increasing security holder value, as well as other key strategic non-financial measures linked to drivers of performance in future economic periods.

The Board is responsible for assessing whether the KPIs have been met. To facilitate this assessment, the Board receives detailed reports on performance from management.

The STI payments may be adjusted up or down in line with over or under achievement against the target performance levels. This is at the discretion of the Board.

The STI target annual payment is reviewed annually.

### 9.1.7 Long-term incentives (LTI)

Performance Rights over unissued stapled securities have been granted to Mr Wilkinson and Mr Slade. Mr Wilkinson has the right to receive up to 160,026 stapled securities at a nil cost exercisable from 1 June 2011. Mr Slade has the right to receive up to 91,588 stapled securities at a nil cost exercisable progressively from 30 June 2010 or earlier, if employment is terminated after a change of control in the company.

The Performance Rights provide the opportunity to receive fully paid stapled securities for nil cost. The receipt of stapled securities is contingent on achieving specific performance hurdles over a specified performance period. The performance hurdles are as follows:

- a Total Shareholder Return (TSR) performance hurdle where ALE's TSR is ranked against a comparative group consisting of companies classified as Real Estate Investment Trusts in the S&P/ASX 300 Index;
- a Total Shareholder Return (TSR) performance hurdle based on ALE's absolute TSR; and
- a service period retention hurdle, whereby the employee must be employed by ALE at the vesting date for the Performance Rights to vest.

Mr Slade's performance hurdles for the performance rights applicable to the period ending on 30 June 2009 were independently assessed by external consultants. Subsequent to this assessment on 14 December 2009, 11,088 securities were issued to Mr Slade. The remaining performance rights applicable to this performance period did not vest and have lapsed.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### 9.2 SERVICE AGREEMENTS

On 30 June 2009, the Company agreed terms of a service agreement with Managing Director, Mr Wilkinson, relating to the period starting June 2009 and ending on June 2011. The agreement stipulates the minimum base salary, inclusive of superannuation, for each of the first three years as being \$320,000 for Mr Wilkinson, to be reviewed annually each 31 December by the Board. A short-term incentive (which if earned, would be paid as a cash bonus shortly after June each year) and a long-term incentive of \$80,000 per annum, in the form of performance rights.

In the event of the termination of Mr Wilkinson's employment contract and depending on the reason for the termination, amounts may be payable for unpaid accrued entitlements and a proportion of bonus entitlements as at the date of termination. In the event of redundancy termination, amounts are payable for base salary, inclusive of superannuation and bonus and long term incentive entitlements for the balance of the contract.

Any stapled securities that Mr Wilkinson becomes entitled to receive on 1 June 2011 will be provided to Mr Wilkinson two years later on (1 July 2013) provided that, in the reasonable opinion of the Board, Mr Wilkinson has not engaged in any conduct or has committed any act which:

- (i) results in ALE having to make any material financial restatement;
- (ii) causes ALE to incur a material financial loss; or
- (iii) causes any significant harm to ALE and/or its businesses.

The employment contracts of Mr Slade and Mr Clarke may be terminated at any time with three month's notice.

Mr D J Shipway is to commence as Property Manager with ALE on 20 September 2010. At the date of this report he has signed an employment contract. His employment contract does not contain any performance rights and may be terminated with one month's notice.

There are no other director or executive service agreements.

Letters of appointment have been entered into by each director (excluding the Managing Director) confirming their remuneration and obligations under the Corporations Law and Company constitution.

A letter of appointment has been entered into with MIA Services Pty Limited for the use of the services of Brendan Howell as Company Secretary and as Compliance Officer of the Company on a continuous basis that may be terminated at any time with one month's notice.

### 9.3 DETAILS OF REMUNERATION

#### Amount of remuneration

Details of the remuneration of the key management personnel for the current year and for the comparative year are set out below in Tables 1 and 2. The cash bonuses were dependent on the satisfaction of performance conditions as set out in the section headed "Short-term incentives", above. Long term incentives are market and non-market based performance related as set out in 9.1.7. All other elements of remuneration were not directly related to performance.

**Table 1 Remuneration details 1 July 2009 to 30 June 2010**

Details of the remuneration of the Key Management Personnel for the year 30 June 2010 are set out in the following table:

Key management personnel		Short term			Post employment benefits	Other long term	Equity based payment	S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration			
		Salary & Fees	STI Cash Bonus	Non Monetary benefits						Total	Termination benefits	Performance Rights
Name	Role	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
P H Warne	Non-executive Director	137,615	—	—	137,615	12,385	—	—	—	150,000	—	—
J P Henderson	Non-executive Director	85,000	—	—	85,000	—	—	—	—	85,000	—	—
H I Wright	Non-executive Director	77,982	—	—	77,982	7,018	—	—	—	85,000	—	—
A F O Wilkinson	Executive Director	321,789	100,000	—	421,789	14,461	2,021	—	80,000	518,271	34.7%	15.4%
J T McNally	Executive Director	90,000	—	—	90,000	—	—	—	—	90,000	—	—
B R Howell	Company Secretary	90,000	—	—	90,000	—	—	—	—	90,000	—	—
A J Slade	Capital Manager	172,274	60,000	—	232,274	14,461	—	—	50,000	296,735	37.1%	16.9%
M J Clarke	Finance Manager	136,525	45,000	9,280	190,805	12,554	—	—	—	203,359	22.1%	—
		1,111,185	205,000	9,280	1,325,465	60,879	2,021	—	130,000	1,518,365		

### 9.3 DETAILS OF REMUNERATION (CONTINUED)

Table 2 Remuneration details 1 July 2008 to 30 June 2009

Details of the remuneration of the Key Management Personnel for the year 30 June 2009 are set out in the following table:

Key management personnel		Short term			Post employment benefits	Other long term	Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based %	S300A(1)(e)(vi) Value of performance rights as proportion of remuneration %
Name	Role	Salary & Fees \$	STI Cash Bonus \$	Non Monetary benefits \$	Total \$	Super annuation benefits \$	Termination benefits \$	Performance Rights \$	Total \$	%
P H Warne	Non-executive Director	137,615	–	–	137,615	12,385	–	–	150,000	–
J P Henderson	Non-executive Director	85,000	–	–	85,000	–	–	–	85,000	–
H I Wright	Non-executive Director	77,982	–	–	77,982	7,018	–	–	85,000	–
A F O Wilkinson	Executive Director	306,280	32,000	–	338,280	13,745	–	107,094	459,119	30.3%
J T McNally	Executive Director	90,000	–	–	90,000	–	–	–	90,000	–
B R Howell	Company Secretary	90,000	–	–	90,000	–	–	–	90,000	–
A J Slade	Capital Manager	163,229	25,000	–	188,229	13,745	–	50,000	251,974	29.8%
M J Clarke	Finance Manager	119,161	25,000	–	144,161	10,039	–	–	154,200	16.2%
		1,069,267	82,000	–	1,151,267	56,932	–	157,094	1,365,293	

#### 9.3.1 Cash bonuses

For each cash bonus included in the above tables, the percentage of the available bonus that was awarded for the year and the percentage that was forfeited because a person did not meet the performance criteria is set out below.

Name	2010 %	Paid 2009 %	2010 %	Forfeited 2009 %
A F O Wilkinson	125	40	–	60
A J Slade	120	50	–	50
M J Clarke	100	100	–	–

#### 9.3.2 Equity instruments

All performance rights refer to performance rights over stapled securities of the ALE Property Group, which vested on a one for one basis under the ALE Property Group Executive Performance Rights Plan.

##### 9.3.2.1 Performance rights over equity instruments granted as compensation

Details of performance rights over stapled securities that were granted as compensation during the year and details of performance rights that vested during the financial period are as follows:

Executive	Number of PR Issued	Grant Date	Performance period start date	Fair value of PR at Grant Date (\$)	Expiry Date	Number of PR Vested during 2010	Number of Stapled Securities Issued <sup>1</sup>
A F O Wilkinson	160,026	1 June 2009	1 June 2009	1.00	1 July 2011	–	–
A J Slade	15,552	30 June 2008	1 July 2007	2.57	30 June 2010	3,513	3,513
A J Slade	30,206	1 July 2008	1 July 2008	1.67	30 June 2011	7,575	7,575
A J Slade	46,164	1 July 2009	1 July 2009	1.08	30 June 2012	–	–

1 Stapled Securities were issued at nil cost to the employee.

## DIRECTORS' REPORT

For the year ended 30 June 2010

### 9.3 DETAILS OF REMUNERATION (CONTINUED)

#### 9.3.2.2 Modification of terms of equity settled share based payment transactions

No terms of equity settled share based payment transactions (including options and rights granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

#### 9.3.2.3 Analysis of performance rights over equity instruments granted as compensation

Details of the vesting profiles of performance rights granted as remuneration are detailed below.

Executive	Number <sup>1</sup>	Date	% vested in year	% forfeited in year <sup>2</sup>	Financial year in which grant vests
A F O Wilkinson	160,026	1 June 2009	—%	—%	1 July 2011
A J Slade	5,270	30 June 2008	66.6%	33.4%	1 July 2009
	6,813	30 June 2008	—%	—%	1 July 2010
	9,009	1 July 2008	66.6%	33.4%	1 July 2009
	11,558	1 July 2008	—%	—%	1 July 2010
	12,774	1 July 2008	—%	—%	1 July 2011
	10,592	1 July 2009	—%	—%	1 July 2010
	14,115	1 July 2009	—%	—%	1 July 2011
	21,457	1 July 2009	—%	—%	1 July 2012

1 In accordance with the Rules of the Plan the number issued has been adjusted during the year for the rights issued that occurred in August 2009.

2 The % forfeited in the year represents the reduction from the maximum number of performance rights available to vest due to performance criteria not being achieved.

#### 9.3.2.4 Analysis of movements in performance rights

The movement during the reporting period, by value of options over stapled securities in the Group is detailed below.

Executive	Granted in Year \$( <sup>a</sup> )	Vested and exercised in Year \$( <sup>b</sup> )	Lapsed in Year \$( <sup>c</sup> )
A F O Wilkinson	160,000	—	—
A J Slade	50,000	24,948	5,052

(a) The value of performance rights granted during the year is the assessed fair value at grant date of performance rights granted, allocated equally over the period from grant date to vesting date. The fair value at grant date has been independently determined by using a Black-Scholes option pricing model.

(b) The value of performance rights vested in the year is calculated as the market price of the stapled securities of ALE Property Group as at the close of trading on the day the performance rights vested.

(c) The value of performance rights lapsed in the year is calculated as the market price of the stapled securities of ALE Property Group as at the close of trading on the day the performance rights lapsed.

### 9.4 EQUITY BASED COMPENSATION

The performance rights value disclosed above as part of specified executive remuneration is the assessed fair value at grant date of performance rights granted, allocated equally over the period from grant date to vesting date. The fair value at grant date has been independently determined by using a Black-Scholes option pricing model. This technique takes into account factors such as the exercise price, the term of the right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance right, the security price at grant date and expected price volatility of the underlying security, the expected distribution yield and the risk-free interest rate for the term of the performance right.

### 10. STAPLED SECURITIES UNDER OPTION

The following performance rights over unissued stapled securities of ALE were granted during or since the end of the year.

Executive	Number of PR Issued	Grant Date
A F O Wilkinson	160,026	4 Nov 2009
A J Slade	46,164	1 July 2009

### 11. STAPLED SECURITIES ISSUED ON THE EXERCISE OF OPTIONS

The following stapled securities were issued on the exercise of performance rights during the financial year.

Executive	Number of Stapled Securities issued
A F O Wilkinson	—
A J Slade	11,088



## 12. INSURANCE OF OFFICERS

During the financial year, the Company paid a premium of \$37,750 (2009: \$25,200) to insure the Directors and officers of the Company. The auditors of the Company are in no way indemnified out of the assets of the Company.

Under the constitution of the Company, current or former Directors and secretaries are indemnified to the full extent permitted by law for liabilities incurred by that person in the discharge of their duties. The constitution provides that the Company will meet the legal costs of that person. This indemnity is subject to certain limitations.

## 13. ENVIRONMENTAL REGULATION

While the Company 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 monitoring is being undertaken and further work is required, however the Company is indemnified by third parties against any remediation costs likely to be required.

## 14. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The board of directors has considered the position and in accordance with the advice received from the ACRMC is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the ACRMC to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risk and rewards.

Details of amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out below:

	30 June 2010 \$	30 June 2009 \$
<b>Audit services</b>		
KPMG Australian firm:		
Audit and review of the financial reports of the ALE Property Group and other audit work required under the <i>Corporations Act 2001</i>		
– in relation to current year	167,712	140,359
– in relation to prior year	30,000	30,000
<b>Total remuneration for audit services</b>	<b>197,712</b>	<b>170,359</b>
<b>Other services</b>		
KPMG Australian firm:		
Transaction compliance services	150,983	–
<b>Total other services</b>	<b>150,983</b>	<b>–</b>

## 15. 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 64.

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



**Peter H Warne**

Director  
Sydney

Dated this 17th day of August 2010

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**AUDITOR'S INDEPENDENCE DECLARATION**

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**Lead Auditor's Independence Declaration under Section 307C of Corporations Act 2001**

To: the Directors of Australian Leisure and Entertainment Property Management Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Nigel Virgo'.

KPMG

A handwritten signature in black ink, appearing to read 'Nigel Virgo'.

**Nigel Virgo**  
*Partner*

Sydney  
17 August 2010

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	30 June 2010 \$	30 June 2009 \$
<b>Revenue</b>			
Expense reimbursement	5	3,034,011	3,205,958
Interest income		13,607	48,985
<b>Total revenue</b>		<b>3,047,618</b>	<b>3,254,943</b>
Annual report and annual review		73,306	102,091
Audit, accounting, tax and professional fees		253,822	209,889
Corporate advisory services		97,262	199,989
Depreciation expense and asset write-offs		45,756	53,364
Insurance		97,319	72,115
Legal fees		(272,404)	711,170
Occupancy costs		122,001	118,384
Other expenses		239,763	171,122
Registry fees		124,954	99,873
Salaries, fees and related costs		1,680,565	1,544,123
Staff training		33,463	24,592
Travel and accommodation		43,204	21,876
<b>Total expenses</b>		<b>2,539,011</b>	<b>3,328,588</b>
<b>Profit/(loss) before income tax</b>		<b>508,607</b>	<b>(73,645)</b>
Income tax expense/(benefit)	7	187,184	18,302
<b>Profit/(loss) after income tax</b>		<b>321,423</b>	<b>(91,947)</b>
<b>Profit/(loss) attributable to the shareholders of the Company</b>		<b>321,423</b>	<b>(91,947)</b>
<b>Other comprehensive income</b>		<b>–</b>	<b>–</b>
Other comprehensive income for the period after income tax		–	–
<b>Total comprehensive income for the period</b>		<b>321,423</b>	<b>(91,947)</b>
<b>Profit/(Loss) attributable to:</b>			
Equity holders of the Company		321,423	(91,947)
Minority interest		–	–
<b>Total profit/(loss) for the period</b>		<b>321,423</b>	<b>(91,947)</b>
<b>Comprehensive income attributable to:</b>			
Equity holders of the Company		321,423	(91,947)
Minority interest		–	–
<b>Total comprehensive income for the period</b>		<b>321,423</b>	<b>(91,947)</b>
		<b>Cents</b>	Cents
Basic and diluted earnings/(loss) per share		0.23	(0.11)
Dividends paid and payable per share		–	–

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

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	30 June 2010 \$	30 June 2009 \$
<b>Current assets</b>			
Cash and cash equivalents	8	273,462	237,211
Receivables	9	1,521,074	765,335
Prepayments and other assets		837,805	55,863
Current tax asset		–	1,182
<b>Total current assets</b>		<b>2,632,341</b>	<b>1,059,591</b>
<b>Non-current assets</b>			
Plant and equipment	10	40,379	85,207
Investment in related party	11	9,080,010	9,080,010
Deferred tax asset	12	193,914	379,960
<b>Total non-current assets</b>		<b>9,314,303</b>	<b>9,545,177</b>
<b>Total assets</b>		<b>11,946,644</b>	<b>10,604,768</b>
<b>Current liabilities</b>			
Payables	13	698,019	1,016,618
Provisions	14	9,146	21,386
Loan from related party	15	–	1,802,318
<b>Total current liabilities</b>		<b>707,165</b>	<b>2,840,322</b>
<b>Total liabilities</b>		<b>707,165</b>	<b>2,840,322</b>
<b>Net assets</b>		<b>11,239,479</b>	<b>7,764,446</b>
<b>Equity</b>			
Contributed equity	16	11,862,301	8,813,743
Retained losses	17	(806,155)	(1,132,630)
Reserves	18	183,333	83,333
<b>Total equity</b>		<b>11,239,479</b>	<b>7,764,446</b>
		<b>Cents</b>	Cents
Net assets per share		<b>7.33</b>	<b>8.85</b>

The above statement of financial position should be read in conjunction with the accompanying Notes.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Share Capital \$	Share based payments reserve \$	Retained Earning \$	Total \$
<b>2010</b>				
<b>Total equity at the beginning of the year</b>	<b>8,813,743</b>	<b>83,333</b>	<b>(1,132,630)</b>	<b>7,764,446</b>
Profit/(loss) for the year			321,423	321,423
Issue of units in ALE Property Trust under ALE Property Group				
Executive Performance Rights Plan	723	(30,000)	5,052	(24,225)
Shares issued – institutional placement	602,766	–	–	602,766
Shares issued – rights issue	2,310,617	–	–	2,310,617
Shares issued – dividend reinvestment plan	134,452	–	–	134,452
Employee share based payments expense	–	130,000	–	130,000
<b>Total equity at the end of the year</b>	<b>11,862,301</b>	<b>183,333</b>	<b>(806,155)</b>	<b>11,239,479</b>
<b>2009</b>				
<b>Total equity at the beginning of the year</b>	<b>8,670,927</b>	<b>221,077</b>	<b>(1,189,149)</b>	<b>7,702,855</b>
Profit/(loss) for the year	–	–	(91,947)	(91,947)
Issue of units in ALE Property Trust under ALE Property Group				
Executive Performance Rights Plan	5,617	(294,838)	148,466	(140,755)
Costs of dividend reinvestment plan	(25,000)	–	–	(25,000)
Shares issued – institutional placement	–	–	–	
Shares issued – rights issue	–	–	–	
Shares issued – dividend reinvestment plan	162,199	–	–	162,199
Employee share based payments expense		157,094	–	157,094
<b>Total equity at the end of the year</b>	<b>8,813,743</b>	<b>83,333</b>	<b>(1,132,630)</b>	<b>7,764,446</b>

The above statement of changes in equity should be read in conjunction with the accompanying Notes.

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	30 June 2010 \$	30 June 2009 \$
<b>Cash flows from operating activities</b>			
Expense reimbursements received		7,324,240	6,439,579
Payments to suppliers and employees		(7,276,416)	(6,464,655)
Interest received – bank deposits and investment arrangements		12,652	44,487
<b>Net cash inflow/(outflow) from operating activities</b>	8	<b>60,476</b>	<b>19,411</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of plant and equipment		–	1,364
Payments for plant and equipment		–	(28,699)
<b>Net cash (outflow) from investing activities</b>		<b>–</b>	<b>(27,335)</b>
<b>Cash flows from financing activities</b>			
Loan from related party		(3,072,060)	–
Shares issued		3,047,835	142,816
<b>Net cash (outflow) from financing activities</b>		<b>(24,225)</b>	<b>142,816</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>			
Cash and cash equivalents at the beginning of the year		237,211	102,319
<b>Cash and cash equivalents at the end of the year</b>	8	<b>273,462</b>	<b>237,211</b>

The above statement of cash flows should be read in conjunction with the accompanying Notes.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

### NOTE 1 BASIS OF PREPARATION

#### (a) Statement of compliance

The financial statements of Australian Leisure and Entertainment Property Management Limited (the "Company") are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements of the Company also comply with the IFRS and interpretations adopted by the International Accounting Standards Board.

The stapled securities of ALE are quoted on the Australian Stock Exchange under the code LEP and comprise one unit in Australian Leisure and Entertainment Property Trust and one share in the Company. The unit and the share are stapled together under the terms of their respective constitutions and cannot be traded separately. Each entity forming part of ALE is a separate legal entity in its own right under the *Corporations Act 2001* and Australian Accounting Standards.

#### (b) Basis of measurement

The financial statements are prepared on the historical cost basis.

The methods used to measure fair values are discussed further in Note 3.

#### (c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency.

#### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 22 – measurement of share based payments

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Except as described below, the accounting policies applied by the Company in these financial statements are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2009.

#### (i) AASB 101 Presentation of Financial Statements

From 1 July 2009, the Company applies revised AASB 101 Presentation of Financial Statements (2007), which separates owner and non-owner changes in equity. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. This presentation has been applied in these financial statements as of and for the year ended 30 June 2010. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

#### (ii) AASB 8 Operating Segments

As of 1 July 2009 the Company adopted AASB 8, which replaced AASB 114 *Segment Reporting*. In accordance with AASB 8, the Company determines and presents operating segments based on the information that is internally provided to the Managing Director, who is the Company's chief operating decision maker. The Company concluded that the operating segment determined in accordance with AASB 8 is the same as the business segment previously identified under AASB 114.

#### (a) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash at bank, deposits at call and short term money market securities which are readily convertible to cash.

#### (b) Receivables

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis.

Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that all amounts due may not be collected according to the original terms of the receivables. The amount of any provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

#### (c) Investments and financial assets

Financial assets classified as loans and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise when money and services are provided to a debtor with no intention of selling the receivable.

Loans and deposits are carried at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the financial asset are spread over its effective life.

#### (d) Plant and equipment

Plant and equipment including office fixtures, fittings and operating equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### Depreciation

Depreciation on depreciable plant and equipment (office fixtures, fittings and operating equipment) is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The estimated useful life of depreciable plant and equipment is as follows:

Furniture, fittings and equipment	4–13 years
Software	3 years
Leasehold improvements	3 years

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

#### (e) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid at the balance sheet date. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (f) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

#### (g) Dividends

Provision is made for the amount of any dividends declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance date.

#### (h) Earnings per stapled security

##### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

##### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential shares.

#### (i) Contributed equity

Ordinary shares are classified as contributed equity.

Incremental costs directly attributable to the issue of new units, shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

#### (j) Employee benefits

##### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as a current liability in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised as an expense when the leave is taken and measured at the rates paid or payable.

##### (ii) Share based payments

The grant date fair value of performance rights granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the performance rights. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest, except for those that fail to vest due to performance hurdles not being met.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the performance right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

The fair value of the performance rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those performance rights is transferred to contributed equity.

##### (iii) Bonus plans

Liabilities and expenses for bonuses are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

##### (iv) Long service leave

The Company will begin to recognise liabilities for long service leave when employees reach a qualifying period of continuous service. The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with the terms to maturity and currency that match, as closely as possible, the estimated future cash flow.

##### (v) Retirement benefit obligations

The Company pays fixed contributions to employee superannuation funds and the Company's legal or constructive obligations are limited to these contributions. The contributions are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (k) Revenue

Management fee income is brought to account on an accruals basis, and if not received at balance date is reflected in the balance sheet as a receivable.

#### (l) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

#### (m) Expenses

Expenses including operating expenses and other outgoings are brought to account on an accruals basis and, if not paid at balance date, are reflected in the balance sheet as payables.



## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Income tax

The income tax expense or revenue for the reporting period is the tax payable on the current reporting period's taxable income based on the Australian company tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of the assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax balances are calculated using the balance sheet method. Under this method, temporary differences arise between the carrying amount of assets and liabilities in the financial statements and the tax bases for the corresponding assets and liabilities. However, an exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not effect either accounting profit or taxable profit or loss. Similarly, no deferred tax asset or liability is recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled.

Deferred tax assets are recognised for temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (o) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flow.

### (p) New accounting standards and UIG interpretation

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010)* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Company's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Segment reporting

As of 1 July 2009 ALE determines and presents operating segments based on the information that is provided internally to the Managing Director, who is ALE's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of ALE that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of ALE's other entities. All operating segments' operating results are regularly reviewed by ALE's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### NOTE 3 DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### NOTE 4 FINANCIAL RISK MANAGEMENT

#### Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit, Compliance and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Compliance and Risk Management Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

#### *Trade and other receivables*

The Company's exposure to credit risk is influenced mainly by the individual characteristic of each customer. The Company has few customers and therefore there is significant concentration of credit risk. Credit risk has been minimised primarily by ensuring, on a continuous basis, that the customers have appropriate financial standing.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has liquidity risk management policies, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses and commitments for the purchase/sale of assets for a period of 90 days (or longer if deemed necessary), including the servicing of financial obligations.

#### Market risk

Market risk is the risk that changes in market prices, such as the consumer price index and interest rates, will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

	Note	30 June 2010 \$	30 June 2009 \$
<b>NOTE 5 EXPENSE REIMBURSEMENTS</b>			
Reimbursement of expenses for managing the Head Trust and controlled entities		<b>3,034,011</b>	<b>3,205,958</b>
Fees are charged to the Trust and its controlled entities by the Company for reimbursement of expenses incurred in the management of the trust and responsible entity services.			
Expense reimbursement receipts of \$7,324,240 (2009: \$6,439,579) disclosed in the statement of cash flows is comprised predominantly of expenses paid for by the Company on behalf of the Trust and other ALE group entities and subsequently reimbursed from the entities. The legal obligations for these expenses are the responsibility of the individual ALE group entities and are not expenses of the Company.			
<b>NOTE 6 AUDITOR'S REMUNERATION</b>			
<b>Audit services</b>			
<i>KPMG Australian firm:</i>			
Audit and review of the financial reports of the ALE Property Group and other audit work under the <i>Corporations Act 2001</i>			
– in relation to current year		167,172	140,359
– in relation to prior year		30,000	30,000
<b>Total remuneration for audit services</b>		<b>197,172</b>	<b>170,359</b>
Other services			
<i>KPMG Australian firm:</i>			
Transaction compliance services		150,983	–
<b>Total other services</b>		<b>150,983</b>	<b>–</b>
<b>NOTE 7 INCOME TAX EXPENSE/(BENEFIT)</b>			
Current tax expense/(benefit)		1,138	–
Deferred tax (benefit)		186,046	18,302
<b>Income tax expense</b>		<b>187,184</b>	<b>18,302</b>
<b>Reconciliation of income tax expense to prima facie tax payable</b>			
Profit/(Loss) before income tax expense		508,607	(73,645)
Tax at the Australian tax rate 30%		152,582	(22,094)
Tax effect of amounts which are deductible (taxable) in calculating taxable income:			
Share based payments		39,000	47,216
Under provision in prior years		(4,398)	(6,820)
<b>Income tax expense/(benefit)</b>		<b>187,184</b>	<b>18,302</b>
<b>NOTE 8 CASH AND CASH EQUIVALENTS</b>			
Cash at bank	(a)	205,029	171,283
Deposits at call	(b)	68,433	65,928
		<b>273,462</b>	<b>237,211</b>
(a) As at 30 June 2010 the weighted average interest rate earned on cash was 3.50% (2009: 3.16%).			
(b) The deposits represents office occupancy security deposits.			
<i>Reconciliation of profit after income tax to net cash inflows from operating activities</i>			
Profit/(Loss) for the year		321,423	(91,947)
Depreciation		44,828	51,786
Loss on disposal of plant and equipment		–	1,577
Non-cash employee benefits expense – share based payments		130,000	157,094
(Increase)/decrease in receivables		624,855	(532,016)
(Increase)/decrease in other assets		(781,942)	87,530
(Increase)/decrease in deferred tax asset		186,046	18,302
Increase/(decrease) in loan from related party		(135,077)	(32,369)
Increase/(decrease) in provisions		(12,240)	(15,708)
Increase/(decrease) in payables		(318,599)	375,162
Increase/(decrease) in current tax liability		1,182	–
<b>Net cash inflows from operating activities</b>		<b>60,476</b>	<b>19,411</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	30 June 2010 \$	30 June 2009 \$
<b>NOTE 9 RECEIVABLES</b>		
Accounts receivable	140,429	765,166
Loan to related party	1,380,594	–
Interest receivable	51	169
	<b>1,521,074</b>	<b>765,335</b>
<b>NOTE 10 PLANT AND EQUIPMENT</b>		
<i>Furniture, fittings and equipment</i>		
At Cost	51,972	51,543
Accumulated depreciation	(36,847)	(33,783)
	15,125	17,760
<i>Software</i>		
At Cost	111,156	110,656
Accumulated depreciation	(96,876)	(82,655)
	14,280	28,001
<i>Office fitout</i>		
At Cost	179,522	94,906
Accumulated depreciation	(168,548)	(55,460)
	10,974	39,446
<i>Total</i>		
At Cost	342,650	257,105
Accumulated depreciation	(302,271)	(171,898)
<b>Net book value</b>	<b>40,379</b>	<b>85,207</b>
<b>Movement in Plant and Equipment:</b>		
<i>Furniture, fittings and equipment</i>		
Net book value at the beginning of the year	17,760	22,864
Additions	429	3,029
Disposals	–	(2,941)
Depreciation charge	(3,064)	(5,192)
Net book value at the end of the year	15,125	17,760
<i>Software</i>		
Net book value at the beginning of the year	28,001	20,453
Additions	499	25,670
Disposals	–	–
Depreciation charge	(14,220)	(18,122)
Net book value at the end of the year	14,280	28,001
<i>Office fitout</i>		
Net book value at the beginning of the year	39,446	67,918
Additions	–	–
Depreciation charge	(28,472)	(28,472)
Net book value at the end of the year	10,974	39,446
<i>Total</i>		
Net book value at the beginning of the year	85,207	111,235
Additions	928	28,699
Disposals	–	(2,941)
Depreciation charge	(45,756)	(51,786)
<b>Net book value at the end of the year</b>	<b>40,379</b>	<b>85,207</b>
<b>NOTE 11 INVESTMENT IN RELATED PARTY</b>		
Trust Non-Income Voting Units (NIVUS)	<b>9,080,010</b>	<b>9,080,010</b>

The Company was issued 9,080,010 of non-income voting units (NIVUS) in the Trust 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 but are not disclosed in the ALE Property Group financial statements as they are eliminated on consolidation.

	30 June 2010 \$	30 June 2009 \$
<b>NOTE 12 DEFERRED TAX ASSET</b>		
<b>Deferred tax assets</b>	<b>193,914</b>	<b>379,960</b>
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in statement of comprehensive income</i>		
Employee benefits	2,744	6,416
Acquisition proposal due diligence	11,414	108,641
Other accruals	120,465	233,141
Other	2,590	2,450
Tax losses	56,701	29,312
<b>Net deferred tax assets</b>	<b>193,914</b>	<b>379,960</b>
<b>Movements:</b>		
Opening balance	379,960	398,262
Credited/(charged) to the statement of comprehensive income (Note 7)	(186,046)	(18,302)
<b>Closing balance at</b>	<b>193,914</b>	<b>379,960</b>
Deferred tax assets to be recovered within 12 months	137,213	337,335
Deferred tax assets to be recovered after more than 12 months	56,701	42,625
	<b>193,914</b>	<b>379,960</b>
<b>NOTE 13 PAYABLES</b>		
Trade creditors	341,051	270,708
Creditor accruals	356,968	745,910
	<b>698,019</b>	<b>1,016,618</b>
<b>NOTE 14 PROVISIONS</b>		
Provision for employee entitlements	9,146	21,386
	<b>9,146</b>	<b>21,386</b>
<b>NOTE 15 LOAN FROM RELATED PARTY</b>		
Loan from the Trust	–	<b>1,802,318</b>
The loan is non-interest bearing, of no fixed term and is repayable on demand.		
<b>NOTE 16 CONTRIBUTED EQUITY</b>		
<b>(a) Share capital</b>		
Issued share capital 153,354,571 (2009:87,692,019) fully paid	<b>11,862,301</b>	<b>8,813,743</b>
<b>(b) Movements in ordinary share capital</b>		
Opening balance	8,813,743	8,670,927
Shares issued – ALE Executive Performance Rights Plan	723	5,617
Shares issued – Dividend Reinvestment Plan	134,452	162,199
Costs associated with implementation of Dividend Reinvestment Plan	–	(25,000)
Shares issued – institutional placement	602,766	–
Shares issued – rights issue	2,310,617	–
<b>Balance at the end of the period</b>	<b>11,862,301</b>	<b>8,813,743</b>
<b>Movements in the number of fully paid shares</b>		
	No. of shares 2010	No. of shares 2009
<i>Shares on issue</i>		
Opening balance	87,692,019	85,813,747
Shares issued – ALE Executive Performance Rights Plan	11,088	61,826
Shares issued – Dividend Reinvestment Plan	2,074,471	1,816,446
Shares issued – institutional placement	13,153,803	–
Shares issued – rights issue	50,423,190	–
Closing balance	<b>153,354,571</b>	<b>87,692,019</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 16 CONTRIBUTED EQUITY (CONTINUED)

#### (c) Shares

Fully paid stapled securities in the Company were issued at \$1.00 per stapled security. Each stapled security comprises one \$0.10 share in the Company and one \$0.90 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 the Company 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 Company poll each ordinary shareholder is entitled to one vote for each fully paid share, and on a Trust poll each unitholder is entitled to one vote for each fully paid unit.

During the year the ALE Property Group undertook an Institutional Placement of stapled securities of 15% of the issued stapled securities. These stapled securities were issued at \$2.25 each. In addition a 1 for 2 rights issue was conducted with the stapled securities issued at \$1.50 per unit. The share capital increase for the Company represents the Company's share of the proceeds from the new stapled securities issued.

	30 June 2010 \$	30 June 2009 \$
<b>NOTE 17 RETAINED LOSSES</b>		
Balance at the beginning of the year	(1,132,630)	(1,189,149)
Net profit/(loss) attributable to ordinary shareholders	321,423	(91,947)
Transfer from share based payments reserve	5,052	148,466
<b>Balance at the end of the year</b>	<b>(806,155)</b>	<b>(1,132,630)</b>
<b>NOTE 18 RESERVES</b>		
<b>Share-based payments reserve</b>		
Balance at the beginning of the year	83,333	221,077
Employee share based payments expense	130,000	157,094
Transfer to Retained Profits on lapsing of Performance Rights	(5,052)	(148,466)
Vesting of performance rights	(24,948)	(146,372)
<b>Balance at the end of the year</b>	<b>183,333</b>	<b>83,333</b>

### NOTE 19 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 responsible entity for the ALE Property Group.

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

#### Geographical segment

The Company operates solely within Australia.

**NOTE 20 EVENTS OCCURRING AFTER REPORTING DATE**

The Directors are not aware of any matter or circumstance occurring after balance date which may materially affect the Company's operations, the results of those operations or the state of affairs of the Company.

**NOTE 21 CONTINGENT LIABILITIES****Bank guarantee**

The Company has entered into a bank guarantee of \$58,135 in respect of its office tenancy at Level 7, 1 O'Connell Street, Sydney. The lease on these premises expires in November 2010.

The Company has entered into a bank guarantee of \$184,464 in respect of a new office tenancy at Level 10, 6 O'Connell Street, Sydney.

The Directors are not aware of any other material contingent liabilities as at the date of this report.

**NOTE 22 SHARE BASED PAYMENTS**

During 2007 ALE established a Performance Rights Plan that entitles key management personnel. Grants of performance rights (PR) have made to Mr Wilkinson and Mr Slade respectively. In accordance with the plan the performance rights vest upon performance hurdles being achieved.

The securities issued under the plan are issued at nil cost to the employee.

The terms and conditions of the grants are as follows:

Employee entitled	Grant date	Number of PRs	Vesting conditions	Contractual Life of PRs
Mr A F O Wilkinson	1 June 2009	160,026	1. Service period 2. Total shareholder Return (TSR) compared to comparative group 3. Absolute TSR	1 June 2011
Mr A J Slade	30 June 2008 1 July 2008 1 July 2009	15,552 30,206 46,146	1. Service period 2. Total shareholder Return (TSR) compared to comparative group 3. Absolute TSR	30 June 2010 30 June 2011 30 June 2012

The vesting conditions for Mr Slade's performance rights are tested annually on 30 June each year. One third of the number of performance rights issued are tested each balance date.

The number and weighted average fair values of the performance rights on issue are as follows:

	Number of performance rights 2010	Weighted average fair value 2010	Number of performance rights 2009	Weighted average fair value 2009
Outstanding at 1 July	41,013	1.88	106,068	3.03
Granted during period	210,583	0.98	30,206	1.67
Vested during year	(11,088)	1.97	(61,826)	2.37
Lapsed during year	(3,173)	1.97	(33,435)	2.37
Outstanding at 30 June	237,335	1.11	41,013	1.88

The performance rights outstanding at 30 June 2010 will be issued at nil cost to the employee if and when they vest.

The performance rights value is the assessed fair value at grant date of the performance rights, allocated equally over the period from grant date to vesting date. The fair value at grant date has been independently determined by using a Black-Scholes option pricing model. This technique takes into account factors such as the exercise price, the term of the performance rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance rights, the security price at grant date and expected price volatility of the underlying security, the expected distribution yield and the risk-free interest rate for the term of the performance rights.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

### NOTE 23 COMMITMENTS

#### (a) Capital commitments

The Directors are not aware of any capital commitments as at the date of this report.

#### (b) Lease commitments

ALE has entered into a non-cancellable operating lease for its office premises at Level 7, 1 O'Connell Street, Sydney, this lease expires in November 2010. The Company has entered into a non-cancellable operating lease for new office premises at Level 10, 6 O'Connell Street, Sydney starting November 2010. The Company has also entered into a non-cancellable operating lease for office equipment. The minimum net lease commitments under these leases are:

	30 June 2010 \$	30 June 2009 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	88,005	113,551
Later than one year but not later than five years	253,109	55,469
Later than five years	22,405	–
	<b>363,519</b>	<b>169,020</b>

### NOTE 24 RELATED PARTY TRANSACTIONS

#### (a) Parent entity, subsidiaries, joint ventures and associates

The Company has no parent entity, subsidiaries, joint ventures or associates.

#### (b) Key management personnel

Key management personnel and their compensation is set out in Note 25.

#### (c) Transaction with related parties

For the year ended 30 June 2010 the Company had charged the Trust \$3,178,940 in expense reimbursement (2009: \$3,205,958).

Peter Warne is also a director of Next Financial Limited (Next Financial) which acts as an Investment Manager. At 30 June 2010 Next Financial held on behalf of its clients (other than Peter Warne) 3,396,558 (2009: 2,483,714) stapled securities in the ALE Property Group. With the exception of his own holding, Peter Warne is not involved in any of the decision making processes regarding those securities in the ALE Property Group held by Next Financial for its clients. Procedures have been put into place to ensure Peter Warne's independence and confidentiality of information are maintained.

Peter Warne is a non-executive director of Macquarie Group Limited ("Macquarie"). Macquarie has provided banking services and corporate advice to ALE in the past and may continue to do so in the future. Mr Warne does not take part in any decisions to appoint Macquarie in relation to banking services and corporate advice provided by Macquarie to ALE.

#### (d) Terms and conditions

All related party transactions are conducted on normal commercial terms and conditions. Outstanding balances are unsecured and are repayable in cash and callable on demand.



**NOTE 25 KEY MANAGEMENT PERSONNEL****(a) Directors**

The following persons were Directors of the Company during the financial year:

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

**(b) Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the year.

Name	Title
Andrew Slade	Capital Manager
Brendan Howell	Company Secretary and Compliance Officer
Michael Clarke	Finance Manager

**(c) Compensation for key management personnel**

The following table sets out the compensation for key management personnel in aggregate. Refer to the remuneration report in the Directors' Report for details of the remuneration policy and compensation details by individual.

	<b>30 June 2010 \$</b>	30 June 2009 \$
Short term employee benefits	1,325,465	1,151,267
Post employment benefits	60,879	56,932
Other long term benefits	2,021	–
Share based payments	130,000	157,094
	<b>1,518,365</b>	<b>1,365,293</b>
<b>Share based payments expense in the year</b>		
Performance rights granted in 2008	–	100,048
Performance rights granted in 2009	–	50,000
Performance rights granted in 2010	130,000	–
	<b>130,000</b>	<b>150,048</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2010

	30 June 2010 cents	30 June 2009 cents
<b>NOTE 26 EARNINGS PER SHARE</b>		
<b>(a) Basic earnings per share</b>		
<i>Attributable to equity holders of the Company</i>		
Basic and diluted earnings per equity holders of the Company	0.23	(0.11)
<i>Attributable to security holders of the stapled entity</i>		
Basic and diluted earnings per stapled security before financing costs attributable to the Company security holders divided by the average number of securities	0.23	(0.11)
Basic and diluted earnings per stapled security using realised operating income.	0.23	(0.11)
	Number 2010	Number 2009
<b>(b) Weighted average number of shares used as the denominator</b>		
Weighted average number of shares used as the denominator in calculating earnings per share	141,837,573	86,845,689
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	141,837,573	86,845,689

### NOTE 27 FINANCIAL INSTRUMENTS

#### (a) Credit risk

ALE's major credit risk is the risk that the tenant will fail to perform its contractual obligations including honouring the terms of the lease agreements either in whole or in part. Credit risk has been minimised primarily by ensuring, on a continuous basis, that the tenant has appropriate financial standing.

Credit risk on cash is managed through ensuring all cash deposits are held with major domestic banks.

The credit risk on financial assets of the Company which have been recognised in the balance sheet is generally the carrying amount net of any provision for doubtful debts.

#### Exposure to credit risk

	2010 \$	2009 \$
Receivables	140,480	765,335
Cash and cash equivalents	273,462	237,211
	<b>413,942</b>	<b>1,002,546</b>

#### Impairment losses

	2010		2009	
	Gross \$	Impairment \$	Gross \$	Impairment \$
Not past due	129,844	–	110,551	–
Past due 0–30 days	–	–	77,039	–
Past due 31–120 days	10,636	–	65,227	–
Past Due 120–365 days	–	–	46,013	–
More than one year	–	–	466,505	–
	<b>140,480</b>	<b>–</b>	<b>765,335</b>	<b>–</b>

#### (b) Liquidity Risk

The Company has no contracted financial liabilities and therefore the Company's liquidity risk to external parties is minimal.

#### (c) Interest rate risk

The Company has no financial interest bearing obligations and accordingly the Company's interest rate risk is minimal.

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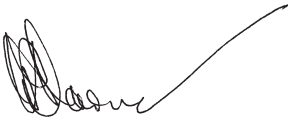
**DIRECTORS' DECLARATION**

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In the Directors' opinion:

- (a) the financial statements and notes that are set out on pages 65 to 80 and the remuneration report contained in Section 9 of the Directors' Report, are in accordance with the *Corporations Act 2001*, including
  - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that ALE will be able to pay its debts as and when they become due and payable.
- (c) The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director, Finance Manager, and Company Secretary as required for the financial year ended 30 June 2010.
- (d) The directors draw attention to Note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Directors.



**Peter H Warne**

Director  
Sydney

Dated this 17th day of August 2010

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**INDEPENDENT AUDITOR'S REPORT**

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIAN LEISURE AND ENTERTAINMENT PROPERTY MANAGEMENT LIMITED****Report on the financial report**

We have audited the accompanying financial report of Australian Leisure and Entertainment Property Management Limited (the Company), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 27 and the directors' declaration set out on pages 65 to 81.

*Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**INDEPENDENT AUDITOR'S REPORT**

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*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of Australian Leisure and Entertainment Property Management Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

**Report on the remuneration report**

We have audited the Remuneration Report included in Section 9 on pages 6 to 11 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Australian Leisure and Entertainment Property Management Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Nigel Virgo'.

**Nigel Virgo**

*Partner*

Sydney

17 August 2010

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**INVESTOR INFORMATION AND CORPORATE DIRECTORY**


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**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 is mailed to stapled security holders unless we are 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 stapled security holders by registering on ALE's website. **The election by stapled security 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 stapled 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 are 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.




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**Registered Office** Level 7, 1 O'Connell Street, Sydney NSW 2000 ☎ (02) 8231 8588 **Company Secretary** Mr Brendan Howell, Level 7, 1 O'Connell Street, Sydney NSW 2000 ☎ (02) 8231 8588 **Auditors** KPMG, 10 Shelley Street, Sydney NSW 2000 **Lawyers** Allens Arthur Robinson, Level 28, Deutsche Bank Place, Sydney NSW 2000 **Custodian (Australian Leisure and Entertainment Property Trust)** Trust Company of Australia Limited, Level 4, 35 Clarence Street, Sydney NSW 2000 **Trustee (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 ☎ 1300 302 429 📧 (02) 8235 8150 @ [www.computershare.com.au](http://www.computershare.com.au)

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**SOLD**



**\$6.0m**

**Albion Hotel** in Brisbane sold for \$6.0m in October 2009. The sale price represented a capitalisation rate of 5.85% after including land tax payable by ALE.

