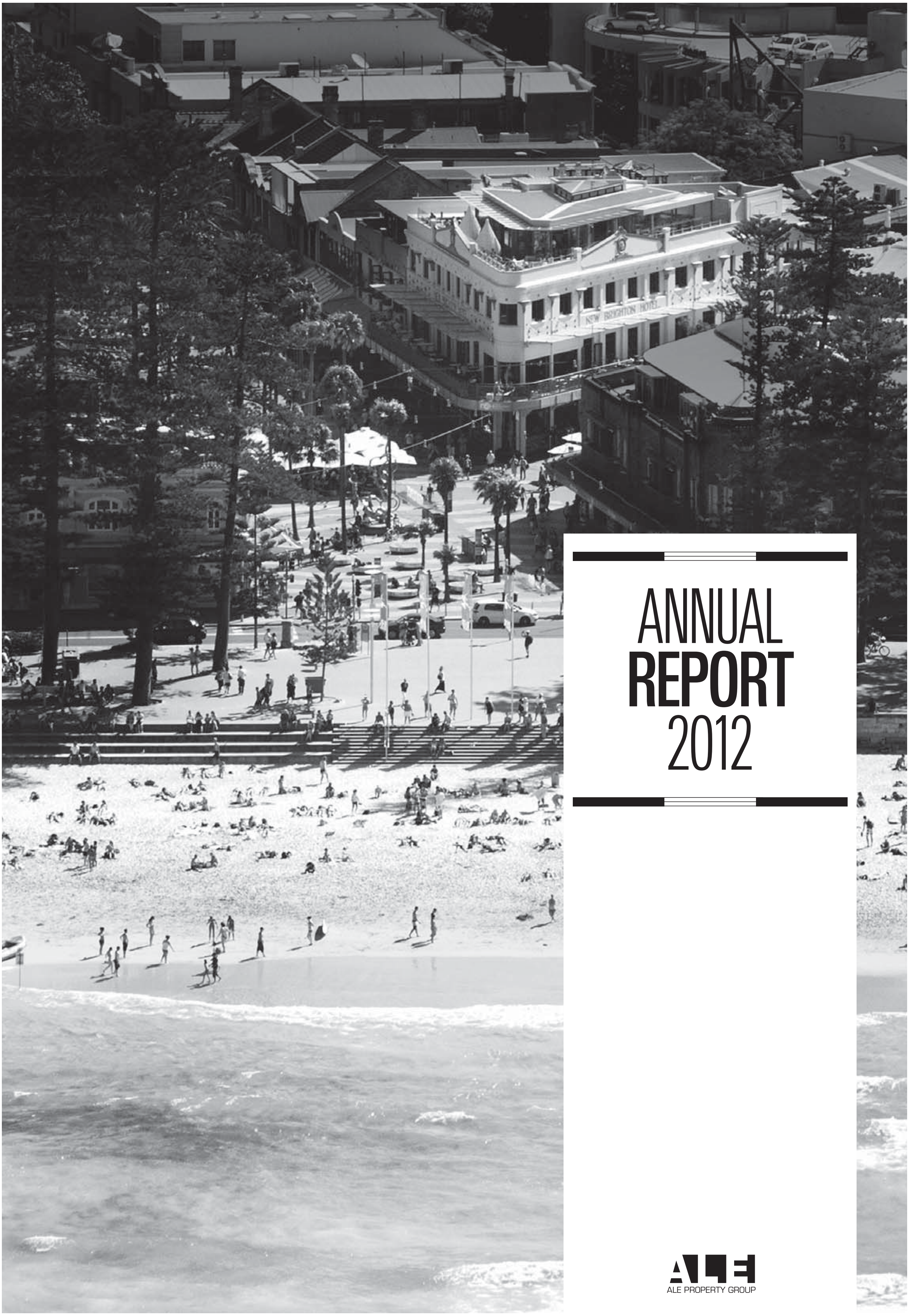

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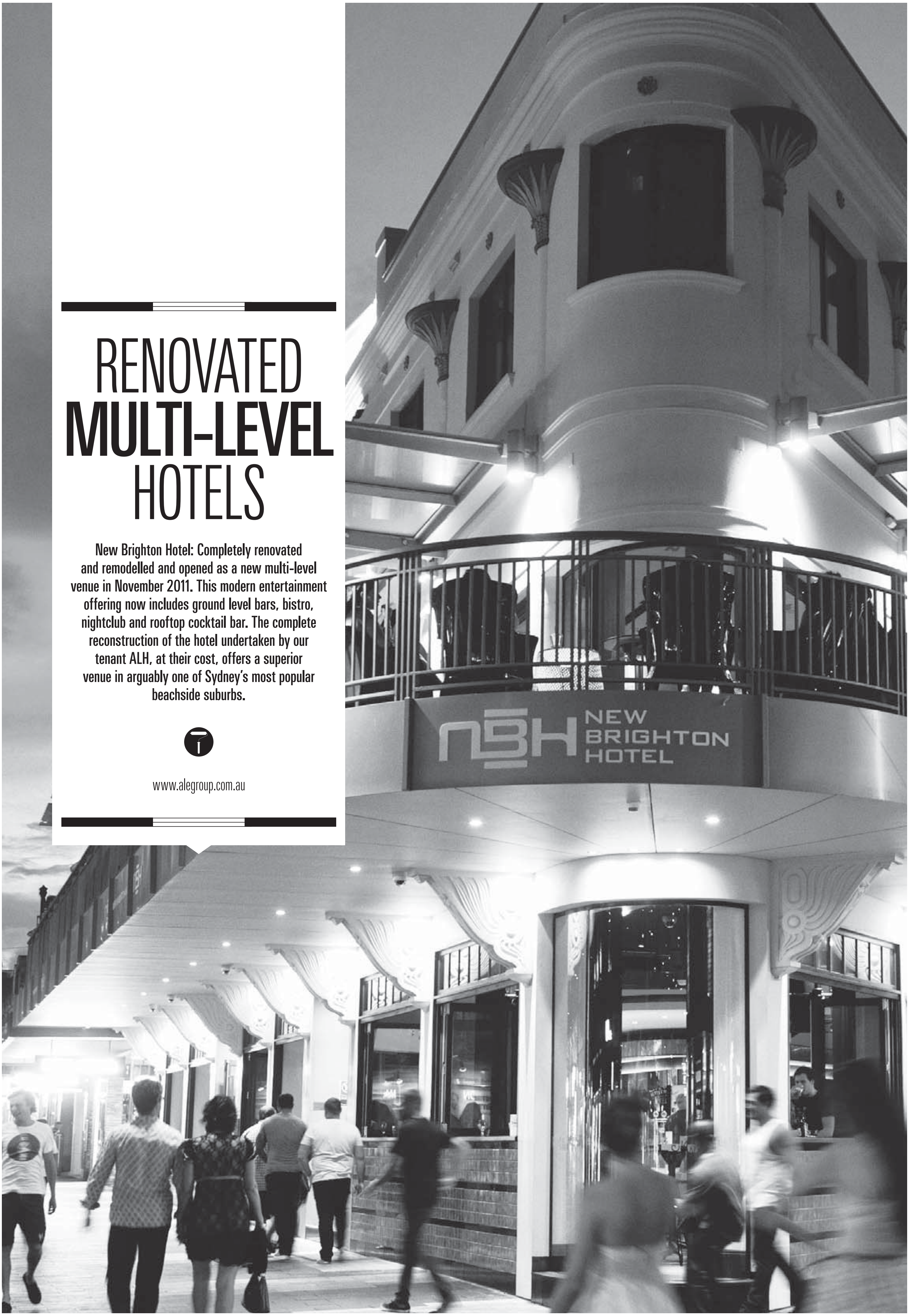
ALE PROPERTY GROUP



RENOVATED **MULTI-LEVEL** HOTELS

New Brighton Hotel: Completely renovated and remodelled and opened as a new multi-level venue in November 2011. This modern entertainment offering now includes ground level bars, bistro, nightclub and rooftop cocktail bar. The complete reconstruction of the hotel undertaken by our tenant ALH, at their cost, offers a superior venue in arguably one of Sydney's most popular beachside suburbs.

www.alegroup.com.au

ALE PROPERTY GROUP

Report for the Year Ended 30 June 2012

ALE Property Group (ALE)

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities
ABN 92 648 441 429

ALE Property Group

Report for the Year Ended 30 June 2012

CONTENTS

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 10
6 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 2012.

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:

- the remaining ALE Notes outstanding were redeemed;
- property values increased 1.75% to $771.53 million;
- long term interest rates reduced significantly during the year resulting in an decrease in the fair value of derivatives; and
- Net Assets decreased by 11.1% to $312.50 million and net borrowings (total borrowings less cash) as a percentage of assets (total assets less cash and derivatives) increased slightly from 51.7% to 51.9%.

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 securityholders.

Disclosed in the financial statement are current borrowings for accumulated indexation and associated derivative liabilities. While the derivative has a term expiring in December 2023, ALE has a right to break the derivative at any time and the counterparty has a right to break at either December 2012 or December 2017. ALE has formed the view that the hedge provider may exercise that right. Accordingly, management is currently in detailed discussions with a number of parties to restructure the arrangements. Funding arrangements are in place to enable ALE to fully meet its current liabilities.

In early 2008, Australian Leisure and Hospitality Group Pty Limited (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 made orders reflecting the findings set out in the judgment of 16 December 2009, including an order that ALH pay ALE's costs. ALH appealed the 23 April 2010 judgment and orders to the Victorian Court of Appeal. The appeal was heard on 1-2 August 2011. On 15 December 2011, the Victorian Court of Appeal unanimously dismissed the appeal and awarded costs to ALE. 65% of ALE's legal costs were recovered from ALH in May 2012.

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.

Apart from the above matters, the directors are not aware of any other future development likely to significantly affect the operations and/or results of ALE.

DIRECTORS' REPORT (continued)

5. Distributions and dividends

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

	30 June 2012 cents per security	30 June 2011 cents per security	30 June 2012 $'000	30 June 2011 $'000
Final Trust income distribution for the year ending 30 June 2012 to be paid on 5 September 2012	8.00	9.75	12,719	15,404
Interim Trust income distribution for the year ending 30 June 2012 paid on 5 March 2012	8.00	10.00	12,789	15,550
Total distribution for the year ending 30 June 2012	**16.00**	19.75	**25,508**	30,954

No provisions for or payments of Company dividends have been made during the year (2011: nil).

6. Matters subsequent to the end of the financial year

In the opinion of the Directors of the Company, no transaction or event of a material and unusual nature has occurred between the end of the financial year and the date of this report that may significantly affect the operations of ALE, the results of those operations or the state of affairs of ALE in future financial years.

7. Review and results of operations

ALE produced a loss after tax of $17.0 million for the year ended 30 June 2012 (30 June 2011: Profit of $50.9 million).

ALE produced a distributable profit of $26.7 million for the year ended 30 June 2012 (30 June 2011: $31.3 million).

ALE has a policy of only paying distributions from free cash flow, subject to the minimum requirement to distribute taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE and hence how distributions are determined. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs.

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 2012 $'000	30 June 2011 $'000
Profit/(loss) after income tax for the year	**(17,024)**	50,870
Adjustment for non-cash items		
Fair value increments/(decrements) to derivatives and investment properties	33,101	(36,547)
Employee share based payments	106	80
Finance costs - non-cash	13,720	17,315
Income tax expense /(benefit)	(3,187)	(489)
Total adjustments for non-cash items	**43,740**	(19,641)
Total profit available for distribution	**26,716**	31,229
Distribution paid or provided for	25,508	30,954
Available and under distributed for the year	**1,208**	275

DIRECTORS' REPORT (continued)

	Percentage Increase / (Decrease)	30 June 2012 Cents	30 June 2011 Cents
Earnings and distribution per stapled security:			
Basic and diluted earnings	(132.93%)	(10.70)	32.49
Earnings available for distribution	(15.84%)	16.79	19.95
Total distribution	(18.99%)	16.00	19.75

Summary of financial highlights for the year:

Total distribution per stapled security decreased by 18.99% from 19.75 cents to 16.00 cents compared to the June 2011 year.

Investment property revaluations increased portfolio value by 1.75% from $758.28 million to $771.53 million compared to June 2011.

Net assets per stapled security decreased by 12.2% from $2.22 to $1.95 compared to June 2011.

Net assets per stapled security (excluding derivatives) increased by 0.90% from $2.22 to $2.24 compared to June 2011.

8. Information on directors

Mr Peter Warne B.A, FAICD, Chairman and Non–executive Director.

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

Peter was appointed as Chairman and a 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. He is also on the board of NSW Treasury Corporation, Capital Markets Cooperative Research Centre Limited and Securities Industry Research Centre for Asia Pacific (SIRCA) and is a member of the Advisory Board for the Australian Office of Financial Management.

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.

DIRECTORS' REPORT (continued)

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 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 practiced as a commercial lawyer specializing in real estate projects, including development and financing and related taxation and stamp duties.

Helen is the Chair of Screen NSW (formerly Film & Television Office), and is the Statutory and Other Offices Remuneration Tribunal and the Local Government Remuneration Tribunal for NSW. Prior appointments include the Boards of several State, university, commercial and charitable entities. 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, MAICD, 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' 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.

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 20 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 administrating 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.

DIRECTORS' REPORT (continued)

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 over 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	

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' REPORT (continued)

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 2012
P H Warne	Non-executive Director	1,185,000	-	1,185,000
J P Henderson	Non-executive Director	356,365	(180,000)	176,365
H I Wright	Non-executive Director	150,000	-	150,000
A F O Wilkinson	Executive Director	208,468	(40,000)	168,468
A J Slade	Capital Manager	27,900	-	27,900
M J Clarke	Finance Manager	7,741	752	8,493
D J Shipway	Asset Manager	5,000	-	5,000

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

Name	Role	Number held at the start of the year	Lapsed / Vested during the year	Number held at 30 June 2012
A F O Wilkinson	Executive Director	160,026	(160,026)	-
A J Slade	Capital Manager	61,244	(40,653)	20,591

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 2012 and the number of meetings attended by each director at the time the director held office during the year were:

	Board		ACRMC		Remuneration Committee	
Director	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
P H Warne	10	10	8	8	6	6
J P Henderson	10	10	8	8	6	6
H I Wright	10	9	8	8	6	6
A F O Wilkinson	10	10	n/a	n/a	n/a	n/a
J T McNally	10	10	n/a	n/a	n/a	n/a
Member of Audit, Compliance and Risk Management Committee						
D J Lawler	n/a	n/a	8	7	n/a	n/a

[1] "Held" reflects the number of meetings which the director or member was eligible to attend.

DIRECTORS' REPORT (continued)

9 Remuneration Report (Audited)

This report provides details on ALE's remuneration structure, decisions and outcomes for the year ended 30 June 2012 for employees of ALE including the directors, the Managing Director and key management personnel.

9.1 Remuneration Objectives and Approach

In determining a Remuneration Framework, the Board aims to ensure the following:

- attract, reward and retain high calibre executives;
- motivate executives to achieve performance that creates value for stapled securityholders; and
- links remuneration to performance and outcomes achieved.

The framework aligns executive reward with achievement of strategic objectives and creation of value for stapled securityholders. To do this the Board ensures that executive reward satisfies the following objectives:

- alignment with ALE's financial, operational, compliance and risk management objectives so as to achieve alignment with positive outcomes for stapled securityholders;
- alignment with ALE's overall performance;
- transparent, reasonable and acceptable to employees and securityholders;
- rewards the responsibility, capability, experience and contribution made by executives; and
- market competitive and complementary to the reward strategy of the organisation.

The framework provides a mix of fixed and variable pay. From 2012 the variable pay is provided through an Executive Incentive Scheme (EIS). Any award under the EIS is paid 50% in cash at the year end and 50% in stapled securities with delivery deferred three years. The previous long term incentive arrangements have been discontinued.

9.2 Remuneration Committee

The Remuneration Committee ("the Committee") is a committee comprising non-executive directors of the Company. The Committee strives to ensure that ALE's remuneration structure strikes an appropriate balance between the interests of ALE securityholders and rewarding, motivating and retaining employees.

The Committee's charter sets out its role and responsibilities. The charter is reviewed on an annual basis. In fulfilling its role the Committee endeavours to ensure the remuneration framework established will:

- reward executive performance against agreed strategic objectives;
- encourage alignment of the interests of executives and stapled securityholders; and
- ensure there is an appropriate mix between fixed and "at risk" remuneration.

The Committee operates independently of ALE senior management in its recommendations to the Board and engages remuneration consultants independently of ALE management. During FY12, the Committee consisted of the following:

Peter Warne (Chairman)	Non-executive Director
Helen Wright	Non-executive Director
John Henderson	Non-executive Director

Refer page 4 of this report for information on the skills, experience and expertise of the Committee members.

The number of meetings held by the Committee and the members' attendance at them is set out on page 7.

The Remuneration Committee considers advice from a wide range of external advisors in performing its role. During the current financial year ALE engaged Ernst & Young to provide advice on the replacement of the Long Term Incentive Plan of ALE, Freehills to draft the Executive Stapled Security Scheme (ESSS) and Greenwoods Freehills to provide taxation advice on the ESSS.

DIRECTORS' REPORT (continued)

9.3 Executive Remuneration

Executive remuneration comprises both a fixed component and an 'at risk' component. It specifically comprises:

- Fixed Annual Remuneration (FAR)
- Executive Incentive Scheme (EIS)
- Long Term Incentives (LTI) - discontinued in the current financial year

Since 2003 ALE Property Group has had in place incentive schemes for eligible executives in the form of cash bonuses, options and performance rights. Given the time and material costs of maintaining the performance right based LTI plan, in 2011 the Remuneration Committee engaged Ernst & Young to review the arrangements with a view to simplifying the administration of the plan whilst maintaining proper alignment to the long term interests of Stapled Securityholders. The outcome of this review was a recommendation to revise the executive incentive arrangements. The new Executive Incentive Scheme (EIS) includes a 50% cash component and 50% deferred equity component in the form of an Executive Stapled Securities Scheme (ESSS). The establishment of the ESSS was approved at the 2011 Annual general meeting and the Board has implemented the ESSS in the current year. The cash award will be paid immediately following the release of ALE Property Group's annual results. The Stapled Securities issued under the ESSS will be delivered to the executive three years after the award date, provided certain conditions are met. The granting and delivery of Stapled Securities awarded under the ESSS is administered by the Remuneration Committee.

9.3.1 Fixed Annual Remuneration (FAR)

What is FAR?	FAR is the guaranteed salary of the executive and includes superannuation and salary sacrificed components such as motor vehicles, computers and superannuation.
How is FAR set?	FAR is set by reference to external market data for comparable roles and responsibilities within similar listed entities within Australia.
When is FAR Reviewed?	FAR is reviewed in December each year with any changes being effective from 1 January of the following year.

9.3.2 Executive Incentive Scheme (EIS)

What is EIS?	EIS is an "at risk" component of an executive remuneration. EIS is used to reward executives for achieving annual individual key performance indicators (KPIs). The maximum EIS opportunity for executives varies according to the role and responsibility of the executive. EIS awards comprise 50% cash and 50% deferred delivery stapled securities issued under the Executive Stapled Securities Scheme (ESSS). For executives not invited to participate in the ESSS the EIS is paid fully in cash.
How are EIS targets and objectives chosen?	At the beginning of each year, in addition to the standard range of operational requirements, the Board sets a number of strategic objectives for ALE for that year. These objectives are dependent on the strategic opportunities and issues facing ALE for that year and may include objectives that relate to the short and longer term performance of ALE. Additionally, specific KPIs are established for all executives with reference to their individual responsibilities which link to the addition to and protection of securityholder value, improving business processes, ensuring compliance with legislative requirements, reducing risks within the business and ensuring compliance with risk management policies, as well as other key strategic non-financial measures linked to drivers of performance in future economic periods.
How is EIS performance accessed?	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 EIS payments and awards may be adjusted up or down in line with over or under achievement against the specific KPIs. The Board has due regard to the achievements of the objectives outlined above.

DIRECTORS' REPORT (continued)

How are EIS awards delivered?	EIS cash payments are made in August each year following the release of ALE's annual results. The deferred component comprises an award of stapled securities under the ESSS. Any securities awarded under the ESSS are delivered three years after the award date provided certain conditions have been met.
How is the ESSS award calculated?	The number of ESSS Rights awarded annually under the ESSS will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements, and grossing this number up for estimated distributions over the deferral period.
What conditions are required to be met for the delivery of an ESSS award?	At the end of the three year deferred delivery period, the delivery of the Stapled Securities issued under the ESSS remains subject to the following clawback tests. Stapled Securities issued under the ESSS will be forfeited in whole or in part at the discretion of the Remuneration Committee if before the delivery date: • the Remuneration Committee becomes aware of any executive performance matter which, had it been aware of the matter at the time of the original award, would have in their reasonable opinion resulted in a lower original award; or • the executive engages in any conduct or commits any act which in the Remuneration Committee's reasonable opinion, adversely affects the ALE Property Group including, and without limitation, any act which: · results in the ALE Property Group having to make any material financial restatements; · causes the ALE Property Group to incur a material financial loss; or · causes any significant financial or reputational harm to ALE Property Group and/or its businesses.

9.3.3 Long Term Incentive (LTI)

What is LTI?	The LTI plan was discontinued with effect from 1 July 2010. It has been replaced by the new EIS. The former LTI plan provided for the granting of Performance Rights over stapled securities in ALE. If performance conditions were met then the Performance Rights vested and stapled securities were issued to the executive, subject to a number of deferred delivery conditions. If performance conditions were not met by the final testing date the Performance Rights lapse.
What are the LTI performance conditions?	The performance conditions for LTIs were as follows: • a service period retention hurdle, whereby the employee must be employed by ALE at the vesting date for the Performance Rights to vest. • a Total Securityholder Return (TSR) performance hurdle based on ALE's absolute TSR. • a TSR performance hurdle where ALE's TSR is ranked against a comparative group consisting of trusts classified as Real Estate Investment Trusts in the S&P/ASX 300 Index.
What are the periods for the performance conditions?	The performance periods for grants were determined on an individual basis. Presently there are outstanding LTI grants to Andrew Slade that have vested but have not been delivered. All previous LTI granted to Andrew Wilkinson have been tested in accordance with the above performance conditions. For those rights that vested, delivery is deferred until July 2013 and are subject to the conditions set out below. <u>Andrew Slade</u> The performance period for grants to Mr Slade were split over the three years covered by each grant. One-third of the performance rights granted are tested on 30 June of each of the three years following the grant date. For grants prior to 30 June 2009, no retesting is performed on failed vesting tests. For grants made on and after 30 June 2009, any failed TSR performance hurdle is retested at the next anniversary until the performance period concludes.

DIRECTORS' REPORT (continued)

What is the vesting scale for the Relative TSR performance hurdles?

Up to one-third of total LTIs awarded are subject to a Relative TSR ranking over the performance period established in the grant.

ALE TSR Rank	Vesting Scale
Below 50th percentile	Nil vesting
Between 50th percentile and 75th percentile	Linear scale: 50% to 99% vesting
At or above 75th percentile	100% vesting

What is the vesting scale for the Absolute TSR performance hurdles?

Up to one-third of total LTIs awarded are subject to an Absolute TSR ranking over the performance period established in the grant.

ALE TSR Rank	Vesting Scale
Below 12% TSR performance	Nil vesting
Between 12% and 17% TSR performance	Linear scale: 50% to 99% vesting
At or above 17% TSR performance	100% vesting

When are LTI delivered?

Andrew Slade
For grants prior to 30 June 2009, LTIs were delivered on an annual basis once testing has been performed and vesting established. For grants subsequent to 30 June 2009, any securities were delivered to Mr Slade two years after the vesting provided that, in the reasonable opinion of the Board, he has not engaged in any conduct that:

(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.

What changes have been made to LTI for 2012 ?

Any further grants under the LTI plan were discontinued effective from 1 July 2010.

9.3.4 Summary of Key Contract Terms

Contract Details

Executive	Andrew Wilkinson	Andrew Slade	Michael Clarke	Don Shipway	James McNally	Brendan Howell
Position	Managing Director	Capital Manager	Finance Manager and Assistant Company Secretary	Asset Manager	Executive Director	Company Secretary and Compliance Officer
Contract Length	3 years	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Fixed Annual Remuneration	$380,000	$208,000	$182,000	$175,000	$100,000	$90,000
Notice by ALE	Per contract	3 months	3 months	1 month	1 month	1 month
Notice by Executive	6 months	3 months	3 months	1 month	1 month	1 month

Managing Director
Andrew Wilkinson has signed a new service agreement which relates to the period starting 1 June 2011 and ending on 31 August 2014. The agreement stipulates the minimum base salary, inclusive of superannuation, for each of the first three years as being $380,000, to be reviewed annually each 31 December by the Board. An EIS, if earned, would be paid 50% as a cash bonus in August each year and 50% in stapled securities issued under the ESSS and delivered three years following each of the annual grant dates.

DIRECTORS' REPORT (continued)

In the event of the termination of Andrew Wilkinson's service agreement and depending on the reason for the termination, amounts may be payable for unpaid accrued entitlements and a proportion of EIS entitlements as at the date of termination. If employment is terminated in circumstances of redundancy or without cause then he is entitled to an amount of the remuneration for the period equal to the lesser of the the unexpired balance of the term of the contract or six months. In addition he may receive a pro-rata EIS award for the period of employment in the year of redundancy.

9.4 Executive Remuneration outcome for year ended 30 June 2012

Details of remuneration paid to Directors and Key Management Personnel is detailed in the table on page 17.

Executive Incentive Scheme Outcomes
ALE has performed well when compared to other Australian real estate investment trusts (A-REITs) since the commencement of the global financial crisis. For the year ending 30 June 2012 ALE achieved a distributable profit of 16.71 cents per security, which exceeded the Board's guidance of at least 16.00 cents per security.

Management contribution to this performance was by way of:

- successful completion of the Vale Hotel litigation defense and substantial recovery of related costs;
- development of a comprehensive long term return analysis for each property in the portfolio;
- completion of all operational and standard procedures; and
- delivery and progression of a wide range of other strategic property, funding and hedging related initiatives.

The remuneration committee considered these achievements and compared them to key performance indicators for each executive that were set at the beginning of the year. The EIS result for the Managing Director and Capital Manager particularly reflect the positive contributions they made to the various capital management and litigation defense activities, as outlined above. Other executives contributed to a range of the important and valuable outcomes outlined above that were recognised in the EIS payments made. All the EIS payments are included in staff remuneration expenses in the current year.

The EIS awarded to each member of the management team is detailed in section 9.8.

LTI Outcomes

The remaining LTI awards under the ALE Executive Performance Rights Plan were tested as at 30 June 2012. As detailed in section 9.3.3, the performance hurdles were based on a combination of Retention, Absolute TSR and Relative TSR.

As outlined in section 9.5.3, the performance hurdles were partly achieved and applicable awards vested under the plan and remain subject to the delayed delivery restrictions that are set out in section 9.3.3.

Andrew Slade was entitled to a grant of LTI for a value equivalent to $50,000 on 1 July 2010. During the current financial year an award of $50,000 under the newly established ESSS was made to him in satisfaction of this outstanding LTI grant.

DIRECTORS' REPORT (continued)

ALE Financial Performance History

To provide context to ALE's performance, the following data and graphs outline a 7 year history on key financial metrics.

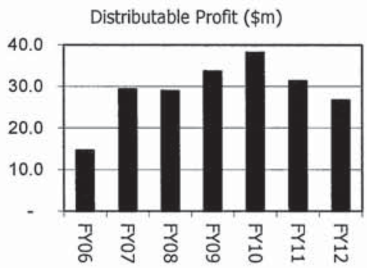
	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Distributable profit ($m)	14.6	29.4	28.9	33.6	38.1	31.3	26.7
Distribution per Security (cents)	16.00	32.50	33.60	30.00	24.00	19.75	16.00
Continuing Property values ($m)	655.6	723.8	722.7	718.5	713.9	758.3	771.5
Net gearing [1]	64.4%	59.6%	66.7%	68.3%	52.1%	51.7%	51.9%

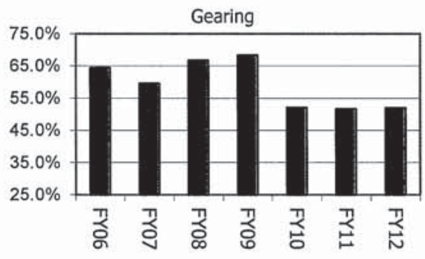
1. Total borrowings less cash as a percentage of total assets less cash and derivatives

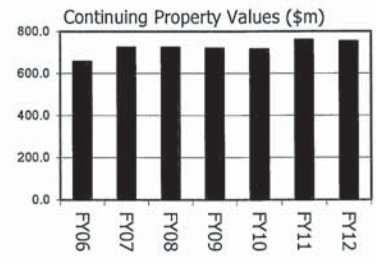
The accumulated value of $1.00 initial public offering (IPO) investment in ALE and reinvested distributions, rights renunciation payments and current market value of securities as at 30 June 2012 totalled $5.21.

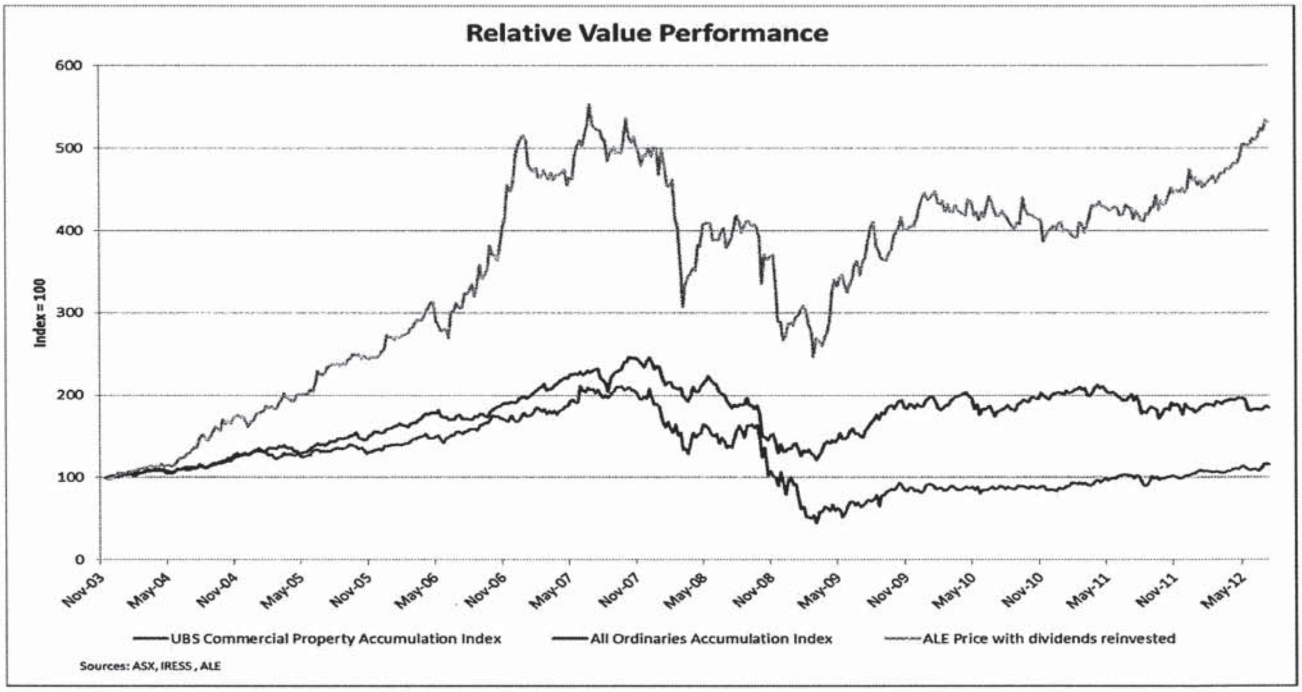
Over the year to 30 June 2012, ALE has outperformed all other A-REITs in the 300 index (which averaged 11% p.a.) with distributions and market price movements to deliver a total return of 20.3% p.a. The All Ordinaries index delivered -7.0% p.a return over the same period.

Growth in th value of the continuing properties since ALE's 2003 IPO has averaged 4.37% p.a.









Accumulated Value for: AREITs $1.15, All Ords $1.84, ALE $5.21[1]

1. Distributions include a payment for renouncing Sep 2009 rights and all other distributions paid and declared to September 2012

DIRECTORS' REPORT (continued)

9.5 Disclosures relating to equity instruments granted as compensation

9.5.1 Outstanding performance rights over equity instruments granted as compensation

Details of performance rights over stapled securities that have been granted as compensation and remain outstanding at year end 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 2012[2]	Number of Stapled Securities Issued[1]
A J Slade	30,206	1 July 2008	1 July 2008	1.67	30 June 2011	-	8,516
A J Slade	46,164	1 July 2009	1 July 2009	1.08	30 June 2012	8,272	-

1. Stapled securities were issued at nil cost to the employee.
2. Stapled securities of 8,272 due to Mr Slade in relation to the 2009 year grants have a delayed delivery of two years.

9.5.2 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.

9.5.3 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 [1]	Grant Date	% vested in year[3]	% forfeited in year [2]	Financial year in which grant vests	Hurdle testing
A J Slade	4,097	1 July 2009	10.5%	89.5%	1 July 2010	(a)
	11,510	1 July 2009	15.3%	84.7%	1 July 2011	(a)
	18,238	1 July 2009	33.3%	66.7%	1 July 2012	(a)

1. In accordance with the Rules of the Plan the number issued has been adjusted during the year for the rights issue 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 and rights not being subject to any subsequent retesting.
3. The performance rights vesting in relation to 2009 year grants have a delayed delivery of two years.

(a) The performance hurdles were tested as at 30 June 2012 with the following results:

Grant date	Result			Vested %		
	Retention	Absolute TSR Return	Relative TSR Ranking	Retention	Absolute TSR Return	Relative TSR Ranking
A J Slade 1 July 2009	Achieved	12.92%	52.63%	100.00%	18.47%	10.53%

	Vested - Number			
	Total	Retention Result	Absolute TSR Result	Relative TSR Result
A J Slade 1 July 2009	8,272	3,853	2,932	1,487

Under the terms of the 2009 year grants to Andrew Slade, the performance hurdles that did not pass are retested on the subsequent anniversary of the grant. All retesting for these grants was finalised on 30 June 2012.

DIRECTORS' REPORT (continued)

9.5.4 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 $ (a)	Vested and exercised in year $ (b)	Lapsed in year $ (c)
A F O Wilkinson	-	45,193	114,807
A J Slade	-	9,363	23,970

(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 during the year is calculated as the market price of the stapled securities of ALE as at the close of trading on the day the performance rights vested.

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

9.6 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-tradable 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.

The value of ESSS disclosed in section 9.8 is based on the value of the grant at the award date. The number of Stapled Securities issued annually under the ESSS awarded annually will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements, and grossing this number up for estimated distributions over the deferral period. The number of securities granted in the current year will be determined on 8 August 2012.

9.7 Non-executive Directors' Remuneration

9.7.1 Remuneration Policy and Strategy

Non-executive directors' individual fees are determined by the Company Board within the aggregate amount approved by shareholders. The current aggregate amount which has been approved by shareholders at the AGM on 10 November 2010 was $500,000.

The Board reviews its fees to ensure that ALE non-executive directors are remunerated fairly for their services, recognising the level of skill, expertise and experience required to conduct the role. The Board reviews its fees from time to time to ensure it is remunerating directors at a level that enables ALE to attract and retain the right 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 reviewed in the previous financial year. 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.

DIRECTORS' REPORT (continued)

9.7.2 Remuneration Structure
ALE non-executive directors receive a cash fee for service and they have no entitlement to any performance based remuneration, nor can they participate in any security based incentive scheme.

The current remuneration was last reviewed with effect from January 2011. The Directors' fees are inclusive of superannuation, where applicable.

	Board		ACRMC		Remuneration Committee	
	Chairman*	Member	Chairman	Member	Chairman	Member
Board and Committee fees	$175,000	$85,000	$15,000	$10,000	$15,000	$5,000

* The Chairman of the Board's fees are inclusive of all committee fees.

James McNally's (Executive Director) remuneration is determined in accordance with the above fees. He receives an additional $5,000 for being a Responsible Manager of the Company under the Company's AFSL and $10,000 for being a director of ALE Finance Company Pty Limited.

DIRECTORS' REPORT (continued)

9.8 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 9.4 headed "Executive Incentive Scheme Outcomes". Equity based payments for 2012 are non-market based performance related as set out in section 9.4. All other elements of remuneration were not directly related to performance.

Table 1 Remuneration details 1 July 2011 to 30 June 2012

Details of the remuneration of the Key Management Personnel for the year 30 June 2012 are set out in the following table:

Key management personnel		Short term				Post employment benefits	Long service leave		Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of equity based remuneration as proportion of remuneration
Name	Role	Salary & Fees $	EIS Cash Bonus $	Non monetary benefits $	Total $	Superannuation benefits $	$	Termination benefits $	ESSS $	Total $	$	$
P H Warne	Non-executive Director	160,550	-	-	160,550	14,450	-	-	-	175,000	-	-
J P Henderson	Non-executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-	-
H I Wright	Non-executive Director	96,330	-	-	96,330	8,670	-	-	-	105,000	-	-
B R Howell	Company Secretary	90,000	-	-	90,000	-	-	-	-	90,000	-	-
A F O Wilkinson	Executive Director	338,792	71,250	-	410,042	15,775	6,345	-	71,250	503,412	28.3%	14.2%
J T McNally	Executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-	-
A J Slade	Capital Manager	179,640	39,000	8,737	227,377	15,775	2,917	-	89,000	335,069	38.2%	26.6%
M J Clarke	Finance Manager	155,848	25,000	8,917	189,765	14,198	1,986	-	-	205,949	12.1%	-
D J Shipway	Asset Manager	153,651	25,000	-	178,651	16,078	970	-	-	195,699	12.8%	-
		1,374,811	160,250	17,654	1,552,715	84,946	12,218	-	160,250	1,810,129		

Table 2 Remuneration details 1 July 2010 to 30 June 2011

Details of the remuneration of the Key Management Personnel for the year 30 June 2011 are set out in the following table:

Key management personnel		Short term				Post employment benefits	Long service leave		Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of equity based remuneration as proportion of remuneration
Name	Role	Salary & Fees $	STI Cash Bonus $	Non monetary benefits $	Total $	Superannuation benefits $	$	Termination benefits $	Performance Rights $	Total $	$	$
P H Warne	Non-executive Director	149,083	-	-	149,083	13,417	-	-	-	162,500	-	-
J P Henderson	Non-executive Director	92,500	-	-	92,500	-	-	-	-	92,500	-	-
H I Wright	Non-executive Director	87,156	-	-	87,156	7,844	-	-	-	95,000	-	-
B R Howell	Company Secretary	90,000	-	-	90,000	-	-	-	-	90,000	-	-
A F O Wilkinson	Executive Director	342,926	135,000	-	477,926	15,199	5,200	-	80,000	578,325	37.2%	13.8%
J T McNally	Executive Director	95,000	-	-	95,000	-	-	-	-	95,000	-	-
A J Slade	Capital Manager	172,397	80,000	6,764	259,161	15,199	2,853	-	-	277,213	28.9%	0.0%
M J Clarke	Finance Manager	148,164	35,000	8,917	192,081	13,466	1,738	-	-	207,285	16.9%	-
D J Shipway	Asset Manager	123,269	25,000	-	148,269	11,094	328	-	-	159,691	15.7%	-
		1,300,495	275,000	15,681	1,591,176	76,219	10,119	-	80,000	1,757,514		

DIRECTORS' REPORT (continued)

10 Stapled securities under option

No Performance Rights over unissued stapled securities of ALE were granted during or since the end of the year.

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	45,200
A J Slade	8,516

12 Insurance of officers

During the financial year, the Company paid a premium of $51,867 (2011: $37,350) 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.* During the current and previous financial years, no non-audit services were performed by the auditors.

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

	30 June 2012 $	30 June 2011 $
Audit services		
KPMG Australian firm:		
Audit and review of the financial reports of the Group and other audit work required under the *Corporations Act 2001*		
- in relation to current year	176,000	164,500
- in relation to prior year	10,000	37,500
Total remuneration for audit services	**186,000**	**202,000**

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 responsibilities and compliance with 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, in most cases ALE is indemnified by third parties against any remediation amounts likely to be required. ALE does not expect to incur any material environmental liabilities.

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 20.

DIRECTORS' REPORT (continued)

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 31st day of July 2012

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 the 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 2012 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.

KPMG

Nigel Virgo
Partner

Sydney

31 July 2012

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Revenue			
Rent from investment properties	6	51,878	50,242
Interest from cash deposits	7	3,812	7,296
Total revenue		**55,690**	57,538
Other income			
Discount on debt buybacks		-	197
Fair value increments to investment properties	17	13,679	44,425
Other income		35	33
Total other income		**13,714**	44,655
Total revenue and other income		**69,404**	102,193
Expenses			
Fair value decrements to derivatives	8	46,780	7,878
Finance costs (cash and non-cash)	10	36,574	37,418
Queensland land tax expense		2,396	2,422
Other expenses	9	3,865	4,094
Total expenses		**89,615**	51,812
Profit/(Loss) before income tax		**(20,211)**	50,381
Income tax expense/(benefit)	12	(3,187)	(489)
Profit/(Loss) after income tax		**(17,024)**	50,870
Profit/(Loss) attributable to stapled securityholders of ALE		**(17,024)**	50,870
Other comprehensive income		-	-
Other comprehensive income for the period after income tax		-	-
Total comprehensive income for the period		**(17,024)**	50,870
Profit/(Loss) attributable to:			
Members of ALE		(17,024)	50,870
Non-controlling interest		-	-
Profit/(Loss) for the period		(17,024)	50,870
Total comprehensive income attributable to:			
Members of ALE		(17,024)	50,870
Non-controlling interest		-	-
Total comprehensive income for the period		(17,024)	50,870

		Cents	Cents
Basic and diluted earnings per stapled security	14(a)	(10.70)	32.49

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	15	44,431	110,178
Derivatives	11	-	1,534
Receivables	16	2,275	11,229
Other		402	166
Total current assets		**47,108**	123,107
Non-current assets			
Investment properties	17	771,530	758,275
Derivatives	11	23,150	9,857
Plant and equipment		63	74
Deferred tax asset	13	5,909	2,722
Total non-current assets		**800,652**	770,928
Total assets		**847,760**	894,035
Current liabilities			
Payables	18	3,912	7,421
Borrowings	20	35,917	71,755
Derivatives	11	45,450	-
Provisions	19	12,835	15,448
Total current liabilities		**98,114**	94,624
Non-current liabilities			
Borrowings	20	413,705	437,672
Derivatives	11	23,440	10,351
Total non-current liabilities		**437,145**	448,023
Total liabilities		**535,259**	542,647
Net assets		**312,501**	351,388
Equity			
Contributed equity	21	182,255	178,661
Reserve	22	207	233
Retained profits	23	130,039	172,494
Total equity		**312,501**	**351,388**
Net assets per stapled security		**$1.95**	$2.22

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 2012

	Note	Share Capital $'000	Share based payments reserve $'000	Retained Earning $'000	Total $'000
2012					
Total equity at the beginning of the year		**178,661**	**233**	**172,494**	**351,388**
Total comprehensive income for the period					
Profit/(Loss) for the year		-	-	(17,024)	(17,024)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	(17,024)	(17,024)
Transacations with Members of ALE recognised directly in Equity:					
Employee share based payments expense	23	-	157	-	157
Securities issued - dividend reinvestment plan	21	3,488	-	-	3,488
Vesting of performance rights	23	106	(183)	77	-
Distribution paid or payable	14	-	-	(25,508)	(25,508)
Total equity at the end of the year		**182,255**	**207**	**130,039**	**312,501**
2011					
Total equity at the beginning of the year		169,838	183	152,572	322,593
Total comprehensive income for the period					
Profit/(Loss) for the year		-	-	50,870	50,870
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	50,870	50,870
Transacations with Members of ALE recognised directly in Equity:					
Employee share based payments expense	23	-	80	-	80
Securities issued - dividend reinvestment plan	21	8,799	-	-	8,799
Vesting of performance rights	23	24	(30)	6	-
Distribution paid or payable	14	-	-	(30,954)	(30,954)
Total equity at the end of the year		178,661	233	172,494	351,388

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 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from tenant and others		57,982	55,299
Payments to suppliers and employees		(11,912)	(10,448)
Interest received - bank deposits		3,978	7,857
Net interest received - interest rate swaps		5,613	9,795
Borrowing costs paid		(30,356)	(29,668)
Net cash inflow from operating activities	15	**25,305**	32,835
Cash flows from investing activities			
Net proceeds from disposal/resumption of properties		7,124	6,250
Payments for plant and equipment		(16)	(64)
Net cash inflow from investing activities		**7,108**	6,186
Cash flows from financing activities			
Proceeds from CMBS issue		-	160,000
Borrowing costs paid		(1,205)	(2,851)
Derivatives fair value termination payments		-	(13,264)
Borrowings repaid			
CPI hedge indexation payment		-	(7,393)
ALE Notes		(72,320)	(14,134)
CMBS		-	(158,108)
Distributions paid (net of DRP securities issued)		(24,635)	(25,155)
Net cash inflow/(outflow) from financing activities		**(98,160)**	(60,905)
Net increase/(decrease) in cash and cash equivalents		**(65,747)**	(21,884)
Cash and cash equivalents at the beginning of the year		110,178	132,062
Cash and cash equivalents at the end of the year	15	**44,431**	110,178

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

Note 1 Reporting Entity

ALE is domiciled in Australia. 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 results reflect the performance of the Trust and its subsidiaries including the Company from 1 July 2011 to 30 June 2012.

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 ALE Property Group is a for-profit entity.

The Company is the Responsible Entity of the Trust.

Note 2 Basis of preparation

(a) Compliance Statement

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements also comply with the International Financial Reporting Standards (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 which are measured at fair value:

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

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

As disclosed in the statement of financial position, ALE has current assets of $47.108 million and current liabilities of $98.114 million. As noted in the Directors' Report, ALE has a derivative with a term expiring in December 2023. ALE has a right to break the derivative at any time and the counterparty has a right to break at either December 2012 or December 2017. ALE has formed the view that the hedge provider may exercise that right. Accordingly, management is currently in detailed discussions with a number of parties to restructure the arrangements. Funding arrangements are in place to enable ALE to fully meet its current liabilities.

(c) Functional and presentation currency

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

ALE is an entity 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 33 - valuation of financial instruments
- Note 24 - 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. These policies have been consistently applied to all years presented unless otherwise stated. The financial statements include financial statements for the ALE Property Group ("ALE"), consisting of the Australian Leisure and Entertainment Property Trust and its subsidiaries. Summarised financial information in relation to Australian Leisure and Entertainment Trust as the parent entity is presented in Note 34 to the financial statements.

(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 collectively in this financial report as ALE. Entities are fully consolidated from the date on which control is transferred to the Trust, where applicable, entities 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) Investment property

Properties (including land and buildings) held for long term rental yields and capital appreciation 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 expenditure will flow to ALE and the cost of the item can be reliably measured. Maintenance and capital works expenditure is the responsibility of the tenant under the triple net leases in place over 84 of the 87 properties. For the remaining three hotels capital works expenditure and structural maintenance is the responsibility of ALE. 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 Statement of Comprehensive Income.

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.

(c) 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.

Note 3 Summary of significant accounting policies (continued)

(d) 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 Sstatement of Comprehensive Income.

(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 Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation
Depreciation relating to depreciable plant and equipment (office fixtures, fittings and operating equipment) is calculated using the straight line method or diminishing value 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.

Note 3 Summary of significant accounting policies (continued)

(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

ALE documents, at the inception of any 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 Statement of Comprehensive Income.

(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 securityholders that include a return of capital are shown in Equity as a transfer from (or 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 expense and other outgoings (if any) are brought to account on an accruals basis. Borrowing costs are recognised using the effective interest rate method.

Note 3 Summary of significant accounting policies (continued)

(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 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

Executive Stapled Security Scheme (ESSS)
The grant date fair value of ESSS 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 ESSS rights that vest.

The fair value at grant date is determined as the value of the Executive Incentive Award in the year in which it is awarded. The number of ESSS Rights issued annually under the ESSS awarded annually will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements.

Performance Rights
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 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 and incentive plans

Liabilities and expenses for bonuses and incentives 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.

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 securityholders 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 affect 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 is 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.

Note 3 Summary of significant accounting policies (continued)

(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 33 provide further information).

(t) New accounting standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.

(u) Segment reporting

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 the Company'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 the Board's 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 around 16 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.

	2012 Yields	2011 Yields	**2012 Average**	2011 Average
New South Wales	**5.63% - 7.68%**	5.90% - 7.69%	**6.59%**	6.76%
Victoria	**5.43% - 7.36%**	5.35% - 7.06%	**6.65%**	6.33%
Queensland	**5.16% - 7.04%**	5.10% - 6.95%	**6.40%**	6.38%
South Australia	**6.38% - 6.74%**	6.39% - 6.78%	**6.65%**	6.66%
Western Australia	**6.58% - 7.19%**	6.26% - 7.33%	**6.75%**	6.88%

Valuations reflect where appropriate, the tenant in occupation, the credit worthiness of the tenant, the triple-net nature and remaining term of the leases (84 of 87 properties), land tax liabilities (Queensland only) 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 are 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 by an independant valuer and are 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.

Note 5 Financial Risk Management

Overview
The Trust and Group have 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.

<u>Trade and other receivables</u>
ALE's exposure to credit risk is influenced mainly by the individual characteristics of its tenant. ALE has one tenant (Australian Leisure and Hospitality Group Limited) and therefore there is significant concentration of credit risk with that company. Credit risk of the tenant is contantly monitored to ensure 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 and those of the tenant's shareholders

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.

Note 5 Financial Risk Management

Interest rate risk and consumer price index risk

ALE adopts a policy of ensuring that all exposure to changes in interest rates on borrowings are 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 reviews the risk of gearing covenant breaches by constantly monitoring gearing levels and has contingency capital management plans to ensure that sufficient headroom is maintained.

Capital management

ALE monitors securityholder equity and manages it 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 contributed equity, excluding minority interests. The Board of Directors also monitors the level of gearing.

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 most efficiently used at all times. In seeking to manage its capital efficiently, ALE from time to time may undertake on-market buybacks of ALE stapled securities and ALE Notes 2. ALE has also previously made ongoing capital distribution payments to stapled securityholders 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 in the context of any increase or decrease from time to time based on exisiting property value movements, acquisitions completed, the levels of debt financing used 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 plays an important role in determining acquisition and financing priorities over time.

The total gearing ratios (total liabilities as a percentage of total assets) at 30 June 2012 and 30 June 2011 were 63.1% and 60.7% respectively.

The net gearing ratios (total borrowings less cash as a percentage of total assets less cash and derivatives) at 30 June 2012 and 30 June 2011 were 51.9% and 51.7% respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 $'000	2011 $'000
Note 6 Rent from investment properties		
Rent from continuing properties	51,878	50,199
Rent from properties sold	-	43
	51,878	50,242

During the current and previous financial years, ALE's investment property lease rentals were 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 of 3%.

	2012 $'000	2011 $'000
Note 7 Interest income		
Operating bank and term deposit interest	**3,812**	7,296

As at 30 June 2012 the weighted average interest rate earned on cash was 4.98% (2011: 5.62%)

	2012 $'000	2011 $'000
Note 8 Current year fair value adjustments to derivatives		
Fair value increments/(decrements) to interest rate swap derivatives	(4,563)	(6,682)
Fair value increments/(decrements) to CPI hedge derivatives	(42,217)	(1,196)
	(46,780)	(7,878)
Note 9 Other expenses		
Annual reports	113	56
Audit, accounting, tax and professional fees	258	267
Corporate advisory services	208	102
Depreciation expense - plant and equipment	27	30
Insurance	143	115
Legal fees	274	244
Dispute costs/(recoveries) (a)	(600)	200
Occupancy costs	111	132
Other expenses	838	427
Property condition and compliance audits	127	111
Registry fees	125	94
Salaries, fees and related costs	2,041	2,104
Staff training	28	37
Travel and accommodation	34	37
Trustee and custodian fees	138	138
	3,865	4,094

(a) During the current financial year legal proceedings by ALH over the Vale Hotel were successfully defended and finalised with the court ruling in ALE's favour and awarding costs to ALE. This amount, in line with standard practise, represents the reimbursement by ALH of 65% of costs arising from the proceedings.

Note 10 Finance costs (cash and non-cash)

	Note	2012 $'000	2011 $'000
Finance costs - cash			
Capital Indexed Bonds (CIB)	20(a)	4,546	4,408
Commercial Mortgage Backed Securities (CMBS)	20(b)	11,028	8,568
ALE Notes	20(d)	1,283	5,653
ALE Notes 2	20(e)	10,681	11,063
Interest rate derivative payments/(receipts)	-	(5,040)	(9,840)
Other finance expenses	(ii)	356	251
	(i)	**22,854**	20,103
Finance costs - non-cash			
Accumulating indexation - CIB	20(a)	3,780	3,637
Accumulating indexation - CPI Hedges	20(c)	7,883	10,464
Amortisation - CIB and CMBS	(iii)	738	327
Amortisation - CPI Hedge	(iii)	4	14
Amortisation - ALE Notes	(iii)	494	1,880
Amortisation - ALE Notes premium	(iv)	71	311
Amortisation - ALE Notes 2	(iii)	750	682
		13,720	17,315
Finance costs (cash and non-cash)		**36,574**	37,418

(i) Amounts represent net cash finance costs after derivative payments and receipts.

(ii) Other borrowing costs such as rating agency fees and liquidity fees.

(iii) Establishment costs of the various borrowings are amortised over the period of the borrowing on an effective rate basis.

(iv) Premium of $2.50 per outstanding note was paid on maturity of ALE Notes and was accruing over the period of November 2003 to September 2011 on an effective rate basis.

Note 11 Derivatives

	2012 $'000	2011 $'000
Current assets	-	1,534
Non current assets	23,150	9,857
Total assets	23,150	11,391
Current liabilities	(45,450)	-
Non current liabilities	(23,440)	(10,351)
	(68,890)	(10,351)
Net assets/(liabilities)	**(45,740)**	**1,040**

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 net 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 rates swaps were no longer required and were matched with counter swaps. 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.

The hedge counterparty has a right to break the hedge such that the accumulated indexation and any mark to market valuation amount may become payable/receivable in December 2012 or December 2017. ALE has formed the view that the hedge provider may exercise that right. Accordingly, as the first right to break falls due within 12 months, the fair value of the derivative and associated accumulated indexation are shown as current liabilities.

Note 20 contains further information on the derivative financial instruments in place over net borrowings.

	2012 $'000	2011 $'000
Note 12 Income tax		
Current tax expense/(benefit)	-	-
Deferred tax expense/(benefit)	(3,187)	(489)
Income tax expense/(benefit)	**(3,187)**	(489)
Deferred income tax expense included in income tax expense/(benefit) comprises:		
Decrease/(increase) in deferred tax asset (Note 13)	(3,187)	(489)
	(3,187)	(489)
Reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(20,211)	50,381
Profit/(loss) attributable to entities not subject to tax	(9,489)	52,088
Profit/(loss) before income tax expense subject to tax	(10,722)	(1,707)
Tax at the Australian tax rate of 30% (2011: 30%)	(3,217)	(513)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	32	24
Other	(2)	-
Under/(over) provision in prior years	-	-
Income tax expense/(benefit)	**(3,187)**	(489)

	2012 $'000	2011 $'000
Note 13 Deferred tax assets		
Deferred tax asset	**5,909**	2,722
The balance is attributable to:		
Derivatives - interest rate swaps	6,182	1,330
Employee benefits	14	13
Acquisition proposal due diligence costs	5	5
Amortised borrowing costs	(466)	(430)
Accruals	60	128
Other items	(2)	(6)
Tax losses	116	1,682
Net deferred tax assets	**5,909**	2,722
Movements:		
Opening balance	2,722	2,233
Credited/(charged) to the income statement (Note 12)	3,187	489
Credited/(charged) to equity	-	-
Closing balance	**5,909**	2,722
Deferred tax assets to be recovered within 12 months	145	140
Deferred tax assets to be recovered after more than 12 months	5,764	2,582
	5,909	2,722

		2012 $'000	2011 $'000

Note 14 Earning and distributions per stapled security

Reconciliation of profit after tax to amounts available for distribution:	Note		
Profit after income tax for the year	(a)	**(17,024)**	50,870
Plus /(less)			
Loss/(profit) on sale of investment properties		-	-
Fair value decrements to investment properties		(13,679)	(44,425)
Fair value increments/(decrements) to derivatives		46,780	7,878
Employee share based payments		106	80
Finance costs - non cash	10	13,720	17,315
Income tax expense/ (benefit)		(3,187)	(489)
Adjustments for non-cash items		**43,740**	(19,641)
Total available for distribution	(b)	**26,716**	31,229
Distribution paid or provided for	(d)	25,508	30,954
Available and under/(over) distributed for the year	(e)	**1,208**	275

	Number of Stapled Securities On Issue	Number of Stapled Securities On Issue
Weighted average number of stapled securities used as the denominator in calculating earnings per stapled security at (a) and (b) below	159,099,887	156,564,420
Weighted average number of stapled securities and potential stapled securities used as the denominator in calculating diluted earnings per stapled security	159,099,887	156,564,420
Stapled securities on issue at the end of the year used in calculating total available for distribution per stapled security at (c) below	159,862,513	157,990,976

		2012 cps	2011 cps
(a)	Basic and diluted earnings per stapled security	(10.70)	32.49
(b)	Basic and diluted earnings per stapled security excluding non cash items (Distributable Profit)	16.79	19.95
(c)	Total available for distribution	16.71	19.77
(d)	Distribution per stapled security	16.00	19.75
(e)	Available and under/(over) distributed for the year	0.71	0.02

cps = cents per security

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 $'000	2011 $'000
Note 15 Cash assets and cash equivalents		
Cash at bank and in hand	857	9,494
Deposits at call	35,184	92,294
Cash reserve	8,390	8,390
	44,431	110,178

An amount of $8.39 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 2015 and 20 November 2023 respectively.

An amount of $30 million is held in a Sales Proceeds Account in accordance with an Issuer Loan Agreement for the CIB and CMBS facilities. The cash held in this account can be placed on short term deposit or used to acquire property to be placed within the security pool. Refer note 20(g) for further details on the assets pledged as security for the CIB and CMBS faciliies.

During the year ended 30 June 2012 all cash assets were placed on deposit with either the National Australia Bank Limited, Westpac Banking Corporation, Commonwealth Bank of Australia Limited, Bankwest Limited, or Macquarie Bank Limited. As at 30 June 2012, the weighted average interest rate on all cash assets was 4.98% (2011: 5.62%).

Reconciliation of profit after income tax to net cash inflows from operating activities

	2012 $'000	2011 $'000
Profit for the year	(17,024)	50,870
Plus/(less):		
Fair value decrements/(increments) to investment property	(13,679)	(44,425)
Fair value decrements/(increments) to derivatives	46,780	7,878
Finance costs amortisation	2,057	3,214
Loss/(gain) on disposal of investment property	(35)	-
Discount of debt buybacks	-	(197)
Accumulated indexation on CIB	3,780	3,637
Accumulated indexation on CPI Hedges	7,883	10,464
Share based payments expense	107	80
Depreciation	27	30
Decrease/(increase) in receivables	2,289	328
Decrease/(increase) in deferred tax asset	(3,187)	(489)
Decrease/(increase) in other assets	(236)	697
Increase/(decrease) in payables	(3,459)	713
Increase/(decrease) in provisions	2	35
Net cash inflow from operating activities for the year	**25,305**	32,835

Distribution payments totalling $3,488,268 (2011: $8,799,050) were satisfied by the issue of securities under the Distribution Reinvestment Plan.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 $'000	2011 $'000
Note 16 Receivables		
Accounts receivable	83	1,250
Land resumption compensation receivable	1,415	8,080
Interest receivable	777	1,899
	2,275	11,229
Note 17 Investment properties		
Investment properties - at fair value	**771,530**	758,275

Reconciliation

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

	2012 $'000	2011 $'000
Carrying amount at beginning of the year	758,275	713,850
Disposals - at fair value	-	-
Resumptions - at fair value	(424)	-
Net gain/(loss) from fair value adjustments	13,679	44,425
Carrying amount at the end of the year	**771,530**	758,275

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

Leasing arrangements

84 of the 87 properties in the portfolio are leased to ALH on a triple net basis for 25 years, mostly starting in November 2003, with four 10 year options for ALH to renew. The remaining three properties are leased on long term leases to ALH on a double net basis.

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 2012, the weighted average investment property capitalisation rate used to determine the value of all investment properties was 6.57% (2011: 6.44%).

Independent valuations as at 30 June 2012

In accordance with ALE's policy of independently valuing at least one-third of its property portfolio annually, 31 properties were independently valued as at 30 June 2012. 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 2012

31 of ALE's portfolio of 87 properties were independently valued as at 30 June 2012. The remaining 56 properties were subject to Directors' valuations as at 30 June 2012, identified as "B". The Directors' valuations of the 56 properties were determined by taking each property's net rent as at 30 June 2012 and capitalising it at a rate equal to the prior year capitalisation rate for that property, adjusted by the average change in capitalisation rate evident in the 31 independent valuations completed at 30 June 2012 on a state by state basis. The Directors have received advise from Urbis that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a state by state basis.

Note 17 Investment properties (continued)

Property	Date acquired	Cost including additions $'000	Valuation type and date	Fair value at 30 June 2012 $'000	Fair value at 30 June 2011 $'000	Fair value gains/ (losses) 30 June 2012 $'000
New South Wales						
Blacktown Inn, Blacktown	Nov-03	5,472	B	8,500	8,000	500
Brown Jug Hotel, Fairfield Heights	Nov-03	5,660	B	8,980	8,450	530
Colyton Hotel, Colyton	Nov-03	8,208	A	12,750	12,800	(50)
Crows Nest Hotel, Crows Nest	Nov-03	8,772	B	12,600	11,850	750
Melton Hotel, Auburn	Nov-03	3,114	A	5,370	5,150	220
Narrabeen Sands Hotel, Narrabeen	Mar-09	8,945	B	10,920	10,325	595
New Brighton Hotel, Manly	Nov-03	8,867	A	14,210	12,050	2,160
Pioneer Tavern, Penrith	Nov-03	5,849	B	9,270	8,725	545
Pritchard's Hotel, Mount Pritchard	Oct-07	21,130	A	18,880	18,300	580
Smithfield Tavern, Smithfield	Nov-03	4,151	B	6,580	6,190	390
Total New South Wales properties		**80,168**		**108,060**	101,840	**6,220**
Queensland						
Albany Creek Tavern, Albany Creek	Nov-03	8,396	B	11,450	11,070	380
Alderley Arms Hotel, Alderley	Nov-03	3,303	B	5,050	4,925	125
Anglers Arms Hotel, Southport	Nov-03	4,434	A	7,320	7,210	110
Balaclava Hotel, Cairns	Nov-03	3,304	A	5,690	5,310	380
Breakfast Creek Hotel, Breakfast Creek	Nov-03	10,659	B	13,790	13,530	260
Burleigh Heads Hotel, Burleigh Heads	Nov-08	6,685	B	10,990	10,790	200
Camp Hill Hotel, Camp Hill	Nov-03	2,265	B	3,230	3,150	80
Chardons Corner Hotel, Annerly	Nov-03	1,416	A	1,920	1,770	150
Dalrymple Hotel, Townsville	Nov-03	3,208	A	5,450	5,200	250
Edge Hill Tavern, Manoora	Nov-03	2,359	A	4,460	4,270	190
Edinburgh Castle Hotel, Kedron	Nov-03	3,114	B	4,660	4,530	130
Four Mile Creek, Strathpine	Jun-04	3,672	B	5,840	5,775	65
Hamilton Hotel, Hamilton	Nov-03	6,604	A	9,080	8,620	460
Holland Park Hotel, Holland Park	Nov-03	3,774	B	6,110	5,970	140
Kedron Park Hotel, Kedron Park	Nov-03	2,265	B	3,270	3,190	80
Kirwan Tavern, Townsville	Nov-03	4,434	A	8,300	7,840	460
Lawnton Tavern, Lawnton	Nov-03	4,434	B	6,750	6,590	160
Miami Tavern, Miami	Nov-03	4,057	A	8,150	7,980	170
Mount Gravatt Hotel, Mount Gravatt	Nov-03	3,208	B	4,770	4,650	120
Mount Pleasant Tavern, Mackay	Nov-03	1,794	B	3,150	3,080	70
Noosa Reef Hotel, Noosa Heads	Jun-04	6,874	A	11,410	11,680	(270)
Nudgee Beach Hotel, Nudgee	Nov-03	3,020	B	4,050	3,975	75
Palm Beach Hotel, Palm Beach	Nov-03	6,886	A	10,800	10,560	240
Pelican Waters, Caloundra	Jun-04	4,237	B	6,420	6,250	170
Prince of Wales Hotel, Nundah	Nov-03	3,397	B	5,480	5,375	105
Racehorse Hotel, Booval	Nov-03	1,794	B	2,860	2,520	340
Redland Bay Hotel, Redland Bay	Nov-03	5,189	B	8,000	6,900	1,100
Royal Exchange Hotel, Toowong	Nov-03	5,755	B	8,560	8,200	360
Springwood Hotel, Springwood	Nov-03	9,150	A	13,030	12,760	270
Stones Corner Hotel, Stones Corner	Nov-03	5,377	B	8,710	8,450	260
Vale Hotel, Townsville	Nov-03	5,661	B	9,630	9,450	180
Wilsonton Hotel, Toowoomba	Nov-03	4,529	B	7,580	7,430	150
Total Queensland properties		**145,254**		**225,960**	219,000	**6,960**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 17 Investment properties (continued)

Property	Date acquired	Cost including additions $'000	Valuation type and date	Fair value at 30 June 2012 $'000	Fair value at 30 June 2011 $'000	Fair value gains/ (losses) 30 June 2012 $'000
South Australia						
Aberfoyle Hub Tavern, Aberfoyle Park	Nov-03	3,303	B	5,470	5,250	220
Eureka Tavern, Salisbury	Nov-03	3,303	B	5,650	5,425	225
Exeter Hotel, Exeter	Nov-03	1,888	B	3,440	3,300	140
Finsbury Hotel, Woodville North	Nov-03	1,605	B	2,920	2,800	120
Gepps Cross Hotel, Blair Athol	Nov-03	2,171	B	4,070	3,910	160
Hendon Hotel, Royal Park	Nov-03	1,605	A	2,970	2,890	80
Stockade Tavern, Salisbury	Nov-03	4,435	A	7,290	6,970	320
Total South Australian properties		**18,310**		**31,810**	30,545	**1,265**
Victoria						
Ashley Hotel, Braybrook	Nov-03	3,963	B	6,520	6,560	(40)
Bayswater Hotel, Bayswater	Nov-03	9,905	A	16,200	16,710	(510)
Berwick Inn, Berwick	Feb-06	15,888	B	17,810	18,310	(500)
Blackburn Hotel, Blackburn	Nov-03	9,433	B	13,300	13,375	(75)
Blue Bell Hotel, Wendouree	Nov-03	1,982	B	3,970	3,990	(20)
Boundary Hotel, East Bentleigh	Jun-08	17,943	A	19,600	19,425	175
Burvale Hotel, Nunawading	Nov-03	9,717	B	15,500	15,590	(90)
Club Hotel - FTG, Ferntree Gully	Nov-03	5,095	A	9,030	8,900	130
Cramers Hotel, Preston	Nov-03	8,301	A	14,100	14,000	100
Deer Park Hotel, Deer Park	Nov-03	6,981	B	11,270	11,325	(55)
Doncaster Inn, Doncaster	Nov-03	12,169	A	18,800	18,620	180
Ferntree Gully Hotel/Motel, Ferntree Gully	Nov-03	4,718	A	8,500	8,740	(240)
Gateway Hotel, Corio	Nov-03	3,114	B	5,870	5,900	(30)
Keysborough Hotel, Keysborough	Nov-03	9,622	B	13,530	13,610	(80)
Mac's Melton Hotel, Melton	Nov-03	6,886	B	10,770	10,825	(55)
Meadow Inn Hotel/Motel, Fawkner	Nov-03	7,689	C	12,670	12,750	344
Mitcham Hotel, Mitcham	Nov-03	8,584	B	12,970	13,050	(80)
Morwell Hotel, Morwell	Nov-03	1,511	A	3,050	3,270	(220)
Olinda Creek Hotel, Lilydale	Nov-03	3,963	B	6,390	6,430	(40)
Pier Hotel, Frankston	Nov-03	8,019	B	11,620	11,680	(60)
Plough Hotel, Mill Park	Nov-03	8,490	B	12,250	12,320	(70)
Prince Mark Hotel, Doveton	Nov-03	9,810	A	15,600	15,500	100
Royal Exchange, Traralgon	Nov-03	2,171	A	4,250	4,550	(300)
Sandbelt Club Hotel, Moorabbin	Nov-03	10,849	B	16,300	16,400	(100)
Sandown Park Hotel/Motel, Noble Park	Nov-03	6,321	B	9,580	9,625	(45)
Sandringham Hotel, Sandringham	Nov-03	4,529	B	8,500	8,550	(50)
Somerville Hotel, Somerville	Nov-03	2,642	A	4,880	5,230	(350)
Stamford Inn, Rowville	Nov-03	12,733	B	18,580	18,690	(110)
Sylvania Hotel, Campbellfield	Nov-03	5,377	A	9,520	9,390	130
Tudor Inn, Cheltenham	Nov-03	5,472	B	8,750	8,900	(150)
The Vale Hotel, Mulgrave	Nov-03	5,566	B	8,850	8,800	50
Victoria Hotel, Shepparton	Nov-03	2,265	B	4,310	4,330	(20)
Village Green Hotel, Mulgrave	Nov-03	12,546	B	17,090	17,200	(110)
Young & Jackson, Melbourne	Nov-03	6,132	A	9,650	9,440	210
Total Victorian properties		**250,386**		**379,580**	381,985	**(1,981)**

Note 17 Investment properties (continued)

Property	Date acquired	Cost including additions $'000	Valuation type and date	Fair value at 30 June 2012 $'000	Fair value at 30 June 2011 $'000	Fair value gains/ (losses) 30 June 2012 $'000
Western Australia						
Balmoral Hotel, East Victoria Park	Jul-07	6,377	B	7,550	5,775	1,775
The Brass Monkey Hotel, Northbridge	Nov-07	7,815	A	4,390	7,350	(2,960)
Queens Tavern, Highgate	Nov-03	4,812	A	8,130	7,200	930
Sail & Anchor Hotel, Fremantle	Nov-03	3,114	B	6,050	4,580	1,470
Total Western Australian properties		**22,118**		**26,120**	24,905	**1,215**
Total investment properties		**516,236**		**771,530**	758,275	**13,679**

Reconciliation of fair value gains/losses for year ending 30 June 2012

Fair value as at 30 June 2011	758,275
Disposals during the year ended 30 June 2012	-
Resumptions during the year ended 30 June 2012	(424)
Additions during year ended 30 June 2012	-
Carrying amount before 30 June 2012 valuations	757,851
Fair value as at 30 June 2012	771,530
Fair value gain/(loss) for year ended 30 June 2012	**13,679**

Valuation type and date

- A Independent valuations conducted during June 2012 with a valuation date of 30 June 2012.
- B Directors' valuations conducted during June 2012 with a valuation date of 30 June 2012.
- C Independent valuations conducted during June 2012 with a valuation date of 30 June 2012. This property was subject to a minor resumption in the current year

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 $'000	2011 $'000
Note 18 Payables		
Trade creditors	161	247
Interest accrued on CIB	504	499
Interest accrued on CMBS	1,022	1,962
Interest accrued on ALE Notes	-	1,285
Interest accrued on ALE Notes 2	1,052	1,295
Other accruals	1,173	2,133
	3,912	7,421
Note 19 Provisions		
Provision for distribution	12,789	15,404
Provision for employee entitlements	46	44
	12,835	15,448

	Distribution	Employee Entitlements
Balance 1 July 2011	15,404	44
Provisions made during the year	25,505	100
Provisions used during the year	(28,120)	(98)
Balance as 30 June 2012	12,789	46

Distribution
The provision for distribution relates to distributions paid to stapled securityholders. The balance at 30 June 2012 will be paid to securityholders on 5 September 2012.

Employee entitlements
The provision for employee entitlements relates to annual leave and long service leave owing to employees. It will be paid out as and when employees take leave.

Note 20 Borrowings

	Note	2012 $'000	2011 $'000
Current borrowings			
CPI Hedge	(c)	35,917	-
ALE Notes - matured September 2011	(d)	-	71,755
		35,917	71,755
Non-current borrowings			
CIB	(a)	133,842	130,022
CMBS	(b)	156,718	157,225
CPI Hedge	(c)	-	28,030
ALE Notes 2	(e)	123,145	122,395
		413,705	437,672

Capital Indexed Bonds (CIB)		
Opening balance	130,022	126,349
Accumulating indexation	3,780	3,637
Amortisation of establishment costs	40	36
Closing balance	**133,842**	130,022

	2012 $'000	2011 $'000
Note 20 Borrowings (continued)		
Commercial Mortgage Backed Securities (CMBS)		
Opening balance	157,225	158,185
Proceeds from CMBS issue	-	160,000
Repayment of borrowings	-	(158,400)
Borrowing establishment costs capitalised	(1,205)	(2,851)
Amortisation of establishment costs	698	291
Closing balance	**156,718**	157,225
CPI Hedge		
Opening balance	28,030	20,449
Accumulating indexation	7,883	7,577
Amortisation of establishment costs	4	4
Closing balance	**35,917**	28,030
CPI Hedge - Terminated		
Opening balance	-	4,496
Repayment of indexation	-	(7,393)
Accumulating indexation	-	2,887
Amortisation of establishment costs	-	10
Closing balance	**-**	-
ALE Notes		
Opening balance	71,755	83,603
Repayment of borrowings	(72,320)	(14,039)
Amortisation of establishment costs	494	1,880
Premium payable at maturity - accrued	71	311
Closing balance	**-**	71,755
ALE Notes 2		
Opening balance	122,395	121,713
Amortisation of establishment costs	750	682
Closing balance	**123,145**	122,395

(a) CIB

$125 million of CIB was issued in May 2006. A fixed rate of interest of 3.40% p.a. (including credit margin) applies to the CIB and is payable quarterly, with the outstanding balance of the CIB accumulating quarterly in line with the national consumer price index. The total amount of the accumulating indexation is not payable until maturity of the CIB in November 2023.

(b) CMBS

During the prior year CMBS issued between May 2006 and August 2007 were repaid on the scheduled maturity date of 20 May 2011. On 29 April 2011 $160 million of replacement CMBS were issued with a scheduled maturity of 20 May 2016.

As required by the new CMBS issue on 29 April 2011, ALE put in place $160 million of interest rate swap contracts to cover 100% of the floating rate CMBS interest payments. Under these swap contracts, ALE is obliged to receive floating rate interest and pay fixed rate interest. Given the CPI hedging arrangements, counterswaps were entered into which fully offset the new swap contracts for interest on the $160 million CMBS. ALE will continue to receive or pay net amounts until 2020 arising from the difference between fixed rates payable and fixed rates receivable in respect of the offsetting swaps.

Note 20 Borrowings (continued)

(c) CPI Hedge

ALE has in place a CPI Hedge to hedge its floating nominal rate debt, consisting of CMBS and ALE Notes 2. At balance date all of ALE's outstanding floating rate net debt (gross debt less cash) has been fully hedged up to November 2023 by the CPI Hedge.

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 valuation amount may become payable/receivable in December 2012 or December 2017. ALE has formed the view that the hedge provider may exercise that right. Accordingly, as the first right to break falls due within 12 months, the fair value of the derivative and associated accumulated indexation are shown as current liabilities. During the year ending 30 June 2012, $1.667 million of net swap interest from the CPI Hedge was received/receivable (2011: $2.831 million received/receivable).

In July 2008, seperate 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 leaving a notional balance of $80m at the beginning of the previous financial year. On 29 June 2011, the remaining $80m of the nominal amount of the hedge was terminated.

(d) 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% was payable semi-annually on the Notes. A 2.5% redemption premium was payable on the maturity date. During the current financial period the remaining ALE Notes were redeemed on 30 September 2011 in accordance with the ALE Notes Trust Deed.

(e) 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 or $2 respectively becomes due and payable upon maturity. Interest is payable on the ALE Notes 2 on a floating rate basis.

(f) Interest rate swaps and CPI Hedges

At 30 June 2012, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Nominal Interest Rate Swaps and CPI Hedges		Counter Swaps on Nominal Interest Rate Swaps		Net Derivative position	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Less than 1 year *	-	150,000	(40,000)	(150,000)	(40,000)	-
1 - 2 years	-	-	(25,000)	-	(25,000)	-
2 - 3 years	171,000	-	(106,000)	-	65,000	-
3 - 4 years	-	-	-	-	-	-
4 - 5 years	-	-	-	-	-	-
Greater than 5 years *	258,750	405,000	(13,750)	(160,000)	245,000	245,000
	429,750	555,000	(184,750)	(310,000)	245,000	245,000

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

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

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 are not exercised by the hedge counterparties, the average weighted term of the interest rate hedges and fixed rate securities in relation to the total borrowings of ALE has decreased from 12.4 years at 30 June 2011 to 11.4 years at 30 June 2012.

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 2012, a decrement in value of $46.780 million was recognised to the Statement of Comprehensive Income (2011: decrement in value of $7.878 million).

Note 20 Borrowings (continued)

(g) 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:

	2012 $'000	2011 $'000
Current assets		
Cash reserve	8,390	8,390
Cash on deposit - Sales proceeds account	30,000	30,000
Non-current assets		
Total investment properties - subject to first mortgages	771,530	758,275
Total assets pledged as security (including cash reserve)	**809,920**	796,665

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 in certain circumstances to recover certain unpaid amounts from the business assets of ALH.

(h) 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)

Borrowing	LVR Covenant	Consequence
CIB	Outstanding indexed value of CIB not to exceed 25% of the CMBS property security values	ALE cannot borrow additional funds or buy back equity that would cause the LVR to be exceeded
CIB	Outstanding value of CIB not to exceed 66.6% of the CMBS property security values	Counterparty can terminate the CIB
CMBS	Outstanding value of CIB and CMBS not to exceed 60% of the CMBS property security values	ALE cannot borrow additional funds or buy back equity that would cause the LVR to be exceeded
ALE Notes 2	New debt cannot be issued, equity cannot be bought back and special distributions cannot be paid if to do so would make total borrowings (total borrowings less cash) exceed 67.5% of total assets (total assets less cash and derivatives). This covenant is not breached by any other action, including a change in the value of ALE's property assets	Stapled Security distribution lockup. A step up margin of 2.0% will be added
CPI Hedge	Senior borrowings not to exceed 60% of total property values	Counterparty can terminate the CPI Hedge
Interest Rate Derivatives	Market value of certain derivatives not to exceed 50% of Boundary and Pritchard's Hotels property values	Counterparty can terminate the Interest Rate Derivatives covered by the Covenant

ALE currently considers that significant headroom exists with respect of all the above covenants.

Definitions

Senior borrowings excludes the ALE Notes and ALE Notes 2

All covenants, except the Interest Rate Swap Derivatives covenant, exclude the mark to market value of derivatives

Note 20 Borrowings (continued)

Interest Cover Ratio covenants (ICR)

Borrowing	LVR covenant	Consequence
CIB	ALH EBITDAR to be greater than 7.5 times CIB Interest	Stapled security distributions lock up
CIB	ALH EBITDAR to be greater than 5.0 times the CIB interest	Stapled security distributions and ALE Notes 2 interest lock up
CIB/CMBS	ALH EBITDAR to be greater than 4.5 times CIB/CMBS interest	Stapled security distributions lock up
CIB/CMBS	ALH EBITDAR to be greater than 3.0 times CIB/CMBS interest	Stapled security distributions and ALE Notes 2 Interest lock up
CPI Hedges	No covenant	Nil
ALE Notes 2	No covenant	Nil

Definitions
CIB/CMBS interest excludes ALE Notes and ALE Notes 2 interest
Interest amounts include all derivative rate swap payments and receipts
EBITDAR - Earnings before Interest, Tax, Depreciation, Amortisation and Rent

ALE currently considers that significant headroom exists with respect of all the above covenants.

At all times during the years ended 30 June 2012 and 30 June 2011, ALE and its subsidiaries were in compliance with all the above covenants.

Note 21 Contributed equity

	2012 $'000	2011 $'000
Balance at the beginning of the period	178,661	169,838
Securities issued - ALE Executive Performance Rights Plan	106	24
Securities issued - Distribution Reinvestment Plan	3,488	8,799
	182,255	178,661

Movements in the number of fully paid stapled securities during the year

	2012 Number of Stapled Securities	2011 Number of Stapled Securities
Stapled securities on issue:		
Balance at the beginning of the period	157,990,976	153,354,571
Securities issued - ALE Executive Performance Rights Plan	53,716	12,248
Securities issued - Distribution Reinvestment Plan	1,817,821	4,624,157
Balance at the end of the period	**159,862,513**	157,990,976

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.

No income voting units (NIVUS)
The Trust issued 9,080,010 of no income voting units (NIVUS) to the Company, fully paid at $1.00 each in November 2003. The NIVUS are not stapled to shares in the Company, have an issue and withdrawal price of $1.00, carry no rights to income from the Trust and entitle the holder to no more than $1.00 per NIVUS upon the winding-up of the Trust. The Company has a voting power of 5.38% 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 $'000	2011 $'000
Note 22 Retained profits		
Balance at the beginning of the year	172,494	152,572
Profit attributable to stapled securityholders	(17,024)	50,870
Transfer from share based payments reserve	77	6
Total available for appropriation	155,547	203,448
Distributions provided for or paid during the year	(25,508)	(30,954)
Balance at the end of the year	**130,039**	172,494
Note 23 Share Based Payments Reserve		
Balance at the beginning of the year	233	183
Employee share based payments	157	80
Transfer to Retained Profits on lapsing of Performance Rights	(77)	(6)
Vesting of performance rights transferred to equity	(106)	(24)
	207	233

Share based payments are detailed further in Note 24.

Note 24 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 have been made to Mr Wilkinson and Mr Slade. In accordance with the plan the performance rights vest upon performance hurdles being achieved.

The terms and conditions of outstanding grants are as follows:

Employee entitled	Grant date	Number of PRs	Vesting conditions	Contractual life of PRs
Mr A J Slade	1 July 2009	46,164	1. Service period 2. Absolute Total Securityholder Return (TSR) 3. Total TSR compared to comparative group	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 2012	**Weighted average fair value 2012 $**	Number of performance rights 2011	Weighted average fair value 2011 $
Outstanding at 1 July	221,270	1.05	237,335	1.11
Granted during period	-	-	-	-
Vested during year	(53,472)	1.98	(12,248)	1.98
Lapsed during year	(147,207)	1.98	(3,817)	1.98
Outstanding at 30 June	20,591	1.08	221,270	1.05

During the year 8,272 performance rights vested to Mr Slade . Under the terms of the grants delivery of stapled securities is delayed for two years until 1 July 2014.

Note 24 Share based payments (continued)

The performance rights outstanding at 30 June 2012 will be issued at nil cost to the employee if and when they are delivered.

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-tradable 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.

During the current financial year ALE established the Executive Stapled Security Scheme (ESSS) to replace the Performance Rights Plan. The ESSS entitles key management personnel, subject to performance, to be entitled to acquire stapled securities at nil cost. Under the ESSS, grants of ESSS rights have been made to Mr Wilkinson and Mr Slade.

During the year, Andrew Slade was awarded $50,000 of ESSS Rights in relation to an LTI award for the year ended 30 June 2011. The number of ESSS Rights were calculated in accordance with the scheme rules using the five day Volume Weighted Average Price starting on 3 August 2011, being the results announcement date for ALE for the year ended 30 June 2011.

At 30 June 2012, Andrew Wilkinson was awarded $71,250 of ESSS Rights and Andrew Slade was awarded $39,000 of ESSS Rights. The number of Stapled Securities awarded annually will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements. The number of securities granted for the current year grants will be determined on 8 August 2012.

	Number ESSS rights 2012	**Weighted average fair value 2012 $**	Number of ESSS rights 2011	Weighted average fair value 2011 $
Outstanding at 1 July	-	-	-	-
Granted during period	34,571	1.83	-	-
Vested during year	-		-	-
Lapsed during year	-		-	-
Outstanding at 30 June	34,571	1.83	-	-

Note 25 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 2003
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
A J Slade	Capital Manager
B R Howell	Company Secretary and Compliance Officer
M J Clarke	Finance Manager and Assistant Company Secretary
D J Shipway	Asset 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.

	2012 $	2011 $
Short term employee benefits	1,552,715	1,591,176
Post employment benefits	84,946	76,219
Other long term benefits	12,218	10,119
Share based payments	160,250	80,000
Termination benfits	-	-
	1,810,129	**1,757,514**

Note 26 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	176,000	164,500
- in relation to prior year	10,000	37,500
Total remuneration for audit services	**186,000**	**202,000**

Note 27 Related party transactions

(a) Parent entity and subsidiaries
Details are set out in Note 34.

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

(c) Transactions with related parties
For the year ended 30 June 2012, the Company received $3,769,698 of expense reimbursment from the Trust (2011: $3,501,676), and the Finance Company charged the Sub Trust $27,210,213 in interest (2011: $15,699,415).

Peter Warne is a non-executive director of Macquarie Group Limited ("Macquarie"). Macquarie has provided banking services, underwriting 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 any of the above matters.

(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 28 Commitments

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

(b) Lease commitments
The Company has entered into a 5 year non-cancellable operating lease for 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:

	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	112	108
Later than one year but not later than five years	154	266
Later than five years	-	-
	266	**374**

Note 29 Contingent liabilities and contingent assets

Put and call options
For most 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 of four subsequent ten year terms if the lease in not renewed, 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, at that time, as determined by the valuation methodology set out in the lease. ALE must pay the purchase price on expiry of the lease. Any leasehold improvements funded and completed by the tenant will be purchased by ALE from the tenant for an amount of $1.

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

Note 30 Investments in controlled entities

The Trust owns 100% of the issued units of the Sub Trust. The Sub Trust owns 100% of the issued shares of the Finance Company. The Trust owns none of the issued shares of the Company, but is deemed to be its "acquirer" under IFRS.

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

Note 31 Segment information

Business segment
The results and financial position of ALE's single operating segment, ALE Strategic Business Unit, are prepared for the Managing Director on 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.*

All ALE Property Group's properties are leased to members of the ALH Group, and accordingly 100% of the rental income is received from ALH (2011: 100%)

Geographical segment
ALE owns property solely within Australia.

Note 32 Events occurring after reporting date

There has not arisen in the interval between the end of the financial year and the date of this report, any 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 33 Financial Instruments

(a) Credit risk

ALE's major credit risk is 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 the 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	2012 $'000	2011 $'000
Receivables	16	2,275	11,229
Derivatives	11	23,150	11,391
Cash and cash equivalents	15	44,431	110,178
		69,856	132,798

Impairment losses

The ageing of trade receivables at balance date was:

	2012 Gross Receivable $'000	2012 Impairment $'000	2011 Gross Receivable $'000	2011 Impairment $'000
Not past due	808	-	1,881	-
Past due 0-30 days	-	-	143	-
Past due 31-120 days	33	-	-	-
Past due 121-365 days	-	-	91	-
More than one year	1,434	-	9,114	995
	2,275	**-**	11,229	995

Based on historic default rates, ALE believes that no impairment allowances are necessary in respect of trade receivables as at 30 June 2012, as the receivables relate to tenants assessed by ALE as having good credit history.

(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 2012	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 five years $'000
Non-derivative financial liabilities							
Trade and other payables	3,912	(3,912)	(3,912)				
CIB	133,842	(249,877)	(2,296)	(2,326)	(4,760)	(15,155)	(225,340)
CMBS	156,718	(197,346)	(4,679)	(4,630)	(9,337)	(178,700)	-
ALE Notes 2[1]	123,145	(146,086)	(4,699)	(4,649)	(9,375)	(127,363)	-
Derivative financial instruments							
Interest rate swaps	45,740	1,874	1,067	643	738	(216)	(358)
CPI Hedges[2]	35,917	(177,937)	(469)	(583)	(1,327)	(5,843)	(169,715)
	499,274	**(773,284)**	**(14,988)**	**(11,545)**	**(24,061)**	**(327,277)**	**(395,413)**

1 - Assumes ALE's rights to extend for a further one or two years are not exercised
2 - Assumes the counterparty's right to break is not exercised

Note 33 Financial instruments (continued)

30 June 2011	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 five years $'000
Non-derivative financial liabilities							
Trade and other payables	7,421	(7,421)	(7,421)	-	-	-	-
CIB	130,022	(246,623)	(2,633)	(2,292)	(4,676)	(14,771)	(222,251)
CMBS	157,225	(217,431)	(5,917)	(5,852)	(11,737)	(193,925)	-
ALE Notes	71,755	(73,614)	(73,614)	-	-	-	-
ALE Notes 2[1]	122,395	(160,354)	(5,671)	(5,610)	(11,250)	(137,823)	-
Derivative financial instruments							
Interest rate swaps	(1,040)	2,692	2,228	1,145	1,710	661	(3,052)
CPI Hedges[2]	28,030	(120,242)	1,351	1,338	2,397	5,582	(130,910)
	515,808	(822,993)	(91,677)	(11,271)	(23,556)	(340,276)	(356,213)

1 - Assumes ALE's rights to extend for a further one or two years are not exercised
2 - Assumes 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.

Profile
At the reporting date, ALE's interest rate sensitive financial instruments were as follows:

	2012 $'000	2011 $'000
Derivative financial assets	23,150	11,391
Derivative financial liabilities	(23,440)	(10,351)
Borrowings		
CIB	(133,842)	(130,022)
CMBS	(156,718)	(157,225)
CPI Hedge	(35,917)	(28,030)
ALE Notes	-	(71,755)
ALE Notes 2	(123,145)	(122,395)
	(449,912)	(508,387)

Note 33 Financial instruments (continued)

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 profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular the CPI, remain constant. The analysis was performed on the same basis for 2011.

	Statement of Comprehensive Income		Equity	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
30 June 2012				
Interest rate swaps	396	(436)	396	(436)
CPI Hedge	26,700	(29,800)	26,700	(29,800)
CIB	-	-	-	-
CMBS	-	-	-	-
ALE Notes 2	-	-	-	-
	27,096	**(30,236)**	**27,096**	**(30,236)**
30 June 2011				
Interest rate swaps	38	(38)	38	(38)
CPI Hedge	22,900	(25,600)	22,900	(25,600)
CIB	-	-	-	-
CMBS	-	-	-	-
ALE Notes	-	-	-	-
ALE Notes 2	-	-	-	-
	22,938	**(25,638)**	**22,938**	**(25,638)**

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.

(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:

	2012 $'000	2011 $'000
Financial instruments		
Investment properties	771,530	758,275
CIB	(133,842)	(130,022)
CPI Hedge - fair value of derivative	(45,450)	(5,009)
CPI Hedge - accumulating indexation	(35,917)	(28,030)
	556,321	**595,214**

Note 33 Financial instruments (continued)

Sensitivity analysis for variable rate instruments

A change of 100 bps in CPI at the reporting date would have increased/(decreased) Statement of Comprehensive Income and Equity 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 was performed on the same basis for 2011.

	Statement of Comprehensive Income		Equity	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
30 June 2012				
Investment properties	8,056	(7,919)	8,056	(7,919)
CIB	-	-	-	-
CPI Hedge - fair value of derivative	(29,800)	25,400	(29,800)	25,400
CPI Hedge - accumulated indexation	-	-	-	-
	(21,744)	**17,481**	**(21,744)**	**17,481**
30 June 2011				
Investment properties	8,237	(7,532)	8,237	(7,532)
CIB	-	-	-	-
CPI Hedge - fair value of derivative	(24,400)	22,100	(24,400)	22,100
CPI Hedge - accumulated indexation	-	-	-	-
	(16,163)	**14,568**	**(16,163)**	**14,568**

Investment properties have been included in the sensitivity analysis as, although they are not financial instruments, 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 - accumulated indexation, 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.

(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:

	2012		2011	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Cash and cash equivalents	44,431	44,431	110,178	110,178
Receivables	2,275	2,275	11,229	11,229
Derivatives	(45,740)	(45,740)	1,040	1,040
Other assets	402	402	166	166
Trade and other payables	(3,912)	(3,912)	(7,421)	(7,421)
CIB	(133,842)	(128,251)	(130,022)	(106,218)
CMBS	(156,718)	(160,975)	(157,225)	(160,000)
ALE Notes	-	-	(71,755)	(72,675)
ALE Notes 2	(123,145)	(125,626)	(122,395)	(125,876)
	(416,249)	**(417,396)**	**(366,205)**	**(349,577)**

Basis for determining fair values

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

Note 33 Financial instruments (continued)

(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).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2012				
Derivative financial assets	-	23,150	-	23,150
Derivative financial liabilities	-	(68,890)	-	(68,890)
	-	(45,740)	-	(45,740)
30 June 2011				
Derivative financial assets	-	11,391	-	11,391
Derivative financial liabilities	-	(10,351)	-	(10,351)
	-	1,040	-	1,040

Note 34 Parent Entity Disclosures

As at, and throughout, the financial year ending 30 June 2012 the parent entity of ALE was Australian Leisure and Entertainment Property Trust.

	2012 $'000	2011 $'000
Result of the parent entity		
Profit for the period	26,715	31,229
Other comprehensive income	-	-
Total comprehensive income for the period	**26,715**	**31,229**
Financial position of the parent entity		
Current assets		
Cash	129	20,232
Receivables	18,542	69,272
Other	-	13
Non current assets		
Investments in controlled entities	275,656	275,656
Total assets	**294,327**	**365,173**
Current liabilities		
Payables	1,098	2,579
Provisions	12,789	15,441
Non current liabilities		
Borrowings	123,145	194,150
Total liabilities	137,032	212,170
Net assets	**157,295**	**153,003**
Total equity of the parent entity comprising of:		
Issued units	179,099	175,623
Retained earnings	(21,804)	(22,620)
Total equity	**157,295**	**153,003**

Directors' declaration

In the opinion of the directors of the Company:

(a) the financial statements and notes that are set out on pages 21 to 59 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 2012 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 2012.

(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 31st day of July 2012

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 (the Group) which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Australian Leisure and Entertainment Property Trust (the Trust) and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Australian Leisure and Entertainment Property Management Limited, the Responsible Entity of the Trust (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Group's

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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 ALE Property 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 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards 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 8 to 17 of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Nigel Virgo
Partner
Sydney
31 July 2012

Crows Nest Hotel, Sydney

ALE PROPERTY GROUP

Annual Report for Year Ended 30 June 2012

Australian Leisure and Entertainment Property Management Limited

ABN 45 105 275 278

CONTENTS

DIRECTORS' REPORT

The Directors of Australian Leisure and Entertainment Property Management Limited (the "Company") present their report for the year ended 30 June 2012.

The registered office and principal place of business of the Company is:
Level 10
6 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 (2011: nil).

4 Review of operations

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

	30 June 2012 $	30 June 2011 $
Revenue		
Expense reimbursement	3,769,798	3,501,676
Interest income	24,495	23,425
Total revenue	**3,794,293**	**3,525,101**
Expenses		
Salaries, fees and related costs	2,010,899	2,084,662
Other expenses	1,758,898	1,417,014
Total expenses	**3,769,797**	**3,501,676**
Profit/(loss) before income tax	**24,496**	**23,425**
Income tax expense/(benefit)	39,297	31,027
Profit/(loss) attributable to the shareholders of the Company	**(14,801)**	**(7,602)**
	Cents	**Cents**
Basic and diluted earnings per share	(0.01)	(0.00)
Dividend per share for the year	-	-
	Cents	**Cents**
Net assets per share	7.32	7.31

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.

DIRECTORS' REPORT (continued)

6 Matters subsequent to the end of the financial year

In the opinion of the Directors of the Company, no transaction or event of a material and unusual nature has occurred between the end of the financial year and the date of this report that may significantly affect the operations of the Company, the results of those operations or the state of the 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, MAICD, Chairman and Non–Executive Director.

Experience and expertise

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

Peter was appointed as Chairman and a 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. He is also on the board of NSW Treasury Corporation, Capital Markets Cooperative Research Centre Limited and Securities Industry Research Centre for Asia Pacific (SIRCA) and is a member of the Advisory Board for the Australian Office of Financial

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 practiced as a commercial lawyer specializing in real estate projects, including development and financing and related taxation and stamp duties.

Helen is the Chair of Screen NSW (formerly Film & Television Office), and is the Statutory and Other Offices Remuneration Tribunal and the Local Government Remuneration Tribunal for NSW. Prior appointments include the Boards of several State, university, commercial and charitable entities. 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.

DIRECTORS' REPORT (continued)

Mr Andrew Wilkinson B.Bus. CFTP, MAICD, Managing Directc

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 which specialises in compliance services to the funds management industry.

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
The Company Secretary is Mr Brendan Howell. 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 20 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 administrating 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 over 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.

DIRECTORS' REPORT (continued)

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	

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 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 2012
P H Warne	Non-Executive Director	1,185,000	-	1,185,000
J P Henderson	Non-Executive Director	356,365	(180,000)	176,365
H I Wright	Non-Executive Director	150,000	-	150,000
A F O Wilkinson	Executive Director	208,468	(40,000)	168,468
A J Slade	Capital Manager	27,900	-	27,900
M J Clarke	Finance Manager	7,741	752	8,493
D J Shipway	Asset Manager	5,000	-	5,000

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

Name	Role	Number held at the start of the year	Lapsed/ vested in year	Number held at 30 June 2012
A F O Wilkinson	Executive Director	160,026	(160,026)	-
A J Slade	Capital Manager	61,244	(40,653)	20,591

DIRECTORS' REPORT (continued)

Meetings of Directors

The number of meetings of the Company's Board of Directors held and of each Board committee meeting held during the year ended 30 June 2012 and the number of meetings attended by each Director at the time the Director held office during the year were:

Director	Board Meetings Held[1]	Board Meetings Attended	Audit, Compliance and Risk Management Committee meetings Held[1]	Audit, Compliance and Risk Management Committee meetings Attended	Remuneration Committee meetings Held[1]	Remuneration Committee meetings Attended
P H Warne	10	10	8	8	6	6
J P Henderson	10	10	8	8	6	6
H I Wright	10	9	8	8	6	6
A F O Wilkinson	10	10	n/a	n/a	n/a	n/a
J T McNally	10	10	n/a	n/a	n/a	n/a
Member of Audit, Compliance and Risk Management Committee						
D J Lawler	n/a	n/a	8	7	n/a	n/a

[1] "Held" reflects the number of meetings which the Director or member was eligible to attend.

9 Remuneration Report (Audited)

This report provides details on ALE's remuneration structure, decisions and outcomes for the year ended 30 June 2012 for employees of ALE including the directors, the Managing Director and key management personnel.

9.1 Remuneration Objectives and Approach

In determining a Remuneration Framework, the Board aims to ensure the following:

- attract, reward and retain high calibre executives;
- motivate executives to achieve performance that creates value for stapled securityholders; and
- links remuneration to performance and outcomes achieved.

The framework aligns executive reward with achievement of strategic objectives and creation of value for stapled securityholders. To do this the Board ensures that executive reward satisfies the following objectives:

- alignment with ALE's financial, operational, compliance and risk management objectives so as to achieve alignment with positive outcomes for stapled securityholders;
- alignment with ALE's overall performance;
- transparent, reasonable and acceptable to employees and securityholders;
- rewards the responsibility, capability, experience and contribution made by executives; and
- market competitive and complementary to the reward strategy of the organisation.

The framework provides a mix of fixed and variable pay. From 2012 the variable pay is provided through an Executive Incentive Scheme (EIS). Any award under the EIS is paid 50% in cash at the year end and 50% in stapled securities with delivery deferred three years. The previous long term incentive arrangements have been discontinued.

9.2 Remuneration Committee

The Remuneration Committee ("the Committee") is a committee comprising non-executive directors of the Company. The Committee strives to ensure that ALE's remuneration structure strikes an appropriate balance between the interests of ALE securityholders and rewarding, motivating and retaining employees.

The Committee's charter sets out its role and responsibilities. The charter is reviewed on an annual basis. In fulfilling its role the Committee endeavours to ensure the remuneration framework established will:

- reward executive performance against agreed strategic objectives;
- encourage alignment of the interests of executives and stapled securityholders; and
- ensure there is an appropriate mix between fixed and "at risk" remuneration.

DIRECTORS' REPORT (continued)

The Committee operates independently of ALE senior management in its recommendations to the Board and engages remuneration consultants independently of ALE management. During FY12, the Committee consisted of the following:

Peter Warne (Chairman)	Non-executive Director
Helen Wright	Non-executive Director
John Henderson	Non-executive Director

Refer page 3 of this report for information on the skills, experience and expertise of the Committee members.

The number of meetings held by the Committee and the members' attendance at them is set out on page 6.

The Remuneration Committee considers advice from a wide range of external advisors in performing its role. During the current financial year ALE engaged Ernst & Young to provide advice on the replacement of the Long Term Incentive Plan of ALE, Freehills to draft the Executive Stapled Security Scheme (ESSS) and Greenwoods Freehills to provide taxation advice on the ESSS.

9.3 Executive Remuneration

Executive remuneration comprises both a fixed component and an 'at risk' component. It specifically comprises:

- Fixed Annual Remuneration (FAR)
- Executive Incentive Scheme (EIS)
- Long Term Incentives (LTI) - discontinued in the current financial year

Since 2003 ALE Property Group has had in place incentive schemes for eligible executives in the form of cash bonuses, options and performance rights. Given the time and material costs of maintaining the performance right based LTI plan, in 2011 the Remuneration Committee engaged Ernst & Young to review the arrangements with a view to simplifying the administration of the plan whilst maintaining proper alignment to the long term interests of Stapled Securityholders. The outcome of this review was a recommendation to revise the executive incentive arrangements. The new Executive Incentive Scheme (EIS) includes a 50% cash component and 50% deferred equity component in the form of an Executive Stapled Securities Scheme (ESSS). The establishment of the ESSS was approved at the 2011 Annual general meeting and the Board has implemented the ESSS in the current year. The EIS will comprise a short term component of cash (50%) and deferred component of Stapled Securities (50%). The cash award will be paid immediately following the release of ALE Property Group's annual results. The Stapled Securities issued under the ESSS will be delivered to the executive three years after the award date, provided certain conditions are met. The granting and delivery of Stapled Securities awarded under the ESSS is administered by the Remuneration Committee.

9.3.1 Fixed Annual Remuneration (FAR)

What is FAR?	FAR is the guaranteed salary of the executive and includes superannuation and salary sacrificed components such as motor vehicles, computers and superannuation.
How is FAR set?	FAR is set by reference to external market data for comparable roles and responsibilities within similar listed entities within Australia.
When is FAR Reviewed?	FAR is reviewed in December each year with any changes being effective from 1 January of the following year.

9.3.2 Executive Incentive Scheme (EIS)

What is EIS?	EIS is an "at risk" component of an executive remuneration. EIS is used to reward executives for achieving annual individual key performance indicators (KPIs). The maximum EIS opportunity for executives varies according to the role and responsibility of the executive. EIS awards comprise 50% cash and 50% deferred delivery stapled securities issued under the Executive Stapled Securities Scheme (ESSS). For executives not invited to participate in the ESSS the EIS is paid fully in cash.

DIRECTORS' REPORT (continued)

How are EIS targets and objectives chosen?	At the beginning of each year, in addition to the standard range of operational requirements, the Board sets a number of strategic objectives for ALE for that year. These objectives are dependent on the strategic opportunities and issues facing ALE for that year and may include objectives that relate to the short and longer term performance of ALE. Additionally, specific KPIs are established for all executives with reference to their individual responsibilities which link to the addition to and protection of securityholder value, improving business processes, ensuring compliance with legislative requirements, reducing risks within the business and ensuring compliance with risk management policies, as well as other key strategic non-financial measures linked to drivers of performance in future economic periods.
How is EIS performance accessed?	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 EIS payments and awards may be adjusted up or down in line with over or under achievement against the specific KPIs. The Board has due regard to the achievements of the objectives outlined above.
How are EIS awards delivered?	EIS cash payments are made in August each year following the release of ALE's annual results. The deferred component comprises an award of stapled securities under the ESSS. Any securities awarded under the ESSS are delivered three years after the award date provided certain conditions have been met.
How is the ESSS award calculated?	The number of ESSS Rights awarded annually under the ESSS will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements, and grossing this number up for estimated distributions over the deferral period.
What conditions are required to be met for the delivery of an ESSS award?	At the end of the three year deferred delivery period, the delivery of the Stapled Securities issued under the ESSS remains subject to the following clawback tests. Stapled Securities issued under the ESSS will be forfeited in whole or in part at the discretion of the Remuneration Committee if before the delivery period: • the Remuneration Committee becomes aware of any executive performance matter which, had it been aware of the matter at the time of the original award, would have in their reasonable opinion resulted in a lower original award; or • the executive engages in any conduct or commits any act which in the Remuneration Committee's reasonable opinion, adversely affects the ALE Property Group including, and without limitation, any act which: · results in the ALE Property Group having to make any material financial restatements; · causes the ALE Property Group to incur a material financial loss; or · causes any significant financial or reputational harm to ALE Property Group and/or its businesses.

9.3.3 Long Term Incentive (LTI)

What is LTI?	The LTI plan was discontinued with effect from 1 July 2010. It has been replaced by the new EIS. The former LTI plan provided for the granting of Performance Rights over stapled securities in ALE. If performance conditions were met then the Performance Rights vested and stapled securities were issued to the executive, subject to a number of deferred delivery conditions. If performance conditions were not met by the final testing date the Performance Rights lapse.
What are the LTI performance conditions?	The performance conditions for LTIs were as follows: • a service period retention hurdle, whereby the employee must be employed by ALE at the vesting date for the Performance Rights to vest. • a Total Securityholder Return (TSR) performance hurdle based on ALE's absolute TSR. • a TSR performance hurdle where ALE's TSR is ranked against a comparative group consisting of trusts classified as Real Estate Investment Trusts in the S&P/ASX 300 Index.

DIRECTORS' REPORT (continued)

What are the periods for the performance conditions?

The performance periods for grants are determined on an individual basis. Presently there are outstanding LTI grants to Andrew Slade. All previous LTI granted to Andrew Wilkinson have been tested in accordance with the above performance conditions. For those rights that vested, delivery is deferred until July 2013.

Andrew Slade
The performance period for grants to Mr Slade were split over the three years covered by each grant. One-third of the performance rights granted are tested on 30 June of each of the three years following the grant date.

For grants prior to 30 June 2009, no retesting is performed on failed vesting tests. For grants made on and after 30 June 2009, any failed TSR performance hurdle is retested at the next anniversary until the performance period concludes.

What is the vesting scale for the Relative TSR performance hurdles?

Up to one-third of total LTIs awarded are subject to a Relative TSR ranking over the performance period established in the grant.

ALE TSR Rank	Vesting Scale
Below 50th percentile	Nil vesting
Between 50th percentile and 75th percentile	Linear scale: 50% to 99% vesting
At or above 75th percentile	100% vesting

What is the vesting scale for the Absolute TSR performance hurdles?

Up to one-third of total LTIs awarded are subject to an Absolute TSR ranking over the performance period established in the grant.

ALE TSR Rank	Vesting Scale
Below 12% TSR performance	Nil vesting
Between 12% and 17% TSR performance	Linear scale: 50% to 99% vesting
At or above 17% TSR performance	100% vesting

When are LTI delivered?

Andrew Slade
For grants prior to 30 June 2009, LTIs were delivered on an annual basis once testing has been performed and vesting established. For grants subsequent to 30 June 2009, any securities were delivered to Mr Slade two years after the vesting provided that, in the reasonable opinion of the Board, he has not engaged in any conduct that:

(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.

What changes have been made to LTI for 2012 ?

Any further grants under the LTI plan were discontinued effective from 1 July 2010.

9.3.4 Summary of Key Contract Terms

Contract Details

Executive	Andrew Wilkinson	Andrew Slade	Michael Clarke	Don Shipway	James McNally	Brendan Howell
Position	Managing Director	Capital Manager	Finance Manager and Assistant Company Secretary	Asset Manager	Executive Director	Company Secretary and Compliance Officer
Contract Length	3 years	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Fixed Annual Remuneration	$380,000	$208,000	$182,000	$175,000	$100,000	$90,000
Notice by ALE	Per contract	3 months	3 months	1 month	1 month	1 month
Notice by Executive	6 months	3 months	3 months	1 month	1 month	1 month

DIRECTORS' REPORT (continued)

Managing Director

Andrew Wilkinson has signed a new service agreement which relates to the period starting 1 June 2011 and ending on 31 August 2014. The agreement stipulates the minimum base salary, inclusive of superannuation, for each of the first three years as being $380,000, to be reviewed annually each 31 December by the Board. An EIS, if earned, would be paid 50% as a cash bonus in August each year and 50% in stapled securities issued under the ESSS and delivered three years following each of the annual grant dates.

In the event of the termination of Andrew Wilkinson's service agreement and depending on the reason for the termination, amounts may be payable for unpaid accrued entitlements and a proportion of EIS entitlements as at the date of termination. If employment is terminated in circumstances of redundancy or without cause then he is entitled to an amount of the remuneration for the period equal to the lesser of the the unexpired balance of the term of the contract or six months. In addition he may receive a pro-rata EIS award for the period of employment in the year of redundancy.

9.4 Executive Remuneration outcome for year ended 30 June 2012

Details of remuneration paid to Directors and Key Management Personnel is detailed in the table on page 14.

Executive Incentive Scheme Outcomes

ALE has performed well when compared to other Australian real estate investment trusts (A-REITs) since the commencement of the global financial crisis (GFC). For the year ending 30 June 2012 ALE achieved a distributable profit of 16.71 cents per security, which exceeded the Board's guidance of at least 16.00 cents per security.

Management contribution to this performance was by way of:

- successful completion of the Vale Hotel litigation defense and substantial recovery of related costs;
- development of a comprehensive long term return analysis for each property in the portfolio;
- completion of all operational and standard procedures; and
- delivery and progression of a wide range of other strategic property, funding and hedging related initiatives.

The remuneration committee considered these achievements and compared them to key performance indicators for each executive that were set at the beginning of the year. The EIS result for the Managing Director and Capital Manager particularly reflect the positive contributions they made to the various capital management and litigation defense activities, as outlined above. Other executives contributed to a range of the important and valuable outcomes outlined above that were recognised in the EIS payments made. All the EIS payments are included in staff remuneration expenses in the current year.

The EIS awarded to each member of the management team is detailed in section 9.8.

LTI Outcomes

The remaining LTI awards under the ALE Executive Performance Rights Plan were tested as at 30 June 2012. As detailed in section 9.3.3, the performance hurdles were based on a combination of Retention, Absolute TSR and Relative TSR.

As outlined in section 9.5.3, the performance hurdles were partly achieved and applicable awards vested under the plan and remain subject to the delayed delivery restrictions that are set out in section 9.3.3.

Andrew Slade was entitled to a grant of LTI for a value equivalent to $50,000 on 1 July 2010. During the current financial year an award of $50,000 under the newly established ESSS was made to him in satisfaction of this outstanding LTI grant.

DIRECTORS' REPORT (continued)

ALE Financial Performance History

To provide context to ALE's performance, the following data and graphs outline a 7 year history on key financial metrics.

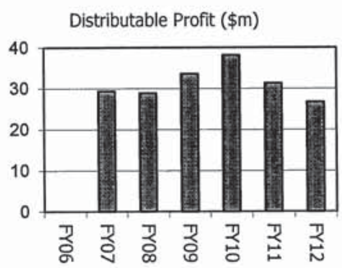
	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Distributable profit ($m)	14.6	29.4	28.9	33.6	38.1	31.3	26.7
Distribution per Security (cents)	16.00	32.50	33.60	30.00	24.00	19.75	16.00
Continuing property values ($m)	655.6	723.8	722.7	718.5	713.9	758.3	771.5
Net gearing [1]	64.4%	59.6%	66.7%	68.3%	52.1%	51.7%	51.9%

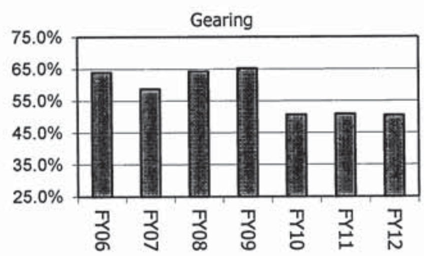
1. Total borrowings less cash as a percentage of total assets less cash and derivatives

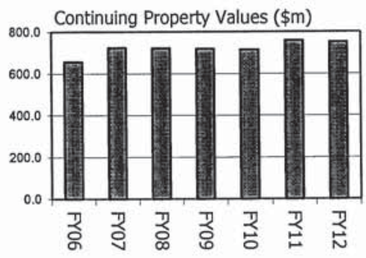
The accumulated value of $1.00 initial public offering (IPO) investment in ALE and reinvested distributions, rights renunciation payments and current market value of securities as at 30 June 2012 totalled $5.21.

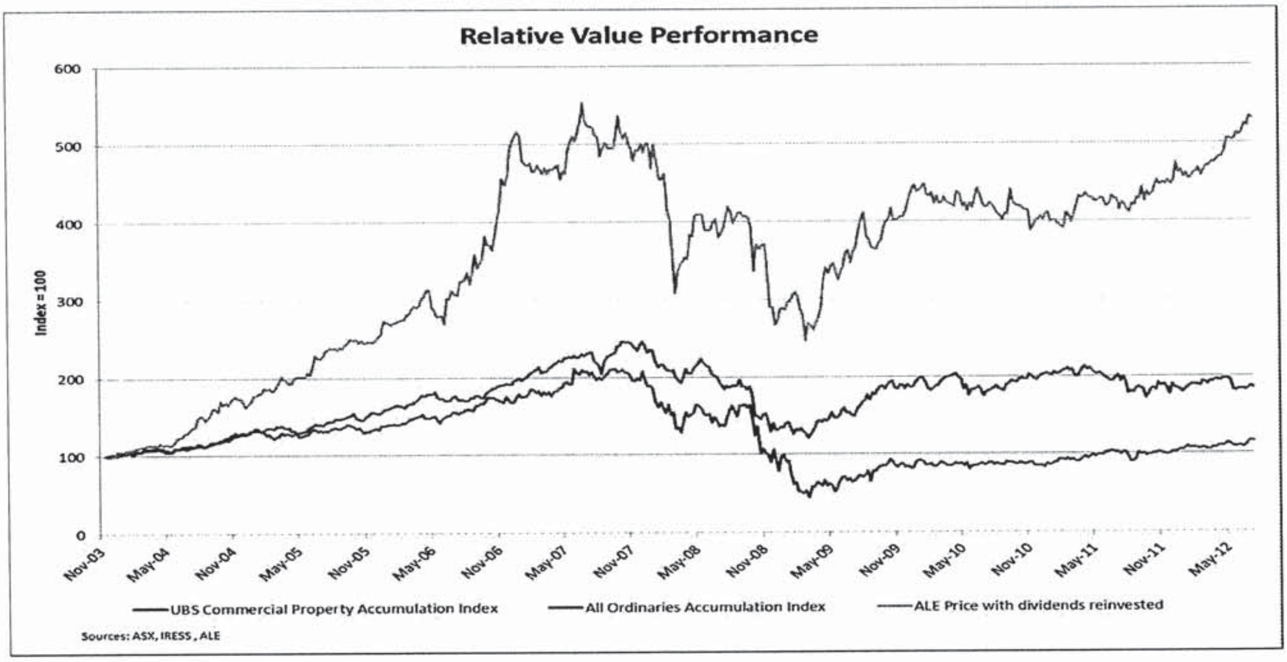
Over the year to 30 June 2012, ALE has outperformed all other A-REITs in the 300 index (which averaged 11% p.a.) with distributions and market price movements to deliver a total return of 20.3% p.a. The All Ordinaries index delivered -7.0% p.a return over the same period.

Growth in th value of the continuing properties since ALE's 2003 IPO has averaged 4.37% p.a.









Accumulated Value for: AREITs $1.15, All Ords $1.84, ALE $5.21[1]

1. Distributions include $0.41 payment for renouncing Sep 2009 rights and all other distributions paid and declared to September 2012

DIRECTORS' REPORT (continued)

9.5 Disclosures relating to equity instruments granted as compensation

9.5.1 Outstanding performance rights over equity instruments granted as compensation

Details of performance rights over stapled securities that have been granted as compensation and remain outstanding at year end 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 2012[2]	Number of Stapled Securities Issued[1]
A J Slade	30,206	1 July 2008	1 July 2008	1.67	30 June 2011	-	8,516
A J Slade	46,164	1 July 2009	1 July 2009	1.08	30 June 2012	8,272	-

1. Stapled Securities were issued at nil cost to the employee.
2. Stapled securities of 8,272 due to Mr Slade in relation to the 2009 year grants have a delayed delivery of two years.

9.5.2 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.

9.5.3 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 [1]	Grant Date	% vested in year[3]	% forfeited in year [2]	Financial year in which grant vests	Hurdle testing
A J Slade	4,097	1 July 2009	10.5%	89.5%	1 July 2010	(a)
	11,510	1 July 2009	15.3%	84.7%	1 July 2011	(a)
	18,238	1 July 2009	33.3%	66.7%	1 July 2012	(a)

1. In accordance with the Rules of the Plan the number issued has been adjusted during the year for the rights issue 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 and rights not being subject to any subsequent retesting.
3. The performance rights vesting in relation to 2009 year grants have a delayed delivery of two years.

(a) The performance hurdles were tested as at 30 June 2012 with the following results:

Grant date	Result: Retention	Result: Absolute TSR Return	Result: Relative TSR Ranking	Vested %: Retention	Vested %: Absolute TSR Return	Vested %: Relative TSR Ranking
A J Slade						
1 July 2009	Achieved	12.92%	52.63%	100.00%	18.47%	10.53%

Grant date	Vested - Number: Total	Retention Result	Absolute TSR Result	Relative TSR Result
A J Slade				
1 July 2009	8,272	3,853	2,932	1,487

Under the terms of the 2009 year grants to Andrew Slade, the performance hurdles that did not pass are retested on the subsequent anniversary of the grant. All retesting for these grants was finalised on 30 June 2012.

DIRECTORS' REPORT (continued)

9.5.4 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 $ (a)	Vested and exercised in year $ (b)	Lapsed in year $ (c)
A F O Wilkinson	-	45,193	114,807
A J Slade	-	9,363	23,970

(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 during the year is calculated as the market price of the stapled securities of ALE as at the close of trading on the day the performance rights vested.

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

9.6 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-tradable 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.

The value of ESSS disclosed in section 9.8 is based on the value of the grant at the award date. The number of Stapled Securities issued annually under the ESSS awarded annually will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements, and grossing this number up for estimated distributions over the deferral period. The number of securities granted in the current year will be determined on 8 August 2012.

9.7 Non-executive Directors' Remuneration

9.7.1 Remuneration Policy and Strategy

Non-executive directors' individual fees are determined by the Company Board within the aggregate amount approved by shareholders. The current aggregate amount which has been approved by shareholders at the AGM on 10 November 2010 was $500,000.

The Board reviews its fees to ensure that ALE non-executive directors are remunerated fairly for their services, recognising the level of skill, expertise and experience required to conduct the role. The Board reviews its fees from time to time to ensure it is remunerating directors at a level that enables ALE to attract and retain the right 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 reviewed in the previous financial year. 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.

9.7.2 Remuneration Structure

ALE non-executive directors receive a cash fee for service and they have no entitlement to any performance based remuneration, nor can they participate in any security based incentive scheme.

The current remuneration was last reviewed with effect from January 2011. The Directors' fees are inclusive of superannuation, where applicable.

	Board		ACRMC		Remuneration Committee	
	Chairman*	Member	Chairman	Member	Chairman	Member
Board and Committee fees	$175,000	$85,000	$15,000	$10,000	$15,000	$5,000

* The Chairman of the Board's fees are inclusive of all committee fees.

James McNally's (Executive Director) remuneration is determined in accordance with the above fees. He receives an additional $5,000 for being a Responsible Manager of the Company under the Company's AFSL and $10,000 for being a director of ALE Finance Company Pty Limited.

DIRECTORS' REPORT (continued)

9.8 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 9.4 headed "Executive Incentive Scheme Outcomes". Equity based payments for 2012 are non-market based performance related as set out in section 9.4. All other elements of remuneration were not directly related to performance.

Table 1 Remuneration details 1 July 2011 to 30 June 2012

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2012 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 $	Superannuation benefits $	$	Termination benefits $	Performance Rights $	Total $	$	$
P H Warne	Non-executive Director	160,550	-	-	160,550	14,450	-	-	-	175,000	-	-
J P Henderson	Non-executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-	-
H I Wright	Non-executive Director	96,330	-	-	96,330	8,670	-	-	-	105,000	-	-
B R Howell	Company Secretary	90,000	-	-	90,000	-	-	-	-	90,000	-	-
A F O Wilkinson	Executive Director	338,792	71,250	-	410,042	15,775	6,345	-	71,250	503,412	28.3%	14.2%
J T McNally	Executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-	-
A J Slade	Capital Manager	179,640	39,000	8,737	227,377	15,775	2,917	-	89,000	335,069	38.2%	26.6%
M J Clarke	Finance Manager	155,848	25,000	8,917	189,765	14,198	1,986	-	-	205,949	12.1%	-
D J Shipway	Asset Manager	153,651	25,000	-	178,651	16,078	970	-	-	195,699	12.8%	-
		1,374,811	160,250	17,654	1,552,715	84,946	12,218	-	160,250	1,810,129		

Table 2 Remuneration details 1 July 2010 to 30 June 2011

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2011 are set out in the following table:

		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 $	Superannuation benefits $	$	Termination benefits $	Performance Rights $	Total $	$	$
P H Warne	Non-executive Director	149,083	-	-	149,083	13,417	-	-	-	162,500	-	-
J P Henderson	Non-executive Director	92,500	-	-	92,500	-	-	-	-	92,500	-	-
H I Wright	Non-executive Director	87,156	-	-	87,156	7,844	-	-	-	95,000	-	-
J T McNally	Executive Director	95,000	-	-	95,000	-	-	-	-	95,000	-	-
A F O Wilkinson	Executive Director	342,926	135,000	-	477,926	15,199	5,200	-	80,000	578,325	37.2%	13.8%
B R Howell	Company Secretary	90,000	-	-	90,000	-	-	-	-	90,000	-	-
A J Slade	Capital Manager	172,397	80,000	6,764	259,161	15,199	2,853	-	-	277,213	28.9%	0.0%
M J Clarke	Finance Manager	148,164	35,000	8,917	192,081	13,466	1,738	-	-	207,285	16.9%	-
D J Shipway	Asset Manager	123,269	25,000	-	148,269	11,094	328			159,691	15.7%	-
		1,300,495	275,000	15,681	1,591,176	76,219	10,119	-	80,000	1,757,514		

10 Stapled securities under option

No performance rights over unissued stapled securities of ALE were granted during or since the end of the year.

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	45,200
A J Slade	8,516

12 Insurance of officers

During the financial year, the Company paid a premium of $51,867 (2011: $37,750) 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 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 responsibilities and compliance with 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, in most cases ALE is indemnified by third parties against any remediation amounts likely to be required. ALE does not expect to incur any material environmental liabilities.

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. During the current and previous financial years, no non-audit services were performed by the auditors.

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

	30 June 2012 $	30 June 2011 $
Audit services		
KPMG Australian firm:		
Audit and review of the financial reports of the ALE Property Group and other audit work required under the *Corporations Act 2001*		
• in relation to current year	176,000	164,500
• in relation to prior year	10,000	37,500
Total remuneration for audit services	**186,000**	**202,000**

DIRECTORS' REPORT (continued)

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 17.

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

Peter H Warne
Director
Sydney

Dated this 31st day of July 2012

Lead Auditor's Independence Declaration under Section 307C of the 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 2012 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.

KPMG

Nigel Virgo
Partner

Sydney

31 July 2012

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	30 June 2012 $	30 June 2011 $
Revenue			
Expense reimbursement	5	3,769,798	3,501,676
Interest income		24,495	23,425
Total revenue		**3,794,293**	**3,525,101**
Annual Report and Annual Review		113,182	56,463
Audit, accounting, tax and professional fees		247,728	258,845
Corporate advisory services		208,177	101,584
Depreciation expense and asset write-offs		27,095	29,919
Insurance		143,075	114,825
Legal fees		296,989	244,200
Occupancy costs		110,856	132,187
Other expenses		425,114	310,981
Registry fees		125,071	94,409
Salaries, fees and related costs		2,010,899	2,084,662
Staff training		27,535	36,953
Travel and accommodation		34,076	36,648
Total expenses		**3,769,797**	**3,501,676**
Profit/(loss) before income tax		**24,496**	**23,425**
Income tax expense/(benefit)	7	39,297	31,027
		(14,801)	**(7,602)**
Profit/(loss) attributable to the shareholders of the Company		**(14,801)**	**(7,602)**
Other comprehensive income		-	-
Other comprehensive income for the period after income tax		-	-
Total comprehensive income for the period		**(14,801)**	**(7,602)**
Profit/(Loss) attributable to:			
Equity holders of the Company		(14,801)	(7,602)
Minority interest		-	-
Total profit/(loss) for the period		**(14,801)**	**(7,602)**
Comprehensive income attributable to:			
Equity holders of the Company		(14,801)	(7,602)
Minority interest		-	-
Total comprehensive income for the period		**(14,801)**	**(7,602)**
		Cents	**Cents**
Basic and diluted earnings/(loss) per share		(0.01)	(0.00)
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 2012

	Note	30 June 2012 $	30 June 2011 $
Current assets			
Cash and cash equivalents	8	408,306	295,231
Receivables	9	2,393,529	2,673,271
Prepayments and other assets		217,794	152,475
Total current assets		**3,019,629**	**3,120,977**
Non-current assets			
Plant and equipment		62,564	73,910
Investment in related party	10	9,080,010	9,080,010
Deferred tax asset	11	123,590	162,887
Total non-current assets		**9,266,164**	**9,316,807**
Total assets		**12,285,793**	**12,437,784**
Current liabilities			
Payables	12	541,649	850,553
Provisions	13	46,473	43,725
Total current liabilities		**588,122**	**894,278**
Total liabilities		**588,122**	**894,278**
Net assets		**11,697,671**	**11,543,506**
Equity			
Contributed equity	14	12,236,792	12,118,181
Retained losses	15	(745,621)	(808,008)
Reserves	16	206,500	233,333
Total equity		**11,697,671**	**11,543,506**
		Cents	**Cents**
Net assets per share		**7.32**	**7.31**

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 2012

	Share Capital $	Share based payments reserve $	Retained Earning $	Total $
2012				
Total equity at the beginning of the year	**12,118,181**	**233,333**	**(808,008)**	**11,543,506**
Total comprehensive income for the period				
Profit/(loss) for the year	-	-	(14,801)	(14,801)
Other comprehensive income	-	-		
Total comprehensive income for the year	-	-	(14,801)	(14,801)
Transacations with Members of ALE recognised directly in Equity:				
Issue of units in ALE Property Trust under ALE Property Group				
Executive Performance Rights Plan	3,503	(183,333)	77,188	(102,642)
Shares issued - dividend reinvestment plan	115,108			115,108
Employee share based payments expense	-	156,500	-	156,500
Total equity at the end of the year	**12,236,792**	**206,500**	**(745,621)**	**11,697,671**
2011				
Total equity at the beginning of the year	**11,862,301**	**183,333**	**(806,155)**	**11,239,479**
Total comprehensive income for the period				
Profit/(loss) for the year	-	-	(7,602)	(7,602)
Other comprehensive income	-	-	-	-
	-	-	(7,602)	(7,602)
Transacations with Members of ALE recognised directly in Equity:				
Issue of units in ALE Property Trust under ALE Property Group				
Executive Performance Rights Plan	708	(30,000)	5,749	(23,543)
Shares issued - institutional placement	-	-	-	-
Shares issued - rights issue	-	-	-	-
Shares issued - dividend reinvestment plan	255,172	-	-	255,172
Employee share based payments expense	-	80,000	-	80,000
Total equity at the end of the year	**12,118,181**	**233,333**	**(808,008)**	**11,543,506**

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 2012

	Note	30 June 2012 $	30 June 2011 $
Cash flows from operating activities			
Management fee received and expense reimbursements		6,938,739	4,269,110
Payments to suppliers and employees		(6,838,043)	(4,201,961)
Interest received - bank deposits and investment arrangements		28,128	18,069
Net cash inflow/(outflow) from operating activities	8	**128,824**	**85,218**
Cash flows from investing activities			
Payments for plant and equipment		(15,749)	(63,449)
Net cash (outflow) from investing activities		**(15,749)**	**(63,449)**
Cash flows from financing activities			
Loan from related party		-	-
Shares issued		-	-
Net cash (outflow) from financing activities		**-**	**-**
Net increase/(decrease) in cash and cash equivalents held		**113,075**	21,769
Cash and cash equivalents at the beginning of the year		295,231	273,462
Cash and cash equivalents at the end of the year	8	**408,306**	**295,231**

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

Note 1 Basis of preparation

(a) Statement of compliance
ALE Property Group is domiciled in Australia. The financial statements 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 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 can not 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 a for-profit entity and is primarily involved in property management industry.

(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 20 - 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.

(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 Statement of Comprehensive Income.

(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 or diminishing value 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.

Note 2 Summary of significant accounting policies

(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 share

(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.

Note 2 Summary of significant accounting policies

(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

Executive Stapled Security Scheme Rights (ESSS)
The grant date fair value of ESSS 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 ESSS rights that vest.

The fair value at grant date is determined as the value of the Executive Incentive Award in the year in which it is awarded. The number of ESS Rights issued annually under the ESSS awarded annually will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements.

Performance Rights
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.

Note 2 Summary of significant accounting policies

(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.

(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 affect 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.

Note 2 Summary of significant accounting policies

(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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

(q) Segment reporting

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.

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
- 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 assist 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	30 June 2012 $	30 June 2011 $
Note 5 Expense reimbursements		
Reimbursement of expenses for managing the Head Trust and controlled entities	**3,769,798**	3,501,676

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 $6,938,739 (2011: $4,269,110) 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.

Note 6 Auditors' remuneration

	30 June 2012 $	30 June 2011 $
Audit services		
KPMG Australian firm:		
Audit and review of the financial reports of the ALE Property Group and other audit work under the *Corporations Act 2001*		
- in relation to current year	176,000	164,500
- in relation to prior year	10,000	37,500
Total remuneration for audit services	**186,000**	202,000

Note 7 Income tax expense/(benefit)

	30 June 2012 $	30 June 2011 $
Current tax expense/(benefit)	-	-
Deferred tax (benefit)	39,297	31,027
Income tax expense	**39,297**	31,027
Decrease/(increase) in deferred tax asset	39,297	31,027
	39,297	31,027
Reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	24,496	23,425
Tax at the Australian tax rate of 30% (2011: 30%)	7,349	7,027
Tax effect of amounts which are deductible (taxable) in calculating taxable income:		
Share based payments	31,950	24,000
Under provision in prior years	(2)	-
Income tax expense/(benefit)	**39,297**	31,027

NOTES TO THE FINANCIAL STATEMENTS (continued)

		30 June 2012 $	30 June 2011 $
Note 8 Cash and cash equivalents			
Cash at bank	(a)	223,842	110,767
Deposits at call	(b)	184,464	184,464
		408,306	295,231

(a) As at 30 June 2012 the weighted average interest rate earned on cash was 3.93% (2011: 5.03%).

(b) The deposits represent office occupancy security deposits.

Reconciliation of profit after income tax to net cash inflows from operating activities

	30 June 2012 $	30 June 2011 $
Profit/(loss) for the year	(14,801)	(7,602)
Depreciation	27,095	29,918
Non-cash employee benefits expense - share based payments	106,500	80,000
(Increase)/decrease in receivables	171,853	(95,576)
(Increase)/decrease in other assets	(65,319)	685,330
(Increase)/decrease in deferred tax asset	39,297	31,027
Increase/(decrease) in loan from related party	120,355	(774,992)
Increase/(decrease) in provisions	2,748	34,579
Increase/(decrease) in payables	(258,904)	102,534
Net cash inflows from operating activities	**128,824**	85,218

	30 June 2012 $	30 June 2011 $
Note 9 Receivables		
Accounts receivable	64,075	232,295
Loan to related party	2,329,326	2,437,215
Interest receivable	128	3,761
	2,393,529	2,673,271
Note 10 Investment in related party		
Trust Non-Income Voting Units (NIVUS)	**9,080,010**	9,080,010

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 5.38% 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	30 June 2012 $	30 June 2011 $
Note 11 Deferred tax asset		
Deferred tax assets	**123,590**	162,887
The balance comprises temporary differences attributable to:		
Amounts recognised in statement of comprehensive income		
Employee benefits	13,942	13,118
Acquisition proposal due diligence	3,956	5,439
Other accruals	58,193	125,100
Other	282	1,872
Tax losses	47,217	17,358
Net deferred tax assets	**123,590**	162,887
Movements:		
Opening balance	162,887	193,914
Credited/(charged) to the statement of comprehensive income (Note 7)	(39,297)	(31,027)
Closing balance at	**123,590**	162,887
Deferred tax assets to be recovered within 12 months	123,590	147,491
Deferred tax assets to be recovered after more than 12 months	-	15,396
	123,590	162,887
Note 12 Payables		
Trade creditors	191,040	279,365
Creditor accruals	350,609	571,188
	541,649	850,553
Note 13 Provisions		
Provision for employee entitlements	46,473	43,725
	46,473	43,725

NOTES TO THE FINANCIAL STATEMENTS (continued)

	30 June 2012 $	30 June 2011 $
Note 14 Contributed equity		
(a) Share capital		
Issued share capital	**12,236,792**	12,118,176
(b) Movements in ordinary share capital		
Opening balance	12,118,181	11,862,301
Shares issued - ALE Executive Performance Rights Plan	3,503	708
Shares issued - Dividend Reinvestment Plan	115,108	255,172
Balance at the end of the period	**12,236,792**	12,118,181

	No. of shares	No. of shares
Shares on issue		
Opening balance	157,990,976	153,354,571
Shares issued - ALE Executive Performance Rights Plan	53,716	12,248
Shares issued - Dividend Reinvestment Plan	1,817,821	4,624,157
Closing balance	**159,862,513**	157,990,976

(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.

Note 15 Retained losses

	30 June 2012 $	30 June 2011 $
Balance at the beginning of the year	(808,008)	(806,155)
Net profit/(loss) attributable to ordinary shareholders	(14,801)	(7,602)
Transfer from share based payments reserve	77,188	5,749
Balance at the end of the year	**(745,621)**	(808,008)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	30 June 2012 $	30 June 2011 $
Note 16 Reserves		
Share-based payments reserve	**206,500**	233,333
Balance at the beginning of the year	233,333	183,333
Employee share based payments expense	156,500	80,000
Transfer to Retained Profits on lapsing of performance rights	(77,188)	(5,749)
Vesting of performance rights	(106,145)	(24,251)
Balance at the end of the year	**206,500**	233,333

Note 17 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 enity for the ALE Property Group.

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

The Company received 100% of its expense reimbursement from the Head Trust (2011: 100%)

Geographical segment

The Company operates solely within Australia.

Note 18 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 19 Contingent liabilities

Bank guarantee

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

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

	30 June 2012 $	30 June 2011 $

Note 20 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 have been made to Mr Wilkinson and Mr Slade. In accordance with the plan the performance rights vest upon performance hurdles being achieved.

The terms and conditions of the remaining grants are as follows:

Employee entitled	Grant date	Number of PRs	Vesting conditions	Contractual life of PRs
Mr A J Slade	1 Jul 2009	46,164	1. Service period 2. Absolute Total Shareholder Return (TSR) 3. Total TSR compared to comparative group	30 Jun 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 2012	Weighted average fair value 2012	Number of performance rights 2011	Weighted average fair value 2011
Outstanding at 1 July	221,270	1.05	237,335	1.11
Granted during period	-	-	-	-
Vested during year*	(53,472)	1.98	(12,248)	1.98
Lapsed during year	(147,207)	1.98	(3,817)	1.98
Outstanding at 30 June	20,591	1.08	221,270	1.05

During the year 8,272 performance rights vested to Mr Slade . Under the terms of the grants delivery of stapled securities is delayed for 2 years until 1 July 2014.

The performance rights outstanding at 30 June 2012 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-tradable 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.

During the current financial year ALE established the Executive Stapled Security Scheme (ESSS) to replace the Performance Rights Plan. The ESSS entitles key management personnel, subject to performance, to become entitled to acquire stapled securities at nil cost to the employee. Under the ESSS, grants of ESSS rights have been made to Mr Wilkinson and Mr Slade.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	30 June 2012 $	30 June 2011 $

Note 20 Share based payments (continued)

On 26 June 2012 Andrew Slade was awarded $50,000 of ESSS Rights in relation to an LTI award for the year ended 30 June 2011. The number of ESSS Rights were calculated in accordance with the scheme rules using the five day Volume Weighted Average Price starting on 3 August 2011, being the results announcement date for ALE for the year ended 30 June 2011.

At 30 June 2012 Andrew Wilkinson was awarded $67,500 of ESSS Rights and Andrew Slade was awarded $50,000 of ESSS Rights. The number of Stapled Securities awarded annually will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements. The number of securities granted for the current year grants will be determined on 8 August 2012.

	Number ESSS rights 2012	**Weighted average fair value 2012 $**	Number of ESSS rights 2011	Weighted average fair value 2011 $
Outstanding at 1 July	-	-	-	-
Granted during period	34,571	1.83	-	-
Vested during year	-		-	-
Lapsed during year	-		-	-
Outstanding at 30 June	34,571	1.83	-	-

Note 21 Commitments

(a) Capital commitments

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

(b) Lease commitments

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 2012 $	**30 June 2011 $**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	112,022	107,543
Later than one year but not later than five years	153,955	265,977
Later than five years	-	-
	265,977	**373,520**

Note 22 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 23.

(c) Transaction with related parties
For the year ended 30 June 2012 the Company had charged the Trust $3,769,798 in expense reimbursememt (2011: $3,501,676).

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 23 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
A J Slade	Capital Manager
B R Howell	Company Secretary and Compliance Officer
M J Clarke	Finance Manager and Assistant Company Secretary
D J Shipway	Asset Manager

Note 23 Key management personnel (continued)

(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.

	30 June 2012 $	30 June 2011 $
Short term employee benefits	1,552,715	1,591,176
Post employment benefits	84,946	76,219
Other long term benefits	12,218	10,119
Share based payments	160,250	80,000
Total	**1,810,129**	**1,757,514**

Share based payments expense in the year

Performance rights granted in 2009	-	80,000
ESSS rights granted in 2012	156,500	-
Total	**156,500**	**80,000**

Note 24 Earnings per share

	30 June 2012 cents	30 June 2011 cents
(a) Basic earnings per share		
Attributable to equity holders of the Company		
Basic and diluted earnings per equity holders of the Company	(0.01)	(0.00)
Attributable to securityholders of the stapled entity		
Basic and diluted earnings per stapled security before financing costs attributable to the Company securityholders divided by the average number of securities	(0.01)	(0.00)
Basic and diluted earnings per stapled security using realised operating income	(0.01)	(0.00)

(b) Weighted average number of shares used as the denominator

	2012	2011
Weighted average number of shares used as the denominator in calculating earnings per share	159,099,887	156,564,420
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	159,099,887	156,564,420

Note 25 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

	2012	2011
	$	$
Receivables	64,203	236,056
Cash and cash equivalents	408,306	295,231
	472,509	**531,287**

Impairment losses

	2012		2011	
	Gross Receivables	Impairment	Gross Receivables	Impairment
	$	$	$	$
Not past due	30,957	-	76,015	-
Past due 0-30 days	-	-	68,791	-
Past due 31-120 days	33,246	-	-	-
Past due 120-365 days	-	-	91,250	-
More than one year	-	-	-	-
	64,203	**-**	**236,056**	**-**

(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.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes that are set out on pages 18 to 38 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 2012 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 2012.

(d) The directors draw attention to Note 1 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 31st Day of July 2012

KPMG

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 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 of the financial report that gives a true and fair view 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, a true and fair 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.

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 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards 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 14 of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Nigel Virgo
Partner

Sydney
31 July 2012

INVESTOR INFORMATION

The information is provided as a short summary of investor information. Please view our website at www.alegroup.com.au for all investor information.

Major Australian Securities Exchange (ASX) Announcements

2012

30 Oct	Annual General Meeting
31 Jul	Full Year results released
5 Jul	Property valuations increased
21 Jun	Full Year distribution of 16.00 cents declared
22 May	Caledonia becomes a substantial holder
16 May	Allan Gray reduces substantial holding
27 Mar	Allan Gray reduces substantial holding
5 Mar	Half Year distribution payment date
15 Feb	Half Year results released
11 Jan	Caledonia reduces substantial holding

2011

16 Dec	Property Valuations increased
16 Dec	Vale appeal dismissed in ALE's favour
8 Dec	Half year distribution of 8.00 cents declared
8 Nov	Annual General Meeting
30 Sep	ALE redeems ALE Notes
30 Sep	Annual Report released
26 Aug	Caledonia ceases to be substantial holder
2 Aug	Full year results released

Stock Exchange Listing

The ALE Property Group (ALE) is listed on the Australian Securities Exchange (ASX). Its stapled securities are listed under ASX code: LEP; stapled security distributions may be paid twice yearly, normally in March and September; and its ALE Notes 2 are listed under ASX code: LEPHC.

Distribution Reinvestment Plan

ALE has established a distribution reinvestment plan. Details are available on ALE's website.

Electronic Payment of Distributions

Securityholders 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. Securityholders wishing to take advantage of payment by direct credit should contact the registry for more details and to obtain an application form.

Website

The ALE website, www.alegroup.com.au, is a useful source of information for stapled securityholders. 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.

Distributions

Stapled security distributions are paid twice yearly, normally in March and September.

Securityholder Enquiries

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

Annual Tax Statement

Accompanying the final stapled security distribution payment, normally in September each year, will be an annual tax statement which details the taxable, tax concessional and deferred tax components of the year's distribution.

Publications

The Annual Review and Annual Report are the main sources of information for stapled securityholders. 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 securityholders unless we are requested not to do so. The Annual Report is 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 securityholders if they register on ALE's website. The election by holders to receive communications electronically is encouraged by ALE.

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Auditor

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Trustee (of ALE Direct Property Trust)

The Trust Company (Australia) Limited, Level 15, 20 Bond Street, Sydney NSW 2000

Registry

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