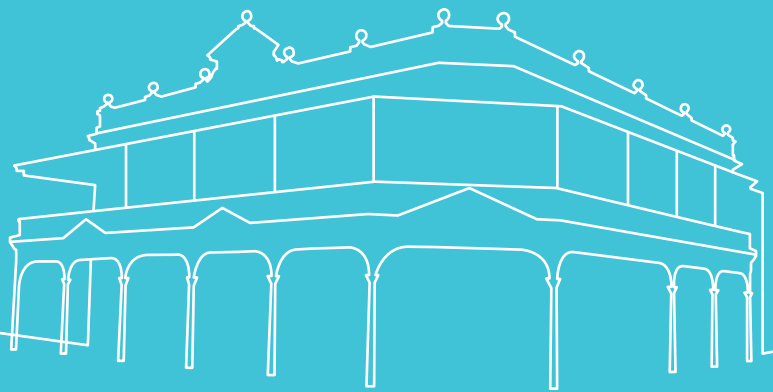
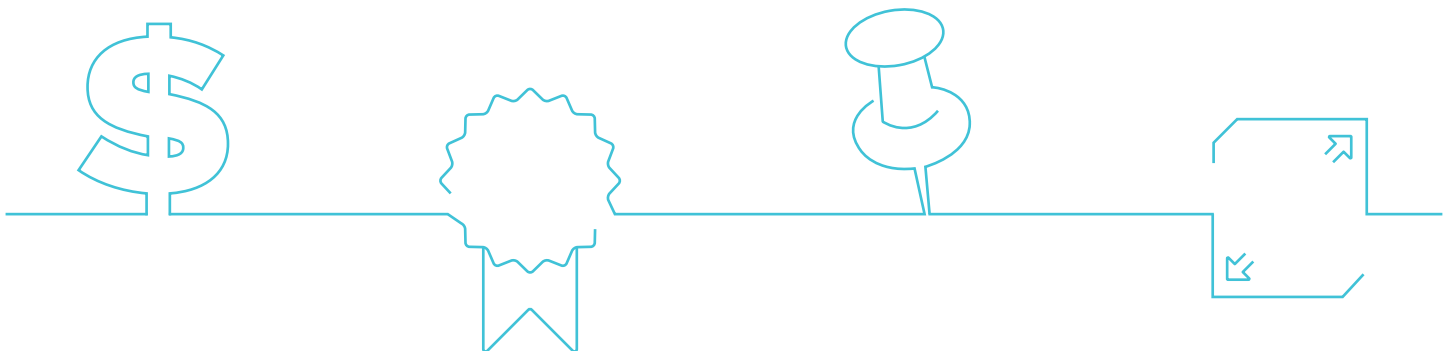


# When you look at a pub property, what do you see?



**We see**  
**value**  
**quality**  
**location**  
**scale**



# ALE Property Group

Comprising Australian Leisure and Entertainment  
Property Trust and its controlled entities  
Report For the Year ended 30 June 2013

ABN 92 648 441 429

- 02 -  
Directors Report

- 22 -  
Statement of changes in Equity

- 24 -  
Notes to the  
Financial Statements

- 19 -  
Auditor's  
Independence  
Declaration

- 20 -  
Financial  
Statements

- 20 -  
Statement of  
Comprehensive  
Income

- 21 -  
Statement of  
Financial  
Position

## Contents

### ANNUAL REPORT

2013

#### ALE Property Group (ASX: LEP)

ALE Property Group is Australia's largest listed freehold owner of pubs. Established in November 2003. ALE owns a property portfolio of 87 pubs across the five mainland states of Australia. All the pubs in the portfolio are leased to members of Australian Leisure and Hospitality Group Limited (ALH) for a remaining initial lease term of 15 years.

[WWW.ALEGROUP.COM.AU](http://WWW.ALEGROUP.COM.AU)

- 59 -  
Director's  
Declaration

- 60 -  
Independent  
Auditor's Report  
to Stapled  
Securityholders

- 63 -  
Australian Leisure  
and Entertainment  
Property Management  
Limited  
Annual Report 2013

- 101 -  
Corporate  
Governance  
Statement

- ibc -  
Investor Information  
and  
Corporate Directory

**DIRECTORS' REPORT**

For the Year ended 30 June 2013

**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 2013.

**1. DIRECTORS**

The following persons were directors of the Company during the year and up to the date of this report unless otherwise stated:

<b>Name</b>	<b>Type</b>	<b>Appointed</b>
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 CPI Hedge was terminated in December 2012 and payments for accumulated indexation and a mark to market amount were made.
- a new interest rate hedge was implemented in December 2012 for a term of 10 years at a low rate of 3.83% p.a.;
- debt and equity funding of \$107 million was raised successfully, including a placement of \$40 million of stapled securities and a Security Purchase Plan that raised \$27 million, and an issue of ALE Notes 2 that raised \$40 million;
- the 87 individual property values increased 1.87% to \$786.00 million; and
- Net Assets increased by 17.87% to \$368.36 million and net borrowings (total borrowings less cash) as a percentage of assets (total assets less cash and derivatives) reduced slightly from 51.9% to 50.9%.

**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.

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**

For the Year ended 30 June 2013

**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:

	<b>30 June 2013 cents per security</b>	<b>30 June 2012 cents per security</b>	<b>30 June 2013 \$'000</b>	<b>30 June 2012 \$'000</b>
Final Trust income distribution for the year ending 30 June 2013 to be paid on 5 September 2013	<b>8.00</b>	8.00	<b>15,539</b>	12,789
Interim Trust income distribution for the year ending 30 June 2013 paid on 5 March 2013	<b>8.00</b>	8.00	<b>15,486</b>	12,719
<b>Total distribution for the year ending 30 June 2013</b>	<b>16.00</b>	16.00	<b>31,025</b>	25,508

No provisions for or payments of Company dividends have been made during the year (2012: 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. OPERATIONAL AND FINANCIAL REVIEW**

Background

ALE Property Group is Australia's largest listed freehold owner of pub properties. Established in November 2003, ALE owns a property portfolio of 87 pubs across the five mainland states of Australia. All the pubs in the portfolio are leased to members of the Australian Leisure and Hospitality Group (ALH) for a remaining initial lease term of 15.3 years plus options for ALH to extend.

ALE's high quality freehold pubs have very long term leases that include a number of unique features that add to the security of net income and opportunity for rental growth. Some of the significant features of the leases are as follows:

- Leases commenced in November 2003 with an initial term of 25 years and four options of 10 years for ALH to extend (for 81 of 87 properties).
- The leases are triple net which require ALH to take responsibility for rates, insurance and essentially all structural repairs and maintenance, as well as land tax in all states except Queensland;
- Annual CPI rent increases are not subject to any cap and rents do not decline with negative CPI.
- There is a market rent review in November 2018 that is capped and collared within 10% of the 2017 rent.
- There is a full open market rent review (no cap and collar) in November 2028 at which time ALH has four options of 10 years to extend the leases.

Current year performance

ALE produced a profit after tax of \$14.9 million for the year ended 30 June 2013 compared to a loss of \$17.0 million for the year ended 30 June 2012. The increase is primarily due to a reduction in the fair value decrement to derivatives. Other factors include:

- Rental income increased by 2.3% following the annual rent review in November 2012;
- Interest income was lower on the back of decreasing interest rates and lower cash balances following the ALE Notes redemption in September 2011 and CPI hedge termination in December 2012;
- Finance costs were lower following the termination of CPI Hedge in December 2012, lower CPI which reduced the CIB and CPI hedge indexation costs and increased interest rate swap receipts following a restructure of hedging arrangements during the year; and
- Management costs were stable, after adjusting for the Vale legal fees recovery in 2012. ALE's management expense ratio continues to be the lowest in the A-REIT sector.

ALE Property Group

**DIRECTORS' REPORT**

For the Year ended 30 June 2013

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. It is also equivalent to Funds from Operations (FFO).

During the financial year ALE produced a distributable profit of \$31.7 million compared to \$26.7 million in the previous financial year. 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. Distributable Profit was impacted by the same cash items that effected Operating Profit, namely increased rent and reduced finance costs.

	<b>30 June 2013 \$'000</b>	<b>30 June 2012 \$'000</b>
<b>Profit/(loss) after income tax for the year</b>	<b>14,909</b>	(17,024)
<b>Adjustment for non-cash items</b>		
Fair value decrements /(increments) to derivatives and investment properties	10,350	33,101
Loss/(Gain) on disposal of investment properties	(490)	-
Employee share based payments	166	106
Finance costs - non-cash	6,208	13,720
Income tax expense /(benefit)	572	(3,187)
<b>Total adjustments for non-cash items</b>	<b>16,806</b>	43,740
<b>Total profit available for distribution</b>	<b>31,715</b>	26,716
Distribution paid or provided for	31,025	25,508
<b>Available and under distributed for the year</b>	<b>690</b>	1,208

	<b>Percentage Increase / (Decrease)</b>	<b>30 June 2013 Cents</b>	<b>30 June 2012 Cents</b>
<b>Earnings and distribution per stapled security:</b>			
Basic and diluted earnings	176.73%	8.21	(10.70)
Earnings available for distribution	(2.33%)	16.32	16.71
Total distribution	0.00%	16.00	16.00

Financial position

ALE's net assets increased by 17.87%, compared with the previous year which was largely attributable to the capital raisings in October 2012. \$40 million was raised through a placement to institutional and sophisticated retail investors and \$27 million was raised by a Security Purchase Plan (SPP). Both the Placement and SPP were issued at \$2.13 per stapled security. The SPP was taken up by 57.5% of eligible securityholders.

Investment property revaluations increased the portfolio value by 1.87% from \$771.53 million to \$786.00 million during the year. Capitalisation rates increased very slightly from 6.57% to 6.59% with the increase in property valuations coming from the November 2012 CPI rent increase and slightly lower Queensland land tax expense.

Net assets per stapled security decreased by 2.56% from \$1.95 to \$1.90 compared to June 2012 primarily as a result of the capital raising during the period.

ALE's market capitalisation increased by around 50% to more than \$500 million this year. This resulted from \$67 million of capital raisings mentioned above, \$6 million in equity form the DRP as well as a \$107 million arising from security price increases.

## DIRECTORS' REPORT

For the Year ended 30 June 2013

ALE's funding structure continues to be characterised by diverse sources of funding instruments with maturity dates averaging 5.2 years. The next scheduled maturity is the ALE Notes 2 in August 2014. ALE is entitled to elect to extend the maturity date by one or two years by paying additional redemption premiums.

At 30 June 2013, net covenant gearing was down 1.0% to 50.9%. ALE continues to maintain appropriate headroom to all debt covenants equivalent to an average 25% fall in property values.

ALE has consistently sought to protect investors from inflation and interest rate risk and continues to have long term hedging in place to achieve this objective. During the period ALE undertook a detailed review of its hedging arrangements. The outcome of that review included termination of the existing CPI hedge at the break date and entry into a simpler and lower cost nominal hedge for a term of 10 years.

The interest rate for the new hedge was set at a low 3.83% p.a. being a level not available since 1908 when the long term bond market was first established in Australia. With the new nominal hedge there is no escalated amount payable. Finally, the bank counterparty is unable to exercise any discretionary rights to break the hedge before the end of the 10 year term.

### Business strategies and prospects

ALE has continued to preserve the quality of the existing property portfolio and is now exploring the opportunity to further diversify its funding sources. A materially reduced gearing position provides the opportunity to maintain a stable distribution profile past the full amortisation of the counter hedge benefits.

In future years ALE's objective is to grow distributions from 16.00 cps in the current year by CPI until the next refinancing. This guidance assumes an unchanged portfolio, hedging and capital structure.

As credit markets improve, ALE will take advantage of opportunities to complete debt refinancings at lower ongoing costs, longer tenure, or both. Specifically, in the coming year we will review opportunities to refinance our 2016 debt maturities early if this is valuable for securityholders.

## **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 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**

For the Year ended 30 June 2013

### **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 specialising 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 and founding Director of the Company in June 2003. James has over 19 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). James is also 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 23 years' experience in the funds management industry. He was formerly an associate member of both the Securities Institute of Australia and the Institute of Chartered Accountants in Australia.

Brendan has a property and accounting background and has previously held senior positions with a leading Australian trustee company administering listed and unlisted property trusts.

For over 13 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 the Chair of the Australian Trade Commission Audit and Risk Committee and is an audit committee member of the Australian Office of Financial Management, the Defence Materiel Organisation, the Australian Sports Anti-Doping Authority, the Australian Agency for International Development, the National Mental Health Commission and National ICT Australia. David is a director of Australian Settlements Limited and chairman of its audit 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**

For the Year ended 30 June 2013

**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' 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 2013
P H Warne	Non-executive Director	1,185,000	-	1,185,000
J P Henderson	Non-executive Director	176,365	-	176,365
H I Wright	Non-executive Director	150,000	-	150,000
A F O Wilkinson	Executive Director	168,468	-	168,468
A J Slade	Capital Manager	27,900	-	27,900
M J Clarke	Finance Manager	8,493	628	9,121
D J Shipway	Asset Manager	5,000	(5,000)	-

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

Name	Role	Number held at the start of the year	Granted during the year	Lapsed / Issued during the year	Number held at the end of the year
<b>Performance Rights</b>					
A F O Wilkinson	Executive Director	45,200	-	-	45,200
A J Slade	Capital Manager	20,591	-	(8,801)	11,790
<b>ESSS Rights</b>					
A F O Wilkinson	Executive Director	-	43,136	-	43,136
A J Slade	Capital Manager	34,571	23,611	-	58,182

**DIRECTORS' REPORT**

For the Year ended 30 June 2013

**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 2013 and the number of meetings attended by each director at the time the director held office during the year were:

Director	Board		ACRMC		Nominations and Remuneration Committee	
	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended
P H Warne	12	11	7	7	5	5
J P Henderson	12	11	7	6	5	5
H I Wright	12	12	7	7	5	5
A F O Wilkinson	12	12	n/a	n/a	n/a	n/a
J T McNally	12	12	n/a	n/a	n/a	n/a

**Member of Audit, Compliance and Risk Management Committee**

D J Lawler	n/a	n/a	7	6	n/a	n/a
------------	-----	-----	---	---	-----	-----

<sup>1</sup> "Held" reflects the number of meetings which the director or member was eligible to attend.

## **DIRECTORS REPORT**

For The Year Ended 30 June 2013

### **9 Remuneration Report (Audited)**

This report provides details on ALE's remuneration structure, decisions and outcomes for the year ended 30 June 2013 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:

- attracts, rewards and retains high calibre executives;
- motivates 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 the year ending 30 June 2012 the variable pay is provided through the 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 (performance rights) have been discontinued.

#### **9.2 Remuneration and Nominations Committee**

The Remuneration and Nominations 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 the year ended 30 June 2013, the Committee consisted of the following:

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

Refer page 5 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 8.

The Committee considers advice from a wide range of external advisors in performing its role. During the current financial year ALE retained Herbert Smith Freehills to draft updated executive service agreements 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)

## DIRECTORS REPORT

For The Year Ended 30 June 2013

### 9.3.1 Fixed Annual Remuneration (FAR)

---

<b><i>What is FAR?</i></b>	FAR is the guaranteed salary of the executive and includes superannuation and salary sacrificed components such as motor vehicles, computers and superannuation.
<b><i>How is FAR set?</i></b>	FAR is set by reference to external market data for comparable roles and responsibilities within similar listed and unlisted entities within Australia.
<b><i>When is FAR Reviewed?</i></b>	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)

---

<b><i>What is EIS?</i></b>	<p>EIS is an "at risk" component of an executive remuneration.</p> <p>EIS is used to reward executives for achieving and exceeding annual individual key performance indicators (KPIs).</p> <p>The target EIS opportunity for executives varies according to the role and responsibility of the executive.</p> <p>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.</p>
<b><i>How are EIS targets and objectives chosen?</i></b>	<p>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.</p>
<b><i>How is EIS performance assessed?</i></b>	<p>The Committee is responsible for assessing whether the KPIs have been met. To facilitate this assessment, the Board receives detailed reports on performance from management.</p> <p>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.</p>
<b><i>How are EIS awards delivered?</i></b>	<p>EIS cash payments are made in August each year following the release of ALE's annual results.</p> <p>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.</p>
<b><i>How is the ESSS award calculated?</i></b>	<p>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 the future value of the estimated distributions over the deferral period.</p>

---



## ALE Property Group

### DIRECTORS REPORT

For The Year Ended 30 June 2013

***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 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	\$395,200	\$216,320	\$189,280	\$182,000	\$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 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.

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**9.4 Executive Remuneration outcome for year ended 30 June 2013**

Details of remuneration paid to Directors and Key Management Personnel is detailed in the table on page 16.

**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 2013 ALE achieved a distributable profit of 16.32 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:

- comprehensive review and restructure of ALE's interest rate hedging arrangements resulting in a significantly reduced interest expense and new hedging at rates that are close to 100+ year lows;
- successful capital raising of \$107 million comprising an equity placement, security purchase plan and issuance of ALE Notes 2;
- met distribution, net gearing and other key financial targets; and
- continued to deliver and progress a wide range of other strategic property and capital 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 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.

**ALE Financial Performance History**

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

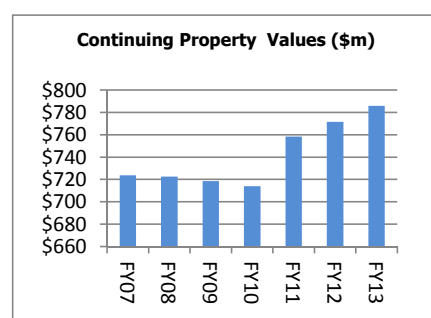
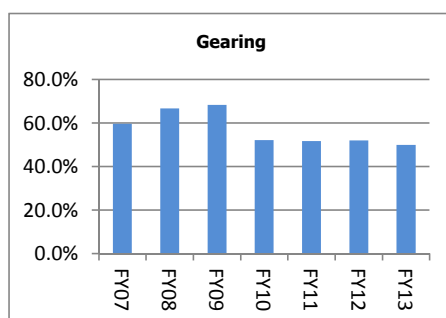
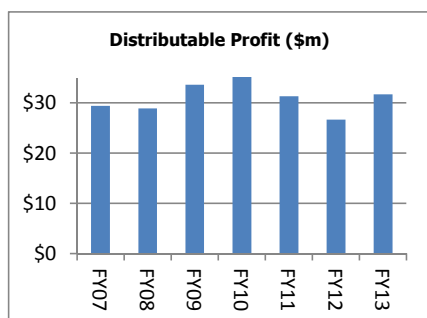
	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
Distributable profit (\$m)	29.4	28.9	33.6	38.1	31.3	26.7	31.7
Distribution per Security (cents)	32.50	33.60	30.00	24.00	19.75	16.00	16.00
Continuing property values (\$m)	723.8	722.7	718.5	713.9	758.3	771.5	786.0
Net gearing <sup>1</sup>	59.6%	66.7%	68.3%	52.1%	51.7%	51.9%	50.9%

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 2 July 2013 totalled \$7.08.

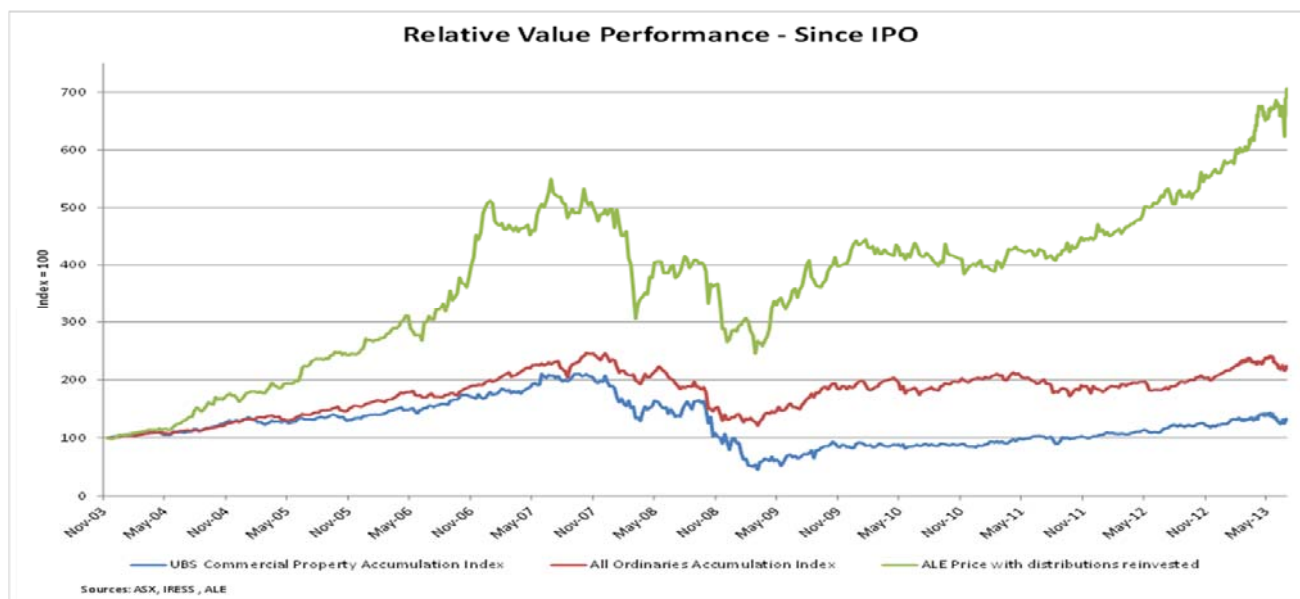
Over the year to 30 June 2013, ALE has outperformed all other A-REITs in the 300 index (which averaged 24% p.a.) with distributions and market price movements to deliver a total return of 33.2% p.a. The All Ordinaries index delivered 21.9% p.a return over the same period.

Growth in the value of the continuing properties since ALE's 2003 IPO has averaged 4.29% p.a.



**DIRECTORS REPORT**

For The Year Ended 30 June 2013



**Accumulated Value for: AREITs \$1.33, All Ords \$2.24, ALE \$7.08<sup>1</sup>**

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

**9.5 Disclosures relating to equity instruments granted as compensation**

**9.5.1 Outstanding equity instruments granted as compensation**

Details of rights over stapled securities that have been granted as compensation and remain outstanding at year end and details of rights that were issued during the financial period are as follows:

Executive	Number of Rights Outstanding	Grant Date	Performance Period Start Date	Fair value of Right at Grant Date (\$)	Performance Period End Date	Delivery Date
<b>Performance Rights</b>						
A J Slade	8,272	1 Jul 09	1 Jul 09	0.91	30 Jun 11	1 Jul 14
A F O Wilkinson <sup>1</sup>	45,200	1 Jul 09	1 Jul 09	1.00	30 Jun 11	1 Jul 13
A J Slade <sup>1</sup>	3,518	1 Jul 09	1 Jul 09	1.11	30 Jun 11	1 Jul 13
<b>ESSS Rights</b>						
A F O Wilkinson	43,136	23 Aug 12	1 Jul 11	1.65	30 Jun 12	31 Jul 15
A J Slade	23,611	23 Aug 12	1 Jul 11	1.65	30 Jun 12	31 Jul 15
A J Slade	34,571	28 Jun 12	1 Jul 10	1.45	30 Jun 11	31 Jul 14

1. During July 2013, 45,200 securities owing to Mr Wilkinson and 3,518 securities owing to Mr Slade were purchased on market to satisfy the delivery of performance rights that had vested on 1 July 2013 following the expiry of the two year delayed delivery period.

**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.

## ALE Property Group

### DIRECTORS REPORT

For The Year Ended 30 June 2013

#### 9.5.3 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 in year \$ (b)	Lapsed in year \$ (c)	Issued in the year \$	Issued in the year (Number)
A F O Wilkinson	-	-	-	-	-
A J Slade	-	-	-	18,922	8,801

(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.

#### 9.5.4 Analysis of movements in ESSS rights

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

Executive	Opening balance	Granted in year	Stapled Securities Issued in the year	Lapsed in the year	Closing balance
<b>By Value (\$)</b>					
A F O Wilkinson	-	71,250	-	-	71,250
A J Slade	50,000	39,000	-	-	89,000
<b>By Number</b>					
A F O Wilkinson	-	43,136	-	-	43,136
A J Slade	34,571	23,611	-	-	58,182

#### 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 2013.

#### 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.

**ALE Property Group**

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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.

	<b>Board</b>		<b>ACRMC</b>		<b>Remuneration Committee</b>	
	<b>Chairman*</b>	<b>Member</b>	<b>Chairman</b>	<b>Member</b>	<b>Chairman</b>	<b>Member</b>
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.

**ALE Property Group**

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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 2013 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 2012 to 30 June 2013**

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2013 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	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	378,888	79,040	-	457,928	16,470	11,310	-	79,040	564,748	28.0%
J T McNally	Executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-
A J Slade	Capital Manager	186,743	43,264	8,737	238,744	16,457	4,353	-	43,264	302,818	28.6%
M J Clarke	Finance Manager	162,926	20,000	8,917	191,843	14,561	3,565	-	20,000	229,969	17.4%
D J Shipway	Asset Manager	164,029	20,000	-	184,029	14,014	3,173	-	20,000	221,216	18.1%
		1,439,466	162,304	17,654	1,619,424	84,622	22,401	-	162,304	1,888,751	

**Table 2 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	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%
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%
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	

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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.

<b>Executive</b>	<b>Number of Stapled Securities Issued</b>
A F O Wilkinson	-
A J Slade	8,801

**12 Insurance of officers**

During the financial year, the Company paid a premium of \$53,163 (2012: \$51,867 ) 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:

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Audit services</b>		
KPMG Australian firm:		
Audit and review of the financial reports of the Group and other audit work required under the <i>Corporations Act 2001</i>		
- in relation to current year	201,000	176,000
- in relation to prior year	-	10,000
<b>Total remuneration for audit services</b>	<b>201,000</b>	<b>186,000</b>

**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 19.

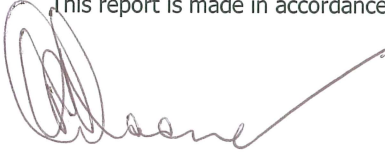
**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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.

A handwritten signature in dark ink, appearing to read 'Peter H Warne', written in a cursive style.

Peter H Warne  
Director  
Sydney

Dated this 30<sup>th</sup> day of July 2013





*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 2013 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  
30 July 2013

ALE Property Group

**STATEMENT OF COMPREHENSIVE INCOME**

For the Year ended 30 June 2013

	Note	2013 \$'000	2012 \$'000
<b>Revenue</b>			
Rent from investment properties	6	53,099	51,878
Interest from cash deposits	7	2,763	3,812
<b>Total revenue</b>		<b>55,862</b>	55,690
<b>Other income</b>			
Fair value increments to investment properties	17	15,105	13,679
Profit on disposal of investment property		490	-
Other income		236	35
<b>Total other income</b>		<b>15,831</b>	13,714
<b>Total revenue and other income</b>		<b>71,693</b>	69,404
<b>Expenses</b>			
Fair value decrements to derivatives	8	25,455	46,780
Finance costs (cash and non-cash)	10	24,029	36,574
Queensland land tax expense		2,252	2,396
Other expenses	9	4,476	3,865
<b>Total expenses</b>		<b>56,212</b>	89,615
<b>Profit/(Loss) before income tax</b>		<b>15,481</b>	(20,211)
Income tax expense/(benefit)	12	572	(3,187)
<b>Profit/(Loss) after income tax</b>		<b>14,909</b>	(17,024)
<b>Profit/(Loss) attributable to stapled securityholders of ALE</b>		<b>14,909</b>	(17,024)
<b>Other comprehensive income</b>		-	-
<b>Other comprehensive income for the period after income tax</b>		-	-
<b>Total comprehensive income for the period</b>		<b>14,909</b>	(17,024)
<b>Profit/(Loss) attributable to:</b>			
Members of ALE		14,909	(17,024)
Non-controlling interest		-	-
<b>Profit/(Loss) for the period</b>		<b>14,909</b>	(17,024)
<b>Total comprehensive income attributable to:</b>			
Members of ALE		14,909	(17,024)
Non-controlling interest		-	-
<b>Total comprehensive income for the period</b>		<b>14,909</b>	(17,024)
		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings per stapled security	14(a)	8.21	(10.70)

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

ALE Property Group

**STATEMENT OF FINANCIAL POSITION**

For the Year ended 30 June 2013

	Note	2013 \$'000	2012 \$'000
<b>Current assets</b>			
Cash and cash equivalents	15	54,652	44,431
Receivables	16	1,377	2,275
Other		226	402
<b>Total current assets</b>		<b>56,255</b>	47,108
<b>Non-current assets</b>			
Investment properties	17	786,000	771,530
Derivatives	11	17,425	23,150
Plant and equipment		42	63
Deferred tax asset	13	5,337	5,909
<b>Total non-current assets</b>		<b>808,804</b>	800,652
<b>Total assets</b>		<b>865,059</b>	847,760
<b>Current liabilities</b>			
Payables	18	4,236	3,912
Borrowings	20	-	35,917
Derivatives	11	356	45,450
Provisions	19	15,640	12,835
<b>Total current liabilities</b>		<b>20,232</b>	98,114
<b>Non-current liabilities</b>			
Borrowings	20	457,659	413,705
Derivatives	11	18,811	23,440
<b>Total non-current liabilities</b>		<b>476,470</b>	437,145
<b>Total liabilities</b>		<b>496,702</b>	535,259
<b>Net assets</b>		<b>368,357</b>	312,501
<b>Equity</b>			
Contributed equity	21	254,080	182,255
Reserve	23	382	207
Retained profits	22	113,895	130,039
<b>Total equity</b>		<b>368,357</b>	312,501
<b>Net assets per stapled security</b>		<b>\$ \$1.90</b>	\$ \$1.95

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

ALE Property Group

**STATEMENT OF CHANGES IN EQUITY**

For the Year Ended 30 June 2013

	Note	Share Capital \$'000	Share based payments reserve \$'000	Retained Earning \$'000	Total \$'000
<b>2013</b>					
<b>Total equity at the beginning of the year</b>		<b>182,255</b>	<b>207</b>	<b>130,039</b>	<b>312,501</b>
Total comprehensive income for the period					
Profit/(Loss) for the year		-	-	14,909	14,909
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>14,909</b>	<b>14,909</b>
<i>Transactions with Members of ALE recognised directly in Equity:</i>					
Employee share based payments expense	23	-	166	-	166
Securities issued - Placement	21	40,000	-	-	40,000
Securities issued - Security Purchase Plan	21	27,024	-	-	27,024
Securities issued - ALE Executive Performance Rights Plan	21	19	9	(28)	-
Securities issued - Distribution Reinvestment Plan	21	6,253	-	-	6,253
Capital raising costs	21	(1,471)	-	-	(1,471)
Distribution paid or payable	14	-	-	(31,025)	(31,025)
<b>Total equity at the end of the year</b>		<b>254,080</b>	<b>382</b>	<b>113,895</b>	<b>368,357</b>
<b>2012</b>					
<b>Total equity at the beginning of the year</b>		<b>178,661</b>	<b>233</b>	<b>172,494</b>	<b>351,388</b>
Total comprehensive income for the period					
Profit/(Loss) for the year		-	-	(17,024)	(17,024)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>(17,024)</b>	<b>(17,024)</b>
<i>Transactions with Members of ALE recognised directly in Equity:</i>					
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)
<b>Total equity at the end of the year</b>		<b>182,255</b>	<b>207</b>	<b>130,039</b>	<b>312,501</b>

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

ALE Property Group

**STATEMENT OF CASH FLOWS**

For the Year Ended 30 June 2013

	Note	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>			
Receipts from tenant and others		58,486	57,982
Payments to suppliers and employees		(10,129)	(11,912)
Interest received - bank deposits		3,271	3,978
Net interest received - interest rate swaps		9,308	5,613
Borrowing costs paid		(26,621)	(30,356)
<b>Net cash inflow from operating activities</b>	15	<b>34,315</b>	<b>25,305</b>
<b>Cash flows from investing activities</b>			
Net proceeds from disposal/resumption of properties		-	7,124
Payments for plant and equipment		-	(16)
<b>Net cash inflow from investing activities</b>		<b>-</b>	<b>7,108</b>
<b>Cash flows from financing activities</b>			
Borrowing costs paid		(908)	(1,205)
Derivative termination payments		(69,453)	-
Proceeds from borrowings		40,000	-
Proceeds from securities issued		67,025	-
Capital raising costs paid		(1,472)	-
Borrowings repaid			
CPI hedge indexation payment		(37,264)	-
ALE Notes		-	(72,320)
Distributions paid (net of DRP securities issued)		(22,022)	(24,635)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(24,094)</b>	<b>(98,160)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10,221</b>	<b>(65,747)</b>
Cash and cash equivalents at the beginning of the year		44,431	110,178
<b>Cash and cash equivalents at the end of the year</b>	15	<b>54,652</b>	<b>44,431</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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 2012 to 30 June 2013.

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.

The consolidated financial statements were authorised for issue by the Board of Directors on 30<sup>th</sup> July 2013.

*(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

## **NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

### **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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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 Statement 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.



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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 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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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.

## **NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

### **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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

---

**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 2013, 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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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.

	<b>2013 Yields</b>	<b>2012 Yields</b>	<b>2013 Average</b>	<b>2012 Average</b>
New South Wales	<b>5.60% - 7.89%</b>	5.63% - 7.68%	<b>6.60%</b>	6.59%
Victoria	<b>5.46% - 7.50%</b>	5.43% - 7.36%	<b>6.68%</b>	6.65%
Queensland	<b>5.15% - 6.91%</b>	5.16% - 7.04%	<b>6.38%</b>	6.40%
South Australia	<b>6.44% - 6.80%</b>	6.38% - 6.74%	<b>6.71%</b>	6.65%
Western Australia	<b>6.58% - 7.34%</b>	6.58% - 7.19%	<b>6.83%</b>	6.75%

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 independent 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.

## **NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

---

### **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.

#### ***Trade and other receivables***

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 constantly 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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

---

**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 rates.

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 existing 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 2013 and 30 June 2012 were 57.2% and 63.1% respectively.

The net gearing ratios (total borrowings less cash as a percentage of total assets less cash and derivatives) at 30 June 2013 and 30 June 2012 were 50.9% and 51.9% respectively.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Note 6 Rent from investment properties</b>		
Rent from continuing properties	53,099	51,878
	<b>53,099</b>	51,878
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%.		
<b>Note 7 Interest income</b>		
Operating bank and term deposit interest	<b>2,763</b>	3,812
As at 30 June 2013 the weighted average interest rate earned on cash was 3.73% (2012: 4.98%)		
<b>Note 8 Current year fair value adjustments to derivatives</b>		
Fair value increments/(decrements) to interest rate swap derivatives	(4,045)	(4,563)
Fair value increments/(decrements) to CPI hedge derivatives	(21,410)	(42,217)
	<b>(25,455)</b>	(46,780)
<b>Note 9 Other expenses</b>		
	<b>Note</b>	
Annual reports	127	113
Audit, accounting, tax and professional fees	273	258
Depreciation expense - plant and equipment	21	27
Insurance	166	143
Legal fees	271	274
Dispute costs/(recoveries)	(a) -	(600)
Occupancy costs	116	111
Corporate and other expenses	713	895
Property revaluations, and condition and compliance audits	240	278
Registry fees	129	125
Salaries, fees and related costs	2,206	2,041
Staff training	16	28
Travel and accommodation	58	34
Trustee and custodian fees	140	138
	<b>4,476</b>	3,865

(a) During the previous 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, represented the reimbursement by ALH of 65% of costs arising from the proceedings.



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

		<b>2013</b>	<b>2012</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Note 10 Finance costs (cash and non-cash)</b>			
	<b>Note</b>		
<b>Finance costs - cash</b>			
Capital Indexed Bonds (CIB)	20(a)	4,642	4,546
Commercial Mortgage Backed Securities (CMBS)	20(b)	8,924	11,028
ALE Notes	20(d)	-	1,283
ALE Notes 2	20(e)	10,931	10,681
Interest rate derivative payments/(receipts)	-	(8,946)	(5,040)
Other finance expenses	(ii)	2,270	356
	(i)	<b>17,821</b>	<b>22,854</b>
<b>Finance costs - non-cash</b>			
Accumulating indexation - CIB	20(a)	2,972	3,780
Accumulating indexation - CPI Hedges	20(c)	1,290	7,883
Amortisation - CIB and CMBS	(iii)	777	738
Amortisation - CPI Hedge	(iii)	57	4
Amortisation - ALE Notes	(iii)	-	494
Amortisation - ALE Notes premium	(iv)	-	71
Amortisation - ALE Notes 2	(iii)	1,112	750
		<b>6,208</b>	<b>13,720</b>
<b>Finance costs (cash and non-cash)</b>		<b>24,029</b>	<b>36,574</b>

- (i) Amounts represent net cash finance costs after derivative payments and receipts.
- (ii) Other borrowing costs such as rating agency fees and liquidity fees. In 2013 hedging restructure costs are also included.
- (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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	2013 \$'000	2012 \$'000
<b>Note 11 Derivatives</b>		
Current assets	-	-
Non current assets	17,425	23,150
<b>Total assets</b>	<b>17,425</b>	<b>23,150</b>
Current liabilities	(356)	(45,450)
Non current liabilities	(18,811)	(23,440)
	(19,167)	(68,890)
<b>Net assets/(liabilities)</b>	<b>(1,742)</b>	<b>(45,740)</b>

**Instruments used by ALE**

ALE uses derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and the consumer price index in accordance with ALE's financial risk management policies. As at balance date, ALE has hedged all non CIB net borrowings through nominal interest rate hedges. During the 2013 year the CPI Hedge was replaced with a nominal interest rate hedge. Interest rate hedges and previous CPI Hedges are carried on the Statement of Financial Position at fair value. Changes in the mark to market fair value of these derivatives are recognised in the Statement of Comprehensive Income.

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

**Note 12 Income tax**

Current tax expense/(benefit)	-	-
Deferred tax expense/(benefit)	572	(3,187)
<b>Income tax expense/(benefit)</b>	<b>572</b>	<b>(3,187)</b>
<b>Deferred income tax expense included in income tax expense/(benefit) comprises:</b>		
Decrease/(increase) in deferred tax asset (Note 13)	572	(3,187)
	572	(3,187)
<b>Reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) before income tax expense	15,481	(20,211)
Profit/(loss) attributable to entities not subject to tax	13,732	(9,489)
Profit/(loss) before income tax expense subject to tax	1,749	(10,722)
Tax at the Australian tax rate of 30% (2012: 30%)	525	(3,217)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	46	32
Other	1	(2)
Under/(over) provision in prior years	-	-
<b>Income tax expense/(benefit)</b>	<b>572</b>	<b>(3,187)</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

		2013 \$'000	2012 \$'000
<b>Note 13 Deferred tax assets</b>			
Deferred tax assets		5,337	5,909
<b>The balance is attributable to:</b>			
Derivatives - interest rate hedges		5,736	6,182
Employee benefits		30	14
Acquisition proposal due diligence costs		2	5
Amortised borrowing costs		(481)	(466)
Accruals		17	60
Other items		(4)	(2)
Tax losses		37	116
<b>Net deferred tax assets</b>		<b>5,337</b>	<b>5,909</b>
<b>Movements:</b>			
Opening balance		5,909	2,722
Credited/(charged) to the income statement (Note 12)		(572)	3,187
Credited/(charged) to equity		-	-
<b>Closing balance</b>		<b>5,337</b>	<b>5,909</b>
Deferred tax assets to be recovered within 12 months		71	145
Deferred tax assets to be recovered after more than 12 months		5,266	5,764
		<b>5,337</b>	<b>5,909</b>
<b>Note 14 Earning and distributions per stapled security</b>			
Reconciliation of profit after tax to amounts available for distribution:	<b>Note</b>		
<b>Profit after income tax for the year</b>	(a)	<b>14,909</b>	(17,024)
Plus /(less)			
Loss/(profit) on sale of investment properties		-	-
Fair value decrements to investment properties	17	(15,105)	(13,679)
Fair value increments/(decrements) to derivatives	8	25,455	46,780
Gain on disposal of property		(490)	
Employee share based payments		166	106
Finance costs - non cash	10	6,208	13,720
Income tax expense/ (benefit)		572	(3,187)
Adjustments for non-cash items		16,806	43,740
Total available for distribution	(b)	31,715	26,716
Distribution paid or provided for	(d)	31,025	25,508
<b>Available and under/(over) distributed for the year</b>	(e)	<b>690</b>	1,208
		<b>Number of Stapled Securities On Issue</b>	<b>Number of Stapled Securities On Issue</b>
Weighted average number of stapled securities used as the denominator in calculating earnings per stapled security at (a) and (b) below		181,563,372	159,099,887
Weighted average number of stapled securities and potential stapled securities used as the denominator in calculating diluted earnings per stapled security		181,563,372	159,099,887
Stapled securities on issue at the end of the year used in calculating total available for distribution per stapled security at (c) below		194,238,078	159,862,513

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	2013 \$'000	2012 \$'000
<b>Note 14 Earning and distributions per stapled security (Continued)</b>		
	<b>2013 cps</b>	<b>2012 cps</b>
(a) Basic and diluted earnings per stapled security	8.21	(10.70)
(b) Basic and diluted earnings per stapled security excluding non cash items (Distributable Profit)	17.47	16.79
(c) Total available for distribution	16.32	16.71
(d) Distribution per stapled security	16.00	16.00
(e) Available and under/(over) distributed for the year	0.32	0.71

cps = cents per security

**Note 15 Cash assets and cash equivalents**

Cash at bank and in hand	1,928	857
Deposits at call	44,334	35,184
Cash reserve	8,390	8,390
	<b>54,652</b>	<b>44,431</b>

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 \$10.15 million (2012: \$30.0 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 facilities.

An amount of \$10.0 million is held in term deposits by Citibank N.A, Sydney Branch as security for interest rate hedges.

During the year ended 30 June 2013 all cash assets were placed on deposit with either the National Australia Bank Limited or Bankwest Limited. As at 30 June 2013, the weighted average interest rate on all cash assets was 3.73% (2012: 4.98%).

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

Profit for the year	14,909	(17,024)
Plus/(less):		
Fair value decrements/(increments) to investment property	(15,105)	(13,679)
Fair value decrements/(increments) to derivatives	25,455	46,780
Finance costs amortisation	1,947	2,057
Loss/(gain) on disposal of investment property	(490)	(35)
Accumulated indexation on CIB	2,972	3,780
Accumulated indexation on CPI Hedges	1,290	7,883
Share based payments expense	166	107
Depreciation	21	27
Decrease/(increase) in receivables	2,023	2,289
Decrease/(increase) in deferred tax asset	572	(3,187)
Decrease/(increase) in other assets	176	(236)
Increase/(decrease) in payables	324	(3,459)
Increase/(decrease) in provisions	55	2
<b>Net cash inflow from operating activities for the year</b>	<b>34,315</b>	<b>25,305</b>

Distribution payments totalling \$6,253,121 (2012: \$3,488,268) were satisfied by the issue of securities under the Distribution Reinvestment Plan.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
<b>Note 16 Receivables</b>		
Accounts receivable	1,253	1,498
Interest receivable	124	777
	<b>1,377</b>	<b>2,275</b>
<b>Note 17 Investment properties</b>		
Investment properties - at fair value	<b>786,000</b>	771,530
<b>Reconciliation</b>		
A reconciliation of the carrying amounts of investment properties at the beginning and end of the year is set out below:		
Carrying amount at beginning of the year	771,530	758,275
Disposals - at fair value	(635)	-
Resumptions - at fair value	-	(424)
Net gain/(loss) from fair value adjustments	15,105	13,679
<b>Carrying amount at the end of the year</b>	<b>786,000</b>	<b>771,530</b>

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 2013, the weighted average investment property capitalisation rate used to determine the value of all investment properties was 6.59% (2012: 6.57%).

**Independent valuations as at 30 June 2013**

In accordance with ALE's policy of independently valuing at least one-third of its property portfolio annually, 30 properties were independently valued as at 30 June 2013. 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 CBRE (VIC and SA) and Urbis Valuations (QLD, NSW and WA).

**Directors' valuations as at 30 June 2013**

30 of ALE's portfolio of 87 properties were independently valued as at 30 June 2013. The remaining 57 properties were subject to Directors' valuations as at 30 June 2013, identified as "B". The Directors' valuations of the 57 properties were determined by taking each property's net rent as at 30 June 2013 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 30 independent valuations completed at 30 June 2013 on a state by state basis. The Directors have received advice from CBRE and Urbis that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a state by state basis.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

<b>Note 17 Investment properties (continued)</b>						
<b>Property</b>	<b>Date acquired</b>	<b>Cost including additions \$'000</b>	<b>Valuation type and date</b>	<b>Fair value at 30 June 2013 \$'000</b>	<b>Fair value at 30 June 2012 \$'000</b>	<b>Fair value gains/ (losses) 30 June 2013 \$'000</b>
<b>New South Wales</b>						
Blacktown Inn, Blacktown	Nov-03	5,472	B	8,720	8,500	220
Brown Jug Hotel, Fairfield Heights	Nov-03	5,660	A	9,230	8,980	250
Colyton Hotel, Colyton	Nov-03	8,208	B	13,100	12,750	350
Crows Nest Hotel, Crows Nest	Nov-03	8,772	B	13,030	12,600	430
Melton Hotel, Auburn	Nov-03	3,114	A	5,430	5,370	60
Narrabeen Sands Hotel, Narrabeen	Mar-09	8,945	A	11,250	10,920	330
New Brighton Hotel, Manly	Nov-03	8,867	B	14,620	14,210	410
Pioneer Tavern, Penrith	Nov-03	5,849	B	9,530	9,270	260
Pritchard's Hotel, Mount Pritchard	Oct-07	21,130	B	18,910	18,880	30
Smithfield Tavern, Smithfield	Nov-03	4,151	A	6,810	6,580	230
<b>Total New South Wales properties</b>		<b>80,168</b>		<b>110,630</b>	108,060	<b>2,570</b>
<b>Queensland</b>						
Albany Creek Tavern, Albany Creek	Nov-03	8,396	A	11,800	11,450	350
Alderley Arms Hotel, Alderley	Nov-03	3,303	B	5,220	5,050	170
Anglers Arms Hotel, Southport	Nov-03	4,434	B	7,570	7,320	250
Balaclava Hotel, Cairns	Nov-03	3,304	B	5,820	5,690	130
Breakfast Creek Hotel, Breakfast Creek	Nov-03	10,659	A	14,240	13,790	450
Burleigh Heads Hotel, Burleigh Heads	Nov-08	6,685	A	11,160	10,990	170
Camp Hill Hotel, Camp Hill	Nov-03	2,265	B	3,420	3,230	190
Chardons Corner Hotel, Annerly	Nov-03	1,416	B	2,110	1,920	190
Dalrymple Hotel, Townsville	Nov-03	3,208	B	5,570	5,450	120
Edge Hill Tavern, Manooora	Nov-03	2,359	B	4,560	4,460	100
Edinburgh Castle Hotel, Kedron	Nov-03	3,114	A	4,790	4,660	130
Four Mile Creek, Strathpine	Jun-04	3,672	B	6,000	5,840	160
Hamilton Hotel, Hamilton	Nov-03	6,604	B	9,300	9,080	220
Holland Park Hotel, Holland Park	Nov-03	3,774	A	6,220	6,110	110
Kedron Park Hotel, Kedron Park	Nov-03	2,265	A	3,260	3,270	(10)
Kirwan Tavern, Townsville	Nov-03	4,434	B	8,480	8,300	180
Lawnton Tavern, Lawnton	Nov-03	4,434	A	6,940	6,750	190
Miami Tavern, Miami	Nov-03	4,057	B	8,480	8,150	330
Mount Gravatt Hotel, Mount Gravatt	Nov-03	3,208	B	4,980	4,770	210
Mount Pleasant Tavern, Mackay	Nov-03	1,794	A	3,280	3,150	130
Noosa Reef Hotel, Noosa Heads	Jun-04	6,874	B	11,780	11,410	370
Nudgee Beach Hotel, Nudgee	Nov-03	3,020	B	4,240	4,050	190
Palm Beach Hotel, Palm Beach	Nov-03	6,886	B	11,080	10,800	280
Pelican Waters, Caloundra	Jun-04	4,237	B	6,560	6,420	140
Prince of Wales Hotel, Nundah	Nov-03	3,397	B	5,730	5,480	250
Racehorse Hotel, Booval	Nov-03	1,794	A	3,050	2,860	190
Redland Bay Hotel, Redland Bay	Nov-03	5,189	B	8,210	8,000	210
Royal Exchange Hotel, Toowong	Nov-03	5,755	B	8,850	8,560	290
Springwood Hotel, Springwood	Nov-03	9,150	B	13,320	13,030	290
Stones Corner Hotel, Stones Corner	Nov-03	5,377	A	8,740	8,710	30
Vale Hotel, Townsville	Nov-03	5,661	A	10,090	9,630	460
Wilsonton Hotel, Toowoomba	Nov-03	4,529	C	7,790	7,580	845
<b>Total Queensland properties</b>		<b>145,254</b>		<b>232,640</b>	225,960	<b>7,315</b>

ALE Property Group

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

<b>Note 17</b>	<b>Investment properties (continued)</b>					<b>Fair value gains/ (losses) 30 June 2013</b>
<b>Property</b>	<b>Date acquired</b>	<b>Cost including additions \$'000</b>	<b>Valuation type and date</b>	<b>Fair value at 30 June 2013 \$'000</b>	<b>Fair value at 30 June 2012 \$'000</b>	<b>30 June 2013 \$'000</b>
<b>South Australia</b>						
Aberfoyle Hub Tavern, Aberfoyle Park	Nov-03	3,303	B	5,510	5,470	40
Eureka Tavern, Salisbury	Nov-03	3,303	B	5,700	5,650	50
Exeter Hotel, Exeter	Nov-03	1,888	A	3,480	3,440	40
Finsbury Hotel, Woodville North	Nov-03	1,605	B	2,940	2,920	20
Gepps Cross Hotel, Blair Athol	Nov-03	2,171	A	4,090	4,070	20
Hendon Hotel, Royal Park	Nov-03	1,605	B	2,990	2,970	20
Stockade Tavern, Salisbury	Nov-03	4,435	B	7,350	7,290	60
<b>Total South Australian properties</b>		<b>18,310</b>		<b>32,060</b>	31,810	<b>250</b>
<b>Victoria</b>						
Ashley Hotel, Braybrook	Nov-03	3,963	A	6,740	6,520	220
Bayswater Hotel, Bayswater	Nov-03	9,905	B	16,400	16,200	200
Berwick Inn, Berwick	Feb-06	15,888	A	17,340	17,810	(470)
Blackburn Hotel, Blackburn	Nov-03	9,433	A	14,070	13,300	770
Blue Bell Hotel, Wendouree	Nov-03	1,982	A	3,920	3,970	(50)
Boundary Hotel, East Bentleigh	Jun-08	17,943	B	19,840	19,600	240
Burvale Hotel, Nunawading	Nov-03	9,717	A	15,440	15,500	(60)
Club Hotel - FTG, Ferntree Gully	Nov-03	5,095	B	9,140	9,030	110
Cramers Hotel, Preston	Nov-03	8,301	B	14,270	14,100	170
Deer Park Hotel, Deer Park	Nov-03	6,981	B	11,400	11,270	130
Doncaster Inn, Doncaster	Nov-03	12,169	B	19,030	18,800	230
Ferntree Gully Hotel/Motel, Ferntree Gully	Nov-03	4,718	B	8,610	8,500	110
Gateway Hotel, Corio	Nov-03	3,114	A	6,060	5,870	190
Keysborough Hotel, Keysborough	Nov-03	9,622	A	13,870	13,530	340
Mac's Melton Hotel, Melton	Nov-03	6,886	B	10,900	10,770	130
Meadow Inn Hotel/Motel, Fawkner	Nov-03	7,689	B	12,830	12,670	160
Mitcham Hotel, Mitcham	Nov-03	8,584	B	13,130	12,970	160
Morwell Hotel, Morwell	Nov-03	1,511	B	3,080	3,050	30
Olinda Creek Hotel, Lilydale	Nov-03	3,963	A	6,370	6,390	(20)
Pier Hotel, Frankston	Nov-03	8,019	A	12,350	11,620	730
Plough Hotel, Mill Park	Nov-03	8,490	A	12,230	12,250	(20)
Prince Mark Hotel, Doveton	Nov-03	9,810	B	15,790	15,600	190
Royal Exchange, Traralgon	Nov-03	2,171	B	4,300	4,250	50
Sandbelt Club Hotel, Moorabbin	Nov-03	10,849	B	16,490	16,300	190
Sandown Park Hotel/Motel, Noble Park	Nov-03	6,321	B	9,690	9,580	110
Sandringham Hotel, Sandringham	Nov-03	4,529	A	8,780	8,500	280
Somerville Hotel, Somerville	Nov-03	2,642	B	4,940	4,880	60
Stamford Inn, Rowville	Nov-03	12,733	A	18,370	18,580	(210)
Sylvania Hotel, Campbellfield	Nov-03	5,377	B	9,640	9,520	120
Tudor Inn, Cheltenham	Nov-03	5,472	B	8,860	8,750	110
The Vale Hotel, Mulgrave	Nov-03	5,566	B	8,960	8,850	110
Victoria Hotel, Shepparton	Nov-03	2,265	B	4,500	4,310	190
Village Green Hotel, Mulgrave	Nov-03	12,546	B	17,300	17,090	210
Young & Jackson, Melbourne	Nov-03	6,132	B	9,760	9,650	110
<b>Total Victorian properties</b>		<b>250,386</b>		<b>384,400</b>	379,580	<b>4,820</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

<b>Note 17 Investment properties (continued)</b>						
<b>Property</b>	<b>Date acquired</b>	<b>Cost including additions \$'000</b>	<b>Valuation type and date</b>	<b>Fair value at 30 June 2013 \$'000</b>	<b>Fair value at 30 June 2012 \$'000</b>	<b>Fair value gains/ (losses) 30 June 2013 \$'000</b>
<b>Western Australia</b>						
Queens Tavern, Highgate	Nov-03	4,812	B	7,700	7,550	150
Sail & Anchor Hotel, Fremantle	Nov-03	3,114	B	4,480	4,390	90
The Brass Monkey Hotel, Northbridge	Nov-07	7,815	B	8,040	8,130	(90)
Balmoral Hotel, East Victoria Park	Jul-07	6,377	B	6,050	6,050	-
<b>Total Western Australian properties</b>		<b>22,118</b>		<b>26,270</b>	26,120	<b>150</b>
<b>Total investment properties</b>		<b>516,236</b>		<b>786,000</b>	771,530	<b>15,105</b>
<b>Reconciliation of fair value gains/losses for year ending 30 June 2013</b>						
Fair value as at beginning of the year				771,530	758,275	
Disposals during the year				(635)	-	
Resumptions during the year				-	(424)	
Additions during year				-	-	
<b>Carrying amount before revaluations</b>				<b>770,895</b>	757,851	
Fair value as at end of the year				786,000	771,530	
<b>Fair value gain/(loss) for year</b>				<b>15,105</b>	13,679	

**Valuation type and date**

- A Independent valuations conducted during June 2013 with a valuation date of 30 June 2013.
- B Directors' valuations conducted during June 2013 with a valuation date of 30 June 2013.
- C Directors' valuations conducted during June 2013 with a valuation date of 30 June 2013. During the period this property was sub divided to create a vacant lot. The vacant lot was then sold.



ALE Property Group

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Note 18 Payables</b>		
Trade creditors	177	161
Interest accrued on CIB	521	504
Interest accrued on CMBS	918	1,022
Interest accrued on interest rate hedges	167	-
Interest accrued on ALE Notes 2	1,285	1,052
Other accruals	1,168	1,173
	<b>4,236</b>	<b>3,912</b>
<b>Note 19 Provisions</b>		
Provision for distribution	15,539	12,789
Provision for employee entitlements	101	46
	<b>15,640</b>	<b>12,835</b>
	<b>Distribution</b>	<b>Employee Entitlements</b>
Balance at the beginning of the year	12,789	46
Provisions made during the year	31,025	114
Provisions used during the year	(28,275)	(59)
Balance at the end of the year	<b>15,539</b>	<b>101</b>

**Distribution**

The provision for distribution relates to distributions paid to stapled securityholders. The balance at 30 June 2013 will be paid to securityholders on 5 September 2013.

**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.

		<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Note 20 Borrowings</b>			
<b><u>Current borrowings</u></b>	<b>Note</b>		
CPI Hedge	(c)	-	35,917
ALE Notes - matured September 2011	(d)	-	-
		<b>-</b>	<b>35,917</b>
<b><u>Non-current borrowings</u></b>			
CIB	(a)	136,860	133,842
CMBS	(b)	157,449	156,718
ALE Notes 2	(e)	163,350	123,145
		<b>457,659</b>	<b>413,705</b>
<b>Capital Indexed Bonds (CIB)</b>			
Opening balance		133,842	130,022
Accumulating indexation		2,972	3,780
Amortisation of establishment costs		46	40
<b>Closing balance</b>		<b>136,860</b>	<b>133,842</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Note 20 Borrowings (continued)</b>		
<b>Commercial Mortgage Backed Securities (CMBS)</b>		
Opening balance	156,718	157,225
Borrowing establishment costs capitalised	-	(1,205)
Amortisation of establishment costs	731	698
<b>Closing balance</b>	<b>157,449</b>	156,718
<b>CPI Hedge - Terminated</b>		
Opening balance	35,917	28,030
Accumulating indexation	1,290	7,883
Amortisation of establishment costs	57	4
Borrowings repaid	(37,264)	-
<b>Closing balance</b>	<b>-</b>	35,917
<b>ALE Notes</b>		
Opening balance	-	71,755
Repayment of borrowings	-	(72,320)
Amortisation of establishment costs	-	494
Premium payable at maturity - accrued	-	71
<b>Closing balance</b>	<b>-</b>	-
<b>ALE Notes 2</b>		
Opening balance	123,145	122,395
Proceeds of borrowings	40,000	-
Borrowing establishment costs capitalised	(907)	-
Amortisation of establishment costs	1,112	750
<b>Closing balance</b>	<b>163,350</b>	123,145

**(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**

On 29 April 2011 \$160 million of replacement CMBS were issued with a scheduled maturity of 20 May 2016.

As required by the CMBS issue on 29 April 2011, ALE put in place \$160 million of interest rate hedge 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. During the period CPI hedging was replaced with new nominal interest rate hedging. Nominal counter hedging, previously implemented to offset the 2011 CMBS hedging remains in place until 2020. ALE's net hedging position fully matches its net floating interest rate exposure.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**Note 20 Borrowings (continued)**

**(c) CPI Hedge**

On 7 December 2007, ALE entered into a 16 year CPI Hedge in respect of the \$245 million of floating rate debt. Under the hedge ALE received floating interest rates plus a margin of 0.2575% and paid a fixed rate of 3.61% on a balance escalating with CPI until November 2023. The CPI Hedge indexation was calculated with reference to the national CPI. The indexation that accumulated was added to the \$245 million notional balance of the CPI Hedge. Following an early termination, the accumulated indexation of \$37.264 million and a payment for the mark-to-market value was paid during the period. During the period ending 30 June 2013 \$0.294 million of net hedge interest from the CPI Hedge was paid (2012: \$1.667 million received/receivable).

**(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 previous 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. During the period an additional \$40 million of notes were issued with the same maturity date. 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 hedges and CPI hedges**

At 30 June 2013, the notional principal amounts and periods of expiry of the interest rate hedge contracts are as follows:

	Nominal Interest Rate Hedges and CPI Hedges		Counter Hedges on Nominal Interest Rate Hedges		Net Derivative Position	
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Less than 1 year *	25,000	-	-	(40,000)	25,000	(40,000)
1 - 2 years	70,000	-	(106,000)	(25,000)	(36,000)	(25,000)
2 - 3 years		171,000		(106,000)	-	65,000
3 - 4 years		-		-	-	-
4 - 5 years		-		-	-	-
Greater than 5 years *	345,000	258,750	(54,000)	(13,750)	291,000	245,000
	440,000	429,750	(160,000)	(184,750)	280,000	245,000

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

The above 2012 notional amounts do not include the accumulated indexation associated with the remaining CPI Hedge.

In addition to the above, ALE has in place a forward start nominal hedge such that the total interest rate hedging within ALE Finance Company Limited remains at \$160 million until 20 November 2018 winding down to Nil by 20 May 2020. This interest rate hedge is countered by hedges with ALE Direct Property Trust.

The 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.

The average weighted term of the interest rate hedges and fixed rate securities in relation to the total borrowings of ALE has decreased from 11.4 years at 30 June 2012 to 9.7 years at 30 June 2013.

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 2013, a decrement in value of \$25.455 million was recognised to the Statement of Comprehensive Income (2012: decrement in value of \$46.780 million).

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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:

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>		
Cash reserve	8,390	8,390
Cash - Sales Proceeds Account	10,150	30,000
Cash - Hedging collateral	10,000	-
<b>Non-current assets</b>		
Total investment properties	786,000	771,530
Less: Properties not subject to mortgages		
Boundary Hotel, East Bentleigh, VIC	-	(19,600)
Pritchard's Hotel, Mt Pritchard, NSW	(18,910)	(18,880)
Properties subject to mortgages	767,090	733,050
<b>Total assets pledged as security</b>	<b>795,630</b>	<b>771,440</b>

During the period the Boundary Hotel was transferred into the security pool and \$19.85 million of cash was withdrawn from the Sale Proceeds Account.

In the unlikely event of a default by the properties' tenant, Australian Leisure and Hospitality Group Pty 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)**

<b>Borrowing</b>	<b>LVR Covenant</b>	<b>Consequence</b>
CIB	Outstanding indexed value of CIB not to exceed 25% of the CMBS property security values	ALE cannot borrow additional CIB if doing so 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 covenant 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

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 hedge collateral covenant, exclude the mark to market value of derivatives

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**Note 20 Borrowings (continued)**

***Interest Cover Ratio covenants (ICR)***

<b>Borrowing</b>	<b>LVR covenant</b>	<b>Consequence</b>
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
ALE Notes 2	No covenant	Nil

*Definitions*

Interest amounts include all derivative rate swap payments and receipts  
 EBITDAR - Earnings before Interest, Tax, Depreciation, Amortisation and Rent

No ICR covenants exist in relation to the various hedging facilities.

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

At all times during the years ended 30 June 2013 and 30 June 2012, ALE and its subsidiaries were in compliance with all the above covenants.

**Hedging Collateral Covenants**

On 6 December 2012, ALE entered into new nominal interest rate hedging arrangements. ALE has granted to the hedge counter party security over cash collateral of \$10.0 million and various counter hedges.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Note 21 Contributed equity</b>		
Balance at the beginning of the period	182,255	178,661
Securities issued - Placement	40,000	-
Securities issued - Security Purchase Plan	27,024	-
Securities issued - ALE Executive Performance Rights Plan	19	17
Securities issued - Distribution Reinvestment Plan	6,253	3,577
Capital raising costs	(1,471)	-
	<b>254,080</b>	182,255
<b>Movements in the number of fully paid stapled securities during the year</b>		
	<b>2013 Number of Stapled Securities</b>	<b>2012 Number of Stapled Securities</b>
Stapled securities on issue:		
Balance at the beginning of the period	159,862,513	157,990,976
Securities issued - Placement	18,779,343	-
Securities issued - Security Purchase Plan	12,686,573	-
Securities issued - ALE Executive Performance Rights Plan	8,801	8,516
Securities issued - Distribution Reinvestment Plan	2,900,848	1,863,021
<b>Balance at the end of the period</b>	<b>194,238,078</b>	159,862,513

**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.

**Institutional placement and security purchase plan**

During the year the ALE Property Group undertook a Placement of stapled securities. These stapled securities were issued at \$2.13 each. In addition a Security Purchase Plan was conducted with the stapled securities issued at \$2.13 each.

**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 4.47% in the Trust as a result of the issue of NIVUS. The NIVUS are disclosed in the Company and the Trust financial reports but are not disclosed in the ALE Property Group financial report as they are eliminated on consolidation.

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Note 22 Retained profits</b>		
Balance at the beginning of the year	130,039	172,494
Profit attributable to stapled securityholders	14,909	(17,024)
Transfer from share based payments reserve	(28)	77
Total available for appropriation	144,920	155,547
Distributions provided for or paid during the year	(31,025)	(25,508)
<b>Balance at the end of the year</b>	<b>113,895</b>	130,039

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Note 23 Share Based Payments Reserve</b>		
Balance at the beginning of the year	207	233
Employee share based payments	166	157
Transfer to/(from) Retained Profits on lapsing of Performance Rights	28	(77)
Issue of stapled securities	(19)	(106)
	<b>382</b>	<b>207</b>

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 Performance Rights Plan was discontinued in 2012 and replaced with an Executive Stapled Securities Scheme. The following table lists the vested performance rights that remain outstanding at the end of the year.

Performance Rights (PR) Plan

The terms and conditions of outstanding grants are as follows:

Employee	Grant date	Number of PR	Vesting conditions	Contractual life of PRs
Mr A F O Wilkinson	1 Jul 2009	45,200	1. Service period 2. Absolute Total Shareholder Return (TSR) 3. Total TSR compared to comparative group	1 Jun 2011
Mr A J Slade	1 Jul 2009	11,790	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:

	<b>Number of performance rights 2013</b>	<b>Weighted average fair value 2013</b>	<b>Number of performance rights 2012</b>	<b>Weighted average fair value 2012</b>
Outstanding at 1 July	65,791	1.05	221,270	1.11
Granted during period	-	-	-	-
Issued during year	(8,801)	1.27	(8,272)	1.13
Lapsed during year	-	-	(147,207)	1.00
Outstanding at 30 June	56,990	1.05	65,791	1.05

During the year 8,801 stapled securities were issued to Mr Slade upon to expiry of the two year delayed delivery period applicable to the vested rights.

During July 2013 45,200 securities owing to Mr Wilkinson and 3,518 securities owing to Mr Slade were purchased on market to satisfy the delivery of performance rights that had vested on 1 July 2013 following the expiry of the two year delayed delivery period.

Executive Stapled Securities Scheme

For the year ended 30 June 2012 Andrew Wilkinson was awarded 43,136 of ESSS Rights and Andrew Slade was awarded 23,611 of ESSS Rights. The number of Stapled Securities awarded was determined by dividing the value of the 2012 grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's 2012 full year statutory financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**2013**  
**\$'000**

**2012**  
**\$'000**

**Note 24 Share based payments (continued)**

For the year ended 30 June 2013 the following ESSS Rights were granted to executives under the ESSS. The number of Stapled Securities awarded 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 for the year. The number of securities granted for the current year grants will be determined on 8 August 2013.

	<b>2013</b> <b>\$</b>	<b>2012</b> <b>\$</b>
Mr A F O Wilkinson	79,040	71,250
Mr A J Slade	43,264	89,000
Mr M J Clarke	20,000	-
Mr D J Shipway	20,000	-

The numbers of ESSS Rights outstanding at the end of the financial year is as follows:

	<b>Number ESSS rights 2013</b>	<b>Weighted average fair value 2013</b>	<b>Number of ESSS rights 2012</b>	<b>Weighted average fair value 2012</b>
Outstanding at beginning of the year	34,571	1.45	-	-
Granted during year	66,747	1.65	34,571	1.45
Vested during year	-	-	-	-
Lapsed during year	-	-	-	-
<b>Outstanding at the end of the year</b>	<b>101,318</b>	<b>1.58</b>	<b>34,571</b>	<b>1.45</b>

**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:

<b>Name</b>	<b>Type</b>	<b>Appointed</b>
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:

<b>Name</b>	<b>Title</b>
A J Slade	Capital Manager
M J Clarke	Finance Manager and Assistant Company Secretary
D J Shipway	Asset Manager
B R Howell	Company Secretary and Compliance Officer

**(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.

	<b>2013</b> <b>\$</b>	<b>2012</b> <b>\$</b>
Short term employee benefits	1,619,424	1,552,715
Post employment benefits	84,622	84,946
Other long term benefits	22,401	12,218
Share based payments	162,304	160,250
Termination benefits	-	-
	<b>1,888,751</b>	<b>1,810,129</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Note 26 Remuneration of Auditors</b>		
<b>Audit services</b>		
<i>KPMG Australian firm:</i>		
Audit and review of the financial reports of the Group and other audit work under the <i>Corporations Act 2001</i>		
- in relation to current year	201,000	176,000
- in relation to prior year	-	10,000
<b>Total remuneration for audit services</b>	<b>201,000</b>	<b>186,000</b>

**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 2013, the Company received \$4,056,771 of expense reimbursement from the Trust (2012: \$3,769,698), and the Finance Company charged the Sub Trust \$21,112,469 in interest (2012: \$27,210,213).

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:

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	115	112
Later than one year but not later than five years	39	154
Later than five years	-	-
	<b>154</b>	<b>266</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

### **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 is 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 turn 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 (2012: 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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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.

<i>Exposure to credit risk</i>			
	Note	2013 \$'000	2012 \$'000
Receivables	16	1,377	2,275
Derivatives	11	17,425	23,150
Cash and cash equivalents	15	54,652	44,431
		<b>73,454</b>	69,856

*Impairment losses*

The ageing of trade receivables at balance date was:

	2013 Gross		2012 Gross	
	Receivable \$'000	Impairment \$'000	Receivable \$'000	Impairment \$'000
Not past due	1,363	-	808	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	14	-	33	-
Past due 121-365 days	-	-	-	-
More than one year	-	-	1,434	-
	<b>1,377</b>	-	2,275	-

Based on historic default rates, ALE believes that no impairment allowances are necessary in respect of trade receivables as at 30 June 2013, 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 2013	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
<b>Non-derivative financial liabilities</b>							
Trade and other payables	4,236	(4,236)	(4,236)				
CIB	136,860	(250,526)	(2,358)	(2,395)	(4,900)	(15,592)	(225,281)
CMBS	157,449	(183,612)	(4,118)	(4,051)	(8,169)	(167,274)	-
ALE Notes 2 <sup>1</sup>	163,350	(177,732)	(5,631)	(5,539)	(166,562)	-	-
<b>Derivative financial instruments</b>							
Interest rate hedges	1,742	8,631	3,540	4,318	7,465	(13,573)	6,881
	<b>463,637</b>	<b>(607,475)</b>	<b>(12,803)</b>	<b>(7,667)</b>	<b>(172,166)</b>	<b>(196,439)</b>	<b>(218,400)</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**Note 33 Financial instruments (continued)**

<b>30 June 2012</b>	<b>Carrying amount \$'000</b>	<b>Contractual cash flows \$'000</b>	<b>6 months or less \$'000</b>	<b>6-12 months \$'000</b>	<b>1-2 years \$'000</b>	<b>2-5 years \$'000</b>	<b>More than five years \$'000</b>
<b>Non-derivative financial liabilities</b>							
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 <sup>1</sup>	123,145	(146,086)	(4,699)	(4,649)	(9,375)	(127,363)	-
<b>Derivative financial instruments</b>							
Interest rate hedges	45,740	1,874	1,067	643	738	(216)	(358)
CPI Hedges <sup>2</sup>	35,917	(177,937)	(469)	(583)	(1,327)	(5,843)	(169,715)
	<b>499,274</b>	<b>(773,284)</b>	<b>(14,988)</b>	<b>(11,545)</b>	<b>(24,061)</b>	<b>(327,277)</b>	<b>(395,413)</b>

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 (hedges) 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:

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Derivative financial assets	17,425	23,150
Derivative financial liabilities	(19,167)	(23,440)
Borrowings		
CIB	(136,860)	(133,842)
CMBS	(157,449)	(156,718)
CPI Hedge	-	(35,917)
ALE Notes 2	(163,350)	(123,145)
	<b>(459,401)</b>	<b>(449,912)</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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 2012.

	Statement of Comprehensive Income		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2013</b>				
Interest rate hedges	16,912	(18,752)	16,912	(18,752)
CIB	-	-	-	-
CMBS	-	-	-	-
ALE Notes 2	-	-	-	-
	<b>16,912</b>	<b>(18,752)</b>	<b>16,912</b>	<b>(18,752)</b>
<b>30 June 2012</b>				
Interest rate hedges	396	(436)	396	(436)
CPI Hedge	26,700	(29,800)	26,700	(29,800)
CIB	-	-	-	-
CMBS	-	-	-	-
ALE Notes 2	-	-	-	-
	<b>27,096</b>	<b>(30,236)</b>	<b>27,096</b>	<b>(30,236)</b>

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

**(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. At 30 June 2012 ALE's CPI Hedge liabilities were also impacted by movements in the CPI.

*Profile*

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

	2013 \$'000	2012 \$'000
<b>Financial instruments</b>		
Investment properties	786,000	771,530
CIB	(136,860)	(133,842)
CPI Hedge - fair value of derivative	-	(45,450)
CPI Hedge - accumulating indexation	-	(35,917)
	<b>649,140</b>	<b>556,321</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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 2012.

	Statement of Comprehensive Income		Equity	
	100 bps increase \$'000	100 bps decrease \$'000	100 bps increase \$'000	100 bps decrease \$'000
<b>30 June 2013</b>				
Investment properties	7,724	(8,505)	7,724	(8,505)
CIB	-	-	-	-
	<b>7,724</b>	<b>(8,505)</b>	<b>7,724</b>	<b>(8,505)</b>
<b>30 June 2012</b>				
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	-	-	-	-
	<b>(21,744)</b>	<b>17,481</b>	<b>(21,744)</b>	<b>17,481</b>

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:

	2013		2012	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	54,652	54,652	44,431	44,431
Receivables	1,377	1,377	2,275	2,275
Derivatives	(1,742)	(1,742)	(45,740)	(45,740)
Other assets	226	226	402	402
Trade and other payables	(4,236)	(4,236)	(3,912)	(3,912)
CIB	(136,860)	(136,296)	(133,842)	(128,251)
CMBS	(157,449)	(162,236)	(156,718)	(160,975)
ALE Notes 2	(163,350)	(167,872)	(123,145)	(125,626)
	<b>(407,382)</b>	<b>(416,127)</b>	<b>(416,249)</b>	<b>(417,396)</b>

*Basis for determining fair values*

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**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).

	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<b>30 June 2013</b>				
Derivative financial assets	-	17,425	-	17,425
Derivative financial liabilities	-	(19,167)	-	(19,167)
Net derivative assets/(liabilities)	-	(1,742)	-	(1,742)
<b>30 June 2012</b>				
Derivative financial assets	-	23,150	-	23,150
Derivative financial liabilities	-	(68,890)	-	(68,890)
Net derivative assets/(liabilities)	-	(45,740)	-	(45,740)

ALE Property Group

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2013

**Note 34 Parent Entity Disclosures**

As at, and throughout, the financial year ending 30 June 2013 the parent entity of ALE was Australian Leisure and Entertainment Property Trust.

	2013 \$'000	2012 \$'000
<u>Result of the parent entity</u>		
Profit for the period	23,982	26,715
Other comprehensive income	-	-
<b>Total comprehensive income for the period</b>	<b>23,982</b>	<b>26,715</b>
<u>Financial position of the parent entity</u>		
Current assets		
Cash	29	129
Receivables	124,242	18,542
Other	-	-
Non current assets		
Investments in controlled entities	275,656	275,656
<b>Total assets</b>	<b>399,927</b>	<b>294,327</b>
Current liabilities		
Payables	1,331	1,098
Provisions	15,539	12,789
Non current liabilities		
Borrowings	163,351	123,145
<b>Total liabilities</b>	<b>180,221</b>	<b>137,032</b>
<b>Net assets</b>	<b>219,706</b>	<b>157,295</b>
Total equity of the parent entity comprising of:		
Issued units	248,553	179,099
Retained earnings	(28,847)	(21,804)
<b>Total equity</b>	<b>219,706</b>	<b>157,295</b>



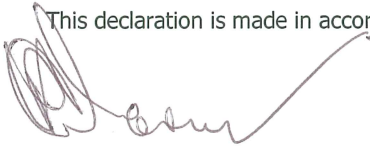
**DIRECTORS' DECLARATION**

For the Year Ended 30 June 2013

In the opinion of the directors of the Company:

- (a) the financial statements and notes that are set out on pages 20 to 58 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 2013 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 2013.
- (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 30<sup>th</sup> day of July 2013



## **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 statements of financial position as at 30 June 2013, and statements of comprehensive income, statements of changes in equity and statements 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 the 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 financial position and of their 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 2013 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b) the financial report of the Group 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 of the directors' report for the year ended 30 June 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG



Nigel Virgo  
Partner  
Sydney  
30 July 2013





**YOUNG & JACKSON HOTEL**  
Melbourne, CBD

Located opposite Melbourne's Flinders Street Station, Federation Square and St Paul's Cathedral, the Young & Jackson Hotel has been operating for more than 150 years on one of Melbourne's most prominent CBD intersections.

# Australian Leisure and Entertainment Property Management Limited

ABN 45 105 275 278

- 64 -  
Directors Report

- 80 -  
Statement of changes in Equity

- 82 -  
Notes to the  
Financial Statements

- 77 -  
Auditor's  
Independence  
Declaration

- 78 -  
Financial  
Statements

- 78 -  
Statement of  
Comprehensive  
Income

- 79 -  
Statement of  
Financial  
Position



- 98 -  
Director's  
Declaration

- 99 -  
Independent  
Auditor's Report  
to Stapled  
Securityholders

- 81 -  
Statement of  
Cash Flows

- 101 -  
Corporate  
Governance  
Statement

- ibc -  
Investor Information  
and  
Corporate Directory

**Australian Leisure and Entertainment Property Management Limited**

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

The Directors of Australian Leisure and Entertainment Property Management Limited (the "Company") present their report for the year ended 30 June 2013.

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 (2012: nil).

**4 Review of operations**

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

	30 June 2013 \$	30 June 2012 \$
<b>Revenue</b>		
Expense reimbursement	4,056,771	3,769,798
Interest income	76,873	24,495
<b>Total revenue</b>	<b>4,133,644</b>	<b>3,794,293</b>
<b>Expenses</b>		
Salaries, fees and related costs	2,176,071	2,010,899
Other expenses	1,880,700	1,758,898
<b>Total expenses</b>	<b>4,056,771</b>	<b>3,769,797</b>
<b>Profit/(loss) before income tax</b>	<b>76,873</b>	<b>24,496</b>
Income tax expense	69,187	39,297
<b>Profit/(loss) attributable to the shareholders of the Company</b>	<b>7,686</b>	<b>(14,801)</b>
	<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings per share	0.00	(0.01)
Dividend per share for the year	-	-
Net assets per share	7.32	7.32

**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

For The Year Ended 30 June 2013

### **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 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.

#### **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 specialising 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**

For The Year Ended 30 June 2013

### **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 and founding Director of the Company in June 2003. James has over 19 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). James is also a registered valuer and licensed real estate agent.

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

#### ***Experience and expertise***

Brendan was appointed to the position of Company Secretary in April 2007, having previously held the position from September 2003 to September 2006. Brendan has a Bachelor of Economics from the University of Sydney and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia, and over 23 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 13 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 the Chair of the Australian Trade Commission Audit and Risk Committee and is an audit committee member of the Australian Office of Financial Management, the Defence Materiel Organisation, the Australian Sports Anti-Doping Authority, the Australian Agency for International Development, the National Mental Health Commission and National ICT Australia. David is a director of Australian Settlements Limited and chairman of its audit 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**

For The Year Ended 30 June 2013

**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 2013
P H Warne	Non-Executive Director	1,185,000	-	1,185,000
J P Henderson	Non-Executive Director	176,365	-	176,365
H I Wright	Non-Executive Director	150,000	-	150,000
A F O Wilkinson	Executive Director	168,468	-	168,468
A J Slade	Capital Manager	27,900	-	27,900
M J Clarke	Finance Manager	8,493	628	9,121
D J Shipway	Asset Manager	5,000	(5,000)	-

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

Name	Role	Number held at the start of the year	Granted during the year	Lapsed/ Issued during the year	Number held at the end of the year
<b>Performance Rights</b>					
A F O Wilkinson	Executive Director	45,200	-	-	45,200
A J Slade	Capital Manager	20,591	-	(8,801)	11,790
<b>ESSS Rights</b>					
A F O Wilkinson	Executive Director	-	43,136	-	43,136
A J Slade	Capital Manager	34,571	23,611	-	58,182

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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 2013 and the number of meetings attended by each Director at the time the Director held office during the year were:

Director	Board Meetings		Audit, Compliance and Risk Management Committee meetings		Remuneration Committee meetings	
	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended
P H Warne	12	11	7	7	5	5
J P Henderson	12	11	7	6	5	5
H I Wright	12	12	7	7	5	5
A F O Wilkinson	12	12	n/a	n/a	n/a	n/a
J T McNally	12	12	n/a	n/a	n/a	n/a
<b>Member of Audit, Compliance and Risk Management Committee</b>						
D J Lawler	n/a	n/a	7	6	n/a	n/a

<sup>1</sup> "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 2013 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:

- attracts, rewards and retains high calibre executives;
- motivates 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 the year ending 30 June 2012 the variable pay is provided through the 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 (performance rights) have been discontinued.

**9.2 Remuneration and Nominations Committee**

The Remuneration and Nominations 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

For The Year Ended 30 June 2013

The Committee operates independently of ALE senior management in its recommendations to the Board and engages remuneration consultants independently of ALE management. During the year ended 30 June 2013, the Committee consisted of the following:

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

Refer page 65 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 68.

The Remuneration Committee considers advice from a wide range of external advisors in performing its role. During the current financial year ALE retained Freehills to draft updated executive service agreements 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)

#### 9.3.1 Fixed Annual Remuneration (FAR)

<b><i>What is FAR?</i></b>	FAR is the guaranteed salary of the executive and includes superannuation and salary sacrificed components such as motor vehicles, computers and superannuation.
<b><i>How is FAR set?</i></b>	FAR is set by reference to external market data for comparable roles and responsibilities within similar listed and unlisted entities within Australia.
<b><i>When is FAR Reviewed?</i></b>	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)

<b><i>What is EIS?</i></b>	<p>EIS is an "at risk" component of an executive remuneration.</p> <p>EIS is used to reward executives for achieving and exceeding annual individual key performance indicators (KPIs).</p> <p>The target EIS opportunity for executives varies according to the role and responsibility of the executive.</p> <p>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.</p>
<b><i>How are EIS targets and objectives chosen?</i></b>	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.
<b><i>How is EIS performance assessed?</i></b>	<p>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.</p> <p>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.</p>

## DIRECTORS REPORT

For The Year Ended 30 June 2013

**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 the future value of the 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 Committee if before the delivery period:

- the 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 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	\$395,200	\$216,320	\$189,280	\$182,000	\$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 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.

## DIRECTORS REPORT

For The Year Ended 30 June 2013

### 9.4 Executive Remuneration outcome for year ended 30 June 2013

Details of remuneration paid to Directors and Key Management Personnel is detailed in the table on page 75.

#### 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 2013 ALE achieved a distributable profit of 16.32 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:

- comprehensive review and restructure of ALE's interest rate hedging arrangements resulting in a significantly reduced interest expense and new hedging at rates that are close to 100+ year lows;
- successful capital raising of \$107 million comprising an equity placement, security purchase plan and issuance of ALE Notes 2;
- met distribution, net gearing and other key financial targets; and
- continued to deliver and progress a wide range of other strategic property and capital 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 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.

#### ALE Financial Performance History

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

	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Distributable profit (\$m)	29.4	28.9	33.6	38.1	31.3	26.7	31.7
Distribution per Security (cents)	32.50	33.60	30.00	24.00	19.75	16.00	16.00
Continuing property values (\$m)	723.8	722.7	718.5	713.9	758.3	771.5	786.0
Net gearing <sup>1</sup>	59.6%	66.7%	68.3%	52.1%	51.7%	51.9%	50.9%

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

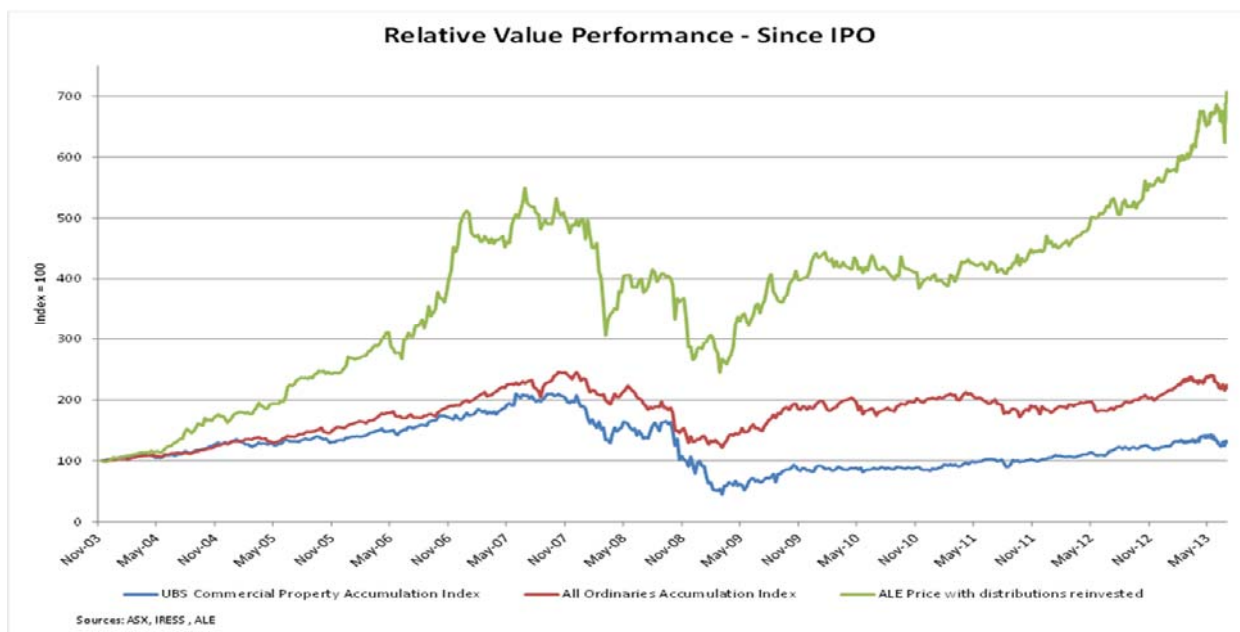
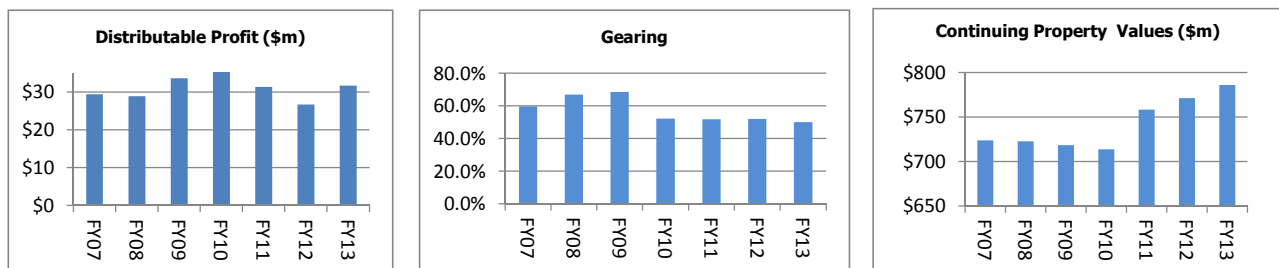
The accumulated value of \$1.00 initial public offering (IPO) investment in ALE and reinvested distributions, rights renunciation payments and current market value of securities as at 2 July 2013 totalled \$7.08.

Over the year to 30 June 2013, ALE has outperformed all other A-REITs in the 300 index (which averaged 24% p.a.) with distributions and market price movements to deliver a total return of 33.2% p.a. The All Ordinaries index delivered 21.9% p.a return over the same period.

Growth in the value of the continuing properties since ALE's 2003 IPO has averaged 4.29% p.a.

**DIRECTORS REPORT**

For The Year Ended 30 June 2013



**Accumulated Value for: AREITs \$1.33, All Ords \$2.24, ALE \$7.08<sup>1</sup>**

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

**9.5 Disclosures relating to equity instruments granted as compensation**

**9.5.1 Outstanding equity instruments granted as compensation**

Details of rights over stapled securities that have been granted as compensation and remain outstanding at year end and details of rights that were issued during the financial period are as follows:

Executive	Number of Rights Outstanding	Grant Date	Performance Period Start Date	Fair value of Right at Grant Date (\$)	Performance Period End Date	Delivery Date
<b>Performance Rights</b>						
A J Slade	8,272	1 Jul 09	1 Jul 09	0.91	1 Jul 11	1 Jul 14
A F O Wilkinson	45,200	1 Jul 09	1 Jul 09	1.00	1 Jul 11	1 Jul 13
A J Slade	3,518	1 Jul 09	1 Jul 09	1.11	1 Jul 11	1 Jul 13
<b>ESSS Rights</b>						
A F O Wilkinson	43,136	23 Aug 12	1 Jul 11	1.65	30 Jun 12	31 Jul 15
A J Slade	23,611	23 Aug 12	1 Jul 11	1.65	30 Jun 12	31 Jul 15
A J Slade	34,571	28 Jun 12	1 Jul 10	1.45	30 Jun 11	31 Jul 14

**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.

## DIRECTORS REPORT

For The Year Ended 30 June 2013

### 9.5.3 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 in year \$ (b)	Lapsed in year \$ (c)	Issued in the year \$	Issued in the year (Number)
A F O Wilkinson	-	-	-	-	-
A J Slade	-	-	-	18,922	8,801

(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.

### 9.5.4 Analysis of movements in ESSS rights

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

Executive	Opening balance	Granted in year	Stapled Securities Issued in the year	Lapsed in the year	Closing balance
<b>By Value (\$)</b>					
A F O Wilkinson	-	71,250	-	-	71,250
A J Slade	50,000	39,000	-	-	89,000
<b>By Number</b>					
A F O Wilkinson	-	43,136	-	-	43,136
A J Slade	34,571	23,611	-	-	58,182

### 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 2013.

### 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**

For The Year Ended 30 June 2013

**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.



**Australian Leisure and Entertainment Property Management Limited**

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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 2013 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 2012 to 30 June 2013**

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2013 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	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	378,888	79,040	-	457,928	16,470	11,310	79,040	564,748	28.0%	14.0%
J T McNally	Executive Director	100,000	-	-	100,000	-	-	-	100,000	-	-
A J Slade	Capital Manager	186,743	43,264	8,737	238,744	16,457	4,353	43,264	302,818	28.6%	14.3%
M J Clarke	Finance Manager	162,926	20,000	8,917	191,843	14,561	3,565	20,000	229,969	17.4%	8.7%
D J Shipway	Asset Manager	164,029	20,000	-	184,029	14,014	3,173	20,000	221,216	18.1%	9.0%
		1,439,466	162,304	17,654	1,619,424	84,622	22,401	162,304	1,888,751		

**Table 2 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	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		

**DIRECTORS REPORT**

For The Year Ended 30 June 2013

**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	-
A J Slade	8,801

**12 Insurance of officers**

During the financial year, the Company paid a premium of \$53,163 (2012: \$51,867) 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.

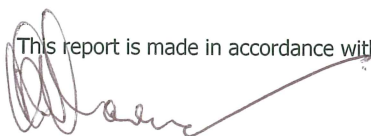
Details of amounts paid or payable to the auditor (KPMG) for audit services provided during the year are set out below:

	30 June 2013	30 June 2012
	\$	\$
<b>Audit services</b>		
<i>KPMG Australian firm:</i>		
Audit and review of the financial reports of the ALE Property Group and other audit work required under the <i>Corporations Act 2001</i>		
• in relation to current year	201,000	176,000
• in relation to prior year	-	10,000
<b>Total remuneration for audit services</b>	<b>201,000</b>	<b>186,000</b>

**15 Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 77.

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



Peter H Warne  
Director  
Sydney

Dated this 30<sup>th</sup> day of July 2013



*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 2013 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  
30 July 2013

Australian Leisure and Entertainment Property Management Limited

**STATEMENT OF COMPREHENSIVE INCOME**

For The Year Ended 30 June 2013

	Note	30 June 2013 \$	30 June 2012 \$
<b>Revenue</b>			
Expense reimbursement	5	4,056,771	3,769,798
Interest income		76,873	24,495
<b>Total revenue</b>		<b>4,133,644</b>	<b>3,794,293</b>
Annual Report and Annual Review		127,117	113,182
Audit, accounting, tax and professional fees		264,001	247,728
Depreciation expense and asset write-offs		20,883	27,095
Insurance		165,765	143,075
Legal fees		270,837	296,989
Occupancy costs		116,030	110,856
Corporate and other expenses		713,196	633,291
Registry fees		128,643	125,071
Salaries, fees and related costs		2,176,071	2,010,899
Staff training		15,998	27,535
Travel and accommodation		58,230	34,076
<b>Total expenses</b>		<b>4,056,771</b>	<b>3,769,797</b>
<b>Profit/(loss) before income tax</b>		<b>76,873</b>	<b>24,496</b>
Income tax expense	7	69,187	39,297
		<b>7,686</b>	<b>(14,801)</b>
<b>Profit/(loss) attributable to the shareholders of the Company</b>		<b>7,686</b>	<b>(14,801)</b>
<b>Other comprehensive income</b>		-	-
<b>Other comprehensive income for the period after income tax</b>		-	-
<b>Total comprehensive income for the period</b>		<b>7,686</b>	<b>(14,801)</b>
<b>Profit/(Loss) attributable to:</b>			
Equity holders of the Company		7,686	(14,801)
Minority interest		-	-
<b>Total profit/(loss) for the period</b>		<b>7,686</b>	<b>(14,801)</b>
<b>Comprehensive income attributable to:</b>			
Equity holders of the Company		7,686	(14,801)
Minority interest		-	-
<b>Total comprehensive income for the period</b>		<b>7,686</b>	<b>(14,801)</b>
		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings/(loss) per share		0.00	(0.01)
Dividends paid and payable per share		-	-

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

Australian Leisure and Entertainment Property Management Limited

**STATEMENT OF FINANCIAL POSITION**

For The Year Ended 30 June 2013

	Note	30 June 2013 \$	30 June 2012 \$
<b>Current assets</b>			
Cash and cash equivalents	8	2,454,678	408,306
Receivables	9	2,960,586	2,393,529
Prepayments and other assets		199,658	217,794
<b>Total current assets</b>		<b>5,614,922</b>	<b>3,019,629</b>
<b>Non-current assets</b>			
Plant and equipment		41,679	62,564
Investment in related party	10	9,080,010	9,080,010
Deferred tax asset	11	54,403	123,590
<b>Total non-current assets</b>		<b>9,176,092</b>	<b>9,266,164</b>
<b>Total assets</b>		<b>14,791,014</b>	<b>12,285,793</b>
<b>Current liabilities</b>			
Payables	12	467,277	541,649
Provisions	13	101,065	46,473
<b>Total current liabilities</b>		<b>568,342</b>	<b>588,122</b>
<b>Total liabilities</b>		<b>568,342</b>	<b>588,122</b>
<b>Net assets</b>		<b>14,222,672</b>	<b>11,697,671</b>
<b>Equity</b>			
Contributed equity	14	14,606,975	12,236,792
Accumulated losses	15	(766,975)	(745,621)
Reserves	16	382,672	206,500
<b>Total equity</b>		<b>14,222,672</b>	<b>11,697,671</b>
		<b>Cents</b>	<b>Cents</b>
Net assets per share		<b>7.32</b>	<b>7.32</b>

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

Australian Leisure and Entertainment Property Management Limited

**STATEMENT OF CHANGES IN EQUITY**

For The Year Ended 30 June 2013

	Share Capital \$	Share based payments reserve \$	Retained Earnings \$	Total \$
<b>2013</b>				
<b>Total equity at the beginning of the year</b>	<b>12,236,792</b>	<b>206,500</b>	<b>(745,621)</b>	<b>11,697,671</b>
Total comprehensive income for the period				
Profit/(loss) for the year	-	-	7,686	7,686
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	7,686	7,686
<i>Transactions with Members of ALE recognised directly in Equity:</i>				
Issue of units in ALE Property Trust under ALE Property Group				
Executive Performance Rights Plan	624	10,118	(29,040)	(18,298)
Shares issued - dividend reinvestment plan	206,354	-	-	206,354
Shares issued - placement	1,271,413	-	-	1,271,413
Shares issued - share purchase plan	891,792	-	-	891,792
Employee share based payments expense	-	166,054	-	166,054
<b>Total equity at the end of the year</b>	<b>14,606,975</b>	<b>382,672</b>	<b>(766,975)</b>	<b>14,222,672</b>
<b>2012</b>				
<b>Total equity at the beginning of the year</b>	<b>12,118,181</b>	<b>233,333</b>	<b>(808,008)</b>	<b>11,543,506</b>
Total comprehensive income for the period				
Profit/(loss) for the year	-	-	(14,801)	(14,801)
Other comprehensive income	-	-	-	-
	-	-	(14,801)	(14,801)
<i>Transactions with Members of ALE recognised directly in Equity:</i>				
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
<b>Total equity at the end of the year</b>	<b>12,236,792</b>	<b>206,500</b>	<b>(745,621)</b>	<b>11,697,671</b>

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

Australian Leisure and Entertainment Property Management Limited

**STATEMENT OF CHANGES IN CASH FLOWS**

For The Year Ended 30 June 2013

	Note	30 June 2013 \$	30 June 2012 \$
<b>Cash flows from operating activities</b>			
Management fee received and expense reimbursements		5,442,718	6,938,739
Payments to suppliers and employees		(5,630,476)	(6,838,043)
Interest received - bank deposits and investment arrangements		70,925	28,128
<b>Net cash inflow/(outflow) from operating activities</b>	8	<b>(116,833)</b>	<b>128,824</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		-	(15,749)
<b>Net cash (outflow) from investing activities</b>		<b>-</b>	<b>(15,749)</b>
<b>Cash flows from financing activities</b>			
Shares issued		2,163,205	-
<b>Net cash (outflow) from financing activities</b>		<b>2,163,205</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<b>2,046,372</b>	113,075
Cash and cash equivalents at the beginning of the year		408,306	295,231
<b>Cash and cash equivalents at the end of the year</b>	8	<b>2,454,678</b>	<b>408,306</b>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

### **Note 1 Basis of preparation**

---

#### *(a) Statement of compliance*

Australian Leisure and Entertainment Property Management Limited 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.

The financial statements were authorised for issue by the Board of Directors on 30<sup>th</sup> July 2013.

#### *(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 21 - 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.



**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**Note 2 Summary of significant accounting policies (continued)**

**(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.

**(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.

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**Note 2 Summary of significant accounting policies (continued)**

**(i) Contributed equity**

Ordinary shares are classified as contributed equity.

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

**(j) Employee benefits**

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

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

*(ii) Share based payments*

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.

## **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

### **Note 2 Summary of significant accounting policies (continued)**

*(iv) Long service leave*

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

*(v) Retirement benefit obligations*

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

**(k) Revenue**

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

**(l) Interest income**

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

**(m) Expenses**

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

**(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.

## **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

### **Note 2 Summary of significant accounting policies (continued)**

---

#### **(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 2013, 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.

## **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

### **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.

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

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

The Company adopts a policy of ensuring that all exposure to changes in interest rates on borrowings is hedged. This is achieved by entering into interest rate swaps to fix the interest rates. At present the Company has no borrowings outstanding.

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Note 5 Expense reimbursements</b>		
Reimbursement of expenses for managing the Head Trust and controlled entities	<b>4,056,771</b>	3,769,798
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 \$5,442,718 (2012: \$6,938,739) disclosed in the statement of cash flows is comprised predominantly of expenses paid for by the Company on behalf of the Trust and other ALE group entities and subsequently reimbursed from the entities. The legal obligations for these expenses are the responsibility of the individual ALE group entities and are not expenses of the Company.		
<b>Note 6 Auditors' remuneration</b>		
<b>Audit services</b>		
<i>KPMG Australian firm:</i>		
Audit and review of the financial reports of the ALE Property Group and other audit work under the <i>Corporations Act 2001</i>		
- in relation to current year	201,000	176,000
- in relation to prior year	-	10,000
<b>Total remuneration for audit services</b>	<b>201,000</b>	186,000
<b>Note 7 Income tax expense/(benefit)</b>		
Current tax expense/(benefit)	-	-
Deferred tax expense	69,187	39,297
Income tax expense	<b>69,187</b>	39,297
Decrease/(increase) in deferred tax asset	69,187	39,297
	<b>69,187</b>	39,297
<b>Reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) before income tax expense	76,873	24,496
Tax at the Australian tax rate of 30% (2012: 30%)	23,062	7,349
Tax effect of amounts which are deductible (taxable) in calculating taxable income:		
Share based payments	46,125	31,950
Under provision in prior years	-	(2)
<b>Income tax expense/(benefit)</b>	<b>69,187</b>	39,297

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Note 8 Cash and cash equivalents</b>		
Cash at bank (a)	270,214	223,842
Deposits at call (b)	2,184,464	184,464
	<b>2,454,678</b>	<b>408,306</b>
(a) As at 30 June 2013 the weighted average interest rate earned on cash was 3.84% (2012: 3.93%).		
(b) The deposits represent office occupancy security deposits.		
<i>Reconciliation of profit after income tax to net cash inflows from operating activities</i>		
Profit/(loss) for the year	7,686	(14,801)
Depreciation	20,883	27,095
Non-cash employee benefits expense - share based payments	166,054	106,500
(Increase)/decrease in receivables	4,755	171,853
(Increase)/decrease in other assets	18,136	(65,319)
(Increase)/decrease in deferred tax asset	68,062	39,297
Increase/(decrease) in loan from related party	(382,629)	120,355
Increase/(decrease) in provisions	54,592	2,748
Increase/(decrease) in payables	(74,372)	(258,904)
<b>Net cash inflows from operating activities</b>	<b>(116,833)</b>	<b>128,824</b>
<b>Note 9 Receivables</b>		
Accounts receivable	53,372	64,075
Loan to related party	2,901,138	2,329,326
Interest receivable	6,076	128
	<b>2,960,586</b>	<b>2,393,529</b>
<b>Note 10 Investment in related party</b>		
Trust Non-Income Voting Units (NIVUS)	<b>9,080,010</b>	<b>9,080,010</b>
The Company was issued 9,080,010 of non-income voting units (NIVUS) in the Trust fully paid at \$1.00 each in November 2003. The NIVUS are not stapled to shares in the Company, have an issue and withdrawal price of \$1.00, carry no rights to income from the Trust and entitle the holder to no more than \$1.00 per NIVUS upon the winding-up of the Trust. The Company has a voting power of 4.47% 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**

For The Year Ended 30 June 2013

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Note 11 Deferred tax asset</b>		
<b>Deferred tax assets</b>	<b>54,403</b>	123,590
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in statement of comprehensive income</i>		
Employee benefits	30,169	13,942
Acquisition proposal due diligence	1,490	3,956
Other accruals	14,207	58,193
Other	(1,822)	282
Tax losses	10,359	47,217
<b>Net deferred tax assets</b>	<b>54,403</b>	123,590
<b>Movements:</b>		
Opening balance	123,590	162,887
Credited/(charged) to the statement of comprehensive income (Note 7)	(69,187)	(39,297)
<b>Closing balance at</b>	<b>54,403</b>	123,590
Deferred tax assets to be recovered within 12 months	44,042	123,590
Deferred tax assets to be recovered after more than 12 months	10,361	-
	<b>54,403</b>	123,590
<b>Note 12 Payables</b>		
Trade creditors	214,021	191,040
Creditor accruals	253,256	350,609
	<b>467,277</b>	541,649
<b>Note 13 Provisions</b>		
Provision for employee entitlements	101,065	46,473
	<b>101,065</b>	46,473
<b>Note 14 Contributed equity</b>		
<b>(a) Share capital</b>		
Issued share capital	<b>14,606,975</b>	12,236,792
<b>(b) Movements in ordinary share capital</b>		
Opening balance	12,236,792	12,118,181
Shares issued - Placement	1,271,413	
Shares issued - Share Purchase Plan	891,792	
Shares issued - ALE Executive Performance Rights Plan	624	3,503
Shares issued - Dividend Reinvestment Plan	206,354	115,108
<b>Balance at the end of the period</b>	<b>14,606,975</b>	12,236,792



**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
	<b>No. of shares</b>	<b>No. of shares</b>
Shares on issue		
Opening balance	159,862,513	157,990,976
Shares issued - Placement	18,779,343	-
Shares issued - Share Purchase Plan	12,686,573	-
Shares issued - ALE Executive Performance Rights Plan	8,801	8,516
Shares issued - Dividend Reinvestment Plan	2,900,848	1,863,021
<b>Closing balance</b>	<b>194,238,078</b>	<b>159,862,513</b>

**(c) Shares**

Fully paid stapled securities in the Company were issued at \$1.00 per stapled security. Each stapled security comprises one \$0.10 share in the Company and one \$0.90 unit in the Trust. They cannot be traded or dealt with separately. Stapled securities entitle the holder to participate in dividends/distributions and the proceeds on any winding up of the Company in proportion to the number of and amounts paid on the securities held. On a show of hands, every holder of stapled securities present at a meeting in person or by proxy, is entitled to one vote. On a Company poll, each ordinary shareholder is entitled to one vote for each fully paid share, and on a Trust poll each unitholder is entitled to one vote for each fully paid unit.

During the year the ALE Property Group undertook an institutional Placement of stapled securities. These stapled securities were issued at \$2.13 each. In addition a Security Purchase Plan was conducted with the stapled securities issued at \$2.13 per security. The share capital increase for the Company represents the Company's share of the net proceeds from the new stapled securities issued.

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
<b>Note 15 Accumulated losses</b>		
<b>Retained losses</b>	<b>(766,975)</b>	<b>(745,621)</b>
Balance at the beginning of the year	(745,621)	(808,008)
Net profit/(loss) attributable to ordinary shareholders	7,686	(14,801)
Transfer from/(to) share based payments reserve	(29,040)	77,188
<b>Balance at the end of the year</b>	<b>(766,975)</b>	<b>(745,621)</b>
<b>Note 16 Reserves</b>		
<b>Share-based payments reserve</b>	<b>382,672</b>	<b>206,500</b>
Balance at the beginning of the year	206,500	233,333
Employee share based payments expense	166,054	156,500
Transfer to/(from) Retained Profits on lapsing of performance rights	29,040	(77,188)
Issue of stapled securities	(18,922)	(106,145)
<b>Balance at the end of the year</b>	<b>382,672</b>	<b>206,500</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**30 June**  
**2013**  
\$

**30 June**  
**2012**  
\$

**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 entity 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 (2012: 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.

**Note 20 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:

	<b>30 June</b> <b>2013</b> \$	<b>30 June</b> <b>2012</b> \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are		
Within one year	115,251	112,022
Later than one year but not later than five years	38,703	153,955
Later than five years	-	-
	<b>153,954</b>	<b>265,977</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**30 June 2013**  
\$

**30 June 2012**  
\$

**Note 21 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 Performance Rights Plan was terminated in 2012 and replaced with an Executive Stapled Securities Scheme. The following table lists the vested performance rights that remain outstanding at the end of the year.

Performance Rights Plan

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 F O Wilkinson	1 Jul 2009	45,200	1. Service period 2. Absolute Total Shareholder Return (TSR) 3. Total TSR compared to comparative group	1 Jun 2011
Mr A J Slade	1 Jul 2009	11,790	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 2013	Weighted average fair value 2013	Number of performance rights 2012	Weighted average fair value 2012
Outstanding at 1 July	65,791	1.05	221,270	1.11
Granted during period	-	-	-	-
Issued during year *	(8,801)	1.27	(8,272)	1.13
Lapsed during year	-	-	(147,207)	1.00
Outstanding at 30 June	56,990	1.05	65,791	1.05

During the year 8,801 stapled securities were issued to Mr Slade upon expiry of the two year delayed delivery period applicable to the vested rights.

The performance rights outstanding at 30 June 2013 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 previous 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.

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**30 June  
2013**  
\$

**30 June  
2012**  
\$

**Note 21 Share based payments (continued)**

For the year ended 30 June 2012 Andrew Wilkinson was awarded 43,136 of ESSS Rights and Andrew Slade was awarded 23,611 of ESSS Rights. The number of Stapled Securities awarded was determined by dividing the value of the 2012 grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's 2012 full year statutory financial statements.

For the year ended 30 June 2013 the following ESSS Rights were granted to executives under the ESSS. The number of Stapled Securities awarded 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 for the year. The number of securities granted for the current year grants will be determined on 8 August 2013.

	<b>2013</b> \$	<b>2012</b> \$
Mr A F O Wilkinson	79,040	71,250
Mr A J Slade	43,264	89,000
Mr M J Clarke	20,000	-
Mr D J Shipway	20,000	-

The numbers of ESSS Rights outstanding at the end of the financial year is as follows:

	<b>Number ESSS rights 2013</b>	<b>Weighted average fair value 2013</b>	<b>Number of ESSS rights 2012</b>	<b>Weighted average fair value 2012</b>
Outstanding at 1 July	34,571	1.45	-	-
Granted during period	66,747	1.65	34,571	1.45
Vested during year	-	-	-	-
Lapsed during year	-	-	-	-
<b>Outstanding at 30 June</b>	<b>101,318</b>	<b>1.58</b>	<b>34,571</b>	<b>1.45</b>

**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 2013 the Company had charged the Trust \$4,056,771 in expense reimbursement (2012: \$3,769,798).

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.

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**Note 23 Key management personnel**

**(a) Directors**

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

<b>Name</b>	<b>Type</b>	<b>Appointed</b>
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.

<b>Name</b>	<b>Title</b>
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 personnel**

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

	<b>30 June 2013 \$</b>	<b>30 June 2012 \$</b>
Short term employee benefits	1,619,424	1,552,715
Post employment benefits	84,622	84,946
Other long term benefits	22,401	12,218
Share based payments	162,304	160,250
<b>Total</b>	<b>1,888,751</b>	<b>1,810,129</b>
<b>Share based payments expense in the year</b>		
ESSS rights granted in 2012	3,750	156,500
ESSS rights granted in 2013	162,304	-
<b>Total</b>	<b>166,054</b>	<b>156,500</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

	<b>30 June 2013 cents</b>	<b>30 June 2012 cents</b>
<b>Note 24 Earnings per share</b>		
<b>(a) Basic earnings per share</b>		
<i>Attributable to equity holders of the Company</i>		
Basic and diluted earnings per equity holders of the Company	0.00	(0.01)
<i>Attributable to securityholders of the stapled entity</i>		
Basic and diluted earnings per stapled security before financing costs attributable to the Company securityholders divided by the average number of securities	0.00	(0.01)
Basic and diluted earnings per stapled security using realised operating income	0.00	(0.01)
	<b>Number 2013</b>	<b>Number 2012</b>
<b>(b) Weighted average number of shares used as the denominator</b>		
Weighted average number of shares used as the denominator in calculating earnings per share	181,563,372	159,099,887
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	181,563,372	159,099,887

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended 30 June 2013

**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*

	<b>2013</b>	<b>2012</b>
	\$	\$
Receivables	59,448	64,203
Cash and cash equivalents	2,454,678	408,306
	<b>2,514,126</b>	<b>472,509</b>

*Impairment losses*

	<b>2013</b>		<b>2012</b>	
	<b>Gross</b>		<b>Gross</b>	
	<b>Receivables</b>	<b>Impairment</b>	<b>Receivables</b>	<b>Impairment</b>
	\$	\$	\$	\$
Not past due	44,585	-	30,957	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	14,863	-	33,246	-
Past due 120-365 days	-	-	-	-
More than one year	-	-	-	-
	<b>59,448</b>	<b>-</b>	<b>64,203</b>	<b>-</b>

**(b) Liquidity Risk**

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

**(c) Interest rate risk**

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

**DIRECTORS DECLARATION**

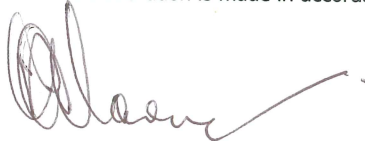
For The Year Ended 30 June 2013

**Directors' declaration**

In the Directors' opinion:

- (a) the financial statements and notes that are set out on pages 78 to 97 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 2013 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.
- (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 2013.
- (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 30<sup>th</sup> Day of July 2013





## **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 2013, 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 2013 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 of the directors' report for the year ended 30 June 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG



Nigel Virgo  
Partner  
Sydney  
30 July 2013

## Australian Leisure and Entertainment Property Management Limited

### CORPORATE GOVERNANCE

For The Year Ended 30 June 2013

#### **The Board of Directors of Australian Leisure and Entertainment Property Management Limited is accountable to stapled securityholders for the performance of ALE**

ALE remains committed to maintaining high standards of corporate governance. The Board considers that ALE's corporate governance framework and practices continue to substantially comply with the requirements of the ASX Corporate Governance Council's (ASXCGC) Principles of Good Corporate Governance Principles and Recommendations, 2nd Edition (Principles and Recommendations) and meet the interests of all stakeholders. A range of policies have been further developed and implemented during the year. These policies may be viewed on our website ([www.alegroup.com.au](http://www.alegroup.com.au))

### **Principle 1 – Lay solid foundations for management and oversight**

#### **Roles of the Board and management**

**The Board Charter sets out the principles for the operation of the Board.** The Board's responsibilities encompass the following:

1. Input to and approving management's development of corporate strategy and performance objectives;
2. Appointing and, where appropriate, removing the Chief Executive Officer;
3. Ratifying the appointment of and, where appropriate, the removal of the Capital Manager, Asset Manager, Finance Manager and Company Secretary
4. Overseeing the operation of ALE, including its controls and accountability systems;
5. Identifying, assessing and ratifying plans to control and manage risks facing ALE, including interest rate risk, liquidity risk and financial covenant compliance, as well as overviewing of all systems of risk management, including risk reporting;
6. Approving the Annual Review, annual budgets and financial plans;
7. Overseeing and monitoring organisational performance and the achievement of ALE's strategic goals and objectives;
8. Monitoring financial performance and liaising with ALE's external auditor;
9. Reviewing and ratifying systems of internal compliance and control, codes of conduct and legal compliance and ensuring systems are in place to deliver compliance with laws, leases, ASX rules and internal policies and procedures as well as reviewing their effectiveness and the causes of identified breaches (if any)'
10. Reviewing capital management strategy formulation including debt and equity raisings, hedging, buybacks and refinancing arrangements;
11. Approving all new policies and procedures relating to the proper functioning of ALE, including all financial and operational
12. Monitoring senior management performance and implementation of strategy as well as ensuring appropriate resources are available and succession plans are in place;
13. Approving and monitoring the progress of major strategic initiatives, including capital expenditure, capital management, acquisitions and divestitures;
14. Enhancing and protecting the reputation of ALE;
15. Reporting to, and communicating with, ALE's securityholders;
16. Approving and monitoring financial and other reporting; and
17. Establishing and maintaining ethical standards.

The Board delegates to the CEO the responsibility for implementing strategic direction and managing the day-to-day operations of ALE. The CEO consults with the Chairman, in the first place, on matters which are sensitive, extraordinary or of a strategic nature.

In carrying out its responsibilities, the Board undertakes to serve the interests of stapled securityholders, employees, customers and the broader community honestly, fairly, diligently and in accordance with applicable laws.

## **Principle 2: Structure the Board to add value**

### **Board composition**

The full Board determines the Board size and composition, subject to limits imposed by the Company's Constitution, the Board Charter and the Corporations Act.

The Board has determined that it is currently appropriate to have five directors, the majority of whom (3), including the Chairman, are independent non-executive directors.

The three non-executive directors, Peter Warne, John Henderson and Helen Wright, are independent directors as defined under section 601JA of the Corporations Act, and satisfy the principles of independence as outlined in the Principles and Recommendations. A review of each director's independence is undertaken by tabling any changes in director interests at each and every ALE Board meeting and more formal assessments of independence are undertaken from time to time. Details of the members of the Board, their experience, expertise, qualifications, terms of office, relationships affecting their independence and their independent status are set out in the Directors' Report under the heading "Information on Directors".

The Chairman is selected by the full Board annually at the first meeting following the annual general meeting (AGM), and is to be an independent director in accordance with the Board Charter and ASX Corporate Governance guidelines.

The Board has implemented an annual performance evaluation process for management, directors, the Board and its committees. Part of this process is to also ensure that the Board and its committees maintain an appropriate balance of skills, experience and expertise.

Details of the performance evaluation process for management are set out in the Directors' Report in the Annual Report.

The Board appoints a specialist governance adviser every three years to review the performance of the Board and that of directors.

Under the Company's Constitution and the ASX Listing Rules, a director may not hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election.

If no director would otherwise be required to submit for re-election, but the ASX Listing Rules require that an election of directors be held, the director to retire at the AGM is the director who has been longest in office since their last election.

James McNally will be retiring and standing for re-election as a director of the Company at its next AGM.

New directors are provided with an induction process to enable them to actively participate in Board decision making as soon as possible. The process ensures that the new directors fully understand ALE's financial position, strategies, operations and risk management policies and explains the respective rights, duties, responsibilities and roles of the Board and senior executives.

### **Independence and materiality thresholds**

The Board considers that a director is independent if the director is a non-executive director and:

1. Is not a substantial shareholder of the ALE or an officer of, or otherwise associated directly with, a substantial shareholder of ALE;
2. Within the last three years has not been employed in an executive capacity by ALE or another Group member, or been a director after ceasing to hold any such employment;
3. Within the last three years has not been a principal of a material professional adviser or a material consultant to ALE or another Group member, or an employee materially associated with the service provided;
4. Is not a material supplier or customer of ALE or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. Has no material contractual relationship with ALE or another Group member other than as a director of ALE;
6. Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of ALE; or

## Australian Leisure and Entertainment Property Management Limited

### CORPORATE GOVERNANCE

For The Year Ended 30 June 2013

7. Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of ALE.

Peter Warne is also 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.

#### Independent professional advice

After prior approval of the Chairman, directors may obtain independent professional advice at the expense of ALE on matters arising in the course of their Board duties.

#### Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Currently the Board has three standing committees; these are the Remuneration and Nomination Committee, and the Audit, Compliance and Risk Management Committee.

The committees operate principally in a review or advisory capacity. Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

All Directors are entitled to attend meetings of the standing committees. Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

#### Audit, Compliance and Risk Management Committee (ACRMC)

The ACRMC is a standing committee that is composed of four members, being three non-executive independent directors and an independent consultant. Membership of the Committee is based on directors' qualifications, skills and experience.

Helen Wright, an independent director, has been appointed as Chair of the Committee. The other members of the Committee are Peter Warne and John Henderson, also independent directors, and independent consultant David Lawler.

The ACRMC meets at least four times a year.

As the Board comprises 50% or more independent directors, an independent compliance committee has not been appointed. The Board has, however, determined that the ACRMC fulfil this role.

Details of the members of the ACRMC and their attendance at meetings are set out in the Directors' Report in the Annual Report.

Given the small number of staff within the Company, the Company does not have an internal audit function

To ensure appropriate levels of internal control, ALE commissions an annual controls review. Following the completion of that review, Grant Thornton reported to the Committee in July 2013 that the standard of controls was assessed as satisfactory.



**CORPORATE GOVERNANCE**

For The Year Ended 30 June 2013

### **Remuneration and Nominations Committee**

The Remuneration and Nominations Committee is composed of three non-executive independent directors. Peter Warne has been appointed as chairman of the Committee. The other members of the Committee are Helen Wright and John Henderson.

One of the Committee's responsibilities is to monitor ALE's policies in respect of Board Renewal and Appointment of Directors, and Diversity for the ALE Property Group. The Committee is currently reviewing candidates as part of the Board's Renewal and Appointment of Directors Policy.

Details of Committee members and their attendance at meetings held are set out in the Directors' Report in the Annual Report.

### **Board and executive remuneration**

Details of Board and executive remuneration are set out in the Directors' Report in the Annual Report.

## **Principle 3: Promote ethical and responsible decision making**

### **Code of Conduct**

In accordance with ALE's Code of Conduct, all directors and employees are expected to perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of ALE.

### **Trading in securities**

ALE has a Trading Policy with which all directors and employees must comply. Directors, employees and their associates may not utilise information obtained by their position for personal gain or for gain of another person. Each director and employee must ensure that any information in their possession that is not publicly available and which may have a material effect on the price or value of ALE's stapled securities, ALE Notes 2 or any derivatives based on either of these (collectively, ALE Securities) is not provided to anyone who may be influenced to subscribe for, buy or sell ALE Securities.

Directors, employees and their associates may buy or sell ALE securities only during the four week periods commencing the day after:

- the release of the half-year results;
- the release of the full year results; and
- the AGM.

Outside these four week periods are closed periods for trading in ALE Securities, unless exceptional circumstances apply.

All directors and employees are precluded from buying or selling ALE Securities at any time if they are aware of price sensitive information that has not been made public, or at any time while ALE is undertaking a general on-market buyback of that particular type of ALE Security.

All directors or employees are entitled to participate in the Distribution Reinvestment Plan on the same terms as other securityholders, except where the Distribution Reinvestment Plan is partly or wholly satisfied by an on-market buyback of ALE Securities, in which case directors and employees are precluded from participating.

In accordance with provisions of the Corporations Act 2001 and the Listing rules of the ASX, ALE advises the ASX of any transaction conducted by directors in ALE Securities.

All directors, officers and employees must disclose their financing arrangements relating to their ALE Securities to the Chairman and must advise if the following circumstances apply:

- the director, officer or employee holds ALE Securities that have been lent, mortgaged or charged to a financier;
- circumstances have arisen in which the financier is entitled or is likely to become entitled to exercise a right under the finance arrangement to demand payment; and
- the director, officer or employee expects that the demand will not be able to be satisfied without the disposal of securities representing 2.5% or more of the total number of issued securities in ALE.

Directors, officers and employees who enter into margin loans or other financing arrangements over ALE Securities are directed to ensure that they have sufficient available cash or other acceptable collateral to meet margin calls, including during a period of extreme sudden market downturn. Directors, officers or employees may not be provided with a clearance by ALE to dispose of ALE Securities that are subject to a margin call.

Details of directors, key management personnel and their associates holdings in ALE Securities are set out in the Directors' Report in the Annual report.

## Australian Leisure and Entertainment Property Management Limited

### CORPORATE GOVERNANCE

For The Year Ended 30 June 2013

#### Diversity

The Board has adopted a Diversity Policy for the ALE Property Group, which includes details on how the Board and Nominations Committee take into account the diversity criteria when identifying and assessing potential Director candidates and members of the senior management team.

To the best of its abilities and recognising that ALE has a small team of directors and employees, ALE has attempted to introduce diversity standards to ensure the workplace is fair and flexible, promotes personal and professional growth and enables employees to enhance their contributions to ALE by drawing from their different backgrounds, beliefs and experiences. ALE notes the Principles and Recommendations, however, because ALE comprises a small team of directors and employees, the Board has determined that it will not be setting benchmarks for achieving a certain level of gender diversity, and will not be reporting against its progress to achieve any measurable objective. Nonetheless, ALE is committed to ensuring that the best candidates both at a Board and employee level are appointed as opportunities arise regardless of gender, beliefs or racial background. ALE believes that while this is departure from the Principles and Recommendations, it does not diminish the Group's commitment in principle and fact to ensuring gender diversity.

As at 30 June 2013, ALE's gender diversity may best be summarised as follows:

	Women in role	Total Positions	Percentage
Independent Board positions	1	3	33%
ACRMC	1	4	25%
Other committees	1	3	33%
Senior management positions	-	4	-
Total women employed in whole organisation	3	11	27%

#### Principle 4: Safeguarding integrity in financial reporting

As mentioned above, the Audit, Compliance and Risk Management Committees consists of three independent non-executive Directors and one external consultant.

Members of the Audit, Risk and Compliance Committee are financially literate and have an appropriate understanding of the industries in which the ALE operates.

The Audit, Compliance and Risk Management Committee operates in accordance with a charter. The role of the Committee is to assist the Board in:

- Reviewing ALE's financial statements and financial information to be distributed externally;
- Monitoring the internal control framework, procedures that are designed to ensure compliance with statutory responsibilities and other external reporting requirements, and the adequacy of ALE's risk management framework; and
- Liaising with the external auditor.

In fulfilling its responsibilities, the Committee:

- Receives regular reports from management and the external auditors;
- Regularly meets with the external auditor;
- Reviews the processes the Managing Director and CFO have in place to support their certifications to the Board;
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- Meets separately with the external auditors at least once a year without the presence of management; and
- Provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit, Risk and Compliance Committee or the Chair of the Board.

**CORPORATE GOVERNANCE**

For The Year Ended 30 June 2013

### **External Auditors**

ALE's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually.

An analysis of fees paid to the external auditors, including a break down of fees for non audit services, is provided in the Directors' Report and in note 26 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit, Compliance and Risk Management Committee.

A representative of the external auditor attends the annual general meeting and is available to answer securityholder questions about the conduct of the auditor and the preparation and content of the audit report.

### **Principle 5 and 6 Make timely and balanced disclosures and respect the rights of securityholders.**

ALE has a Continuous Disclosure Policy which is consistent with the continuous disclosure obligations under the Corporations Act and ASX Listing Rules. The Policy focuses on continuous disclosure of any information concerning ALE that a reasonable person would expect to have a material effect on the price of ALE securities.

### **Investor relations**

ALE is committed to the provision of timely, full and accurate disclosure of material information concerning ALE.

ALE has a Communications Policy that ensures securityholders have equal access to ALE's information and has procedures to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the Listing Rules of the ASX.

The Board encourages full participation of securityholders at the AGM.

The rights of ALE's securityholders are set out in the constitution, legal and regulatory requirements. ALE's Communication Policy allows securityholders to effectively exercise these rights through the provision of high quality, relevant and useful information in a timely manner. In this regard securityholders are informed about strategic objectives and major developments through:

- ASX announcements
- ALE publications including the Annual Review and Annual Report
- Annual General Meeting
- ALE Website
- The website of ALES's security register, Computershare Investor Services Pty Limited, including a facility for securityholders to amend their particulars.

### **ALE website**

All information provided to the ASX is also posted on the ALE website, [www.alegroup.com.au](http://www.alegroup.com.au). The ALE website includes various corporate governance documents and policies, such as the Board's Charter, ALE's Code of Conduct and the Audit, Compliance and Risk Management Committee's Charter.

Securityholders are encouraged to make their views known to ALE and to directly raise matters of concern. Securityholders are encouraged to attend the Annual General Meeting and use this opportunity to ask questions. The Annual General Meeting remains the main opportunity for securityholders to comment and to question ALE's Board and management.



**CORPORATE GOVERNANCE**

For The Year Ended 30 June 2013

**Principle 7: Recognise and manage risks**

**Recognise and manage risks**

The Board, through the Audit, Compliance and Risk Management Committee, is responsible for ensuring there are adequate policies in relation to risk management compliance and internal control systems. In summary, ALE's policies are designed to ensure that strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of ALE's business objectives.

**Corporate Reporting**

The Board has received a declaration from the Managing Director and the Chief Financial Officer, that:

- The financial records for the financial period have been properly maintained in accordance with the Corporations Act;
- ALE's financial reports are complete and present a true and fair view of the financial condition and performance of the Group and are in accordance with relevant accounting standards; and
- The above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- That ALE's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

**Principle 8: Remunerate fairly and responsibly**

Details of the Remuneration and Nominations Committee are outlined above at page 104. The Remuneration and Nominations Committee operates in accordance with its charter and is responsible for developing and making recommendations to the Board on a remuneration framework for the Chairman, the Board Committees, non-executive Directors, ALE's remuneration and incentive policies and practices for the Managing Director, direct reports to the Managing Director and other senior executives.

Further information on Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration report" on pages 9 to 17. In accordance with ALE's Trading in Securities Policy, participants in equity based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on ALE's website.

ASX Corporate Governance Council Recommendations		Reference	Comply
<b>Principle 1: Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Page 101	Y
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Remuneration Report	Y
1.3	Companies should provide the information indicated in Guide to Reporting on Principle 1.	Page 101, Remuneration Report	Y
<b>Principle 2: Structure the Board to add value</b>			
2.1	A majority of the Board should be independent Directors.	Page 102	Y
2.2	The chair should be an independent Director.	Page 102	Y
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Page 102	Y
2.4	The Board should establish a Nomination Committee.	Page 103	Y
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	Page 104, Remuneration Report	Y
2.6	Companies should provide the information indicated in Guide to Reporting on Principle 2.	Pages 100 - 102, Remuneration Report	Y

**Australian Leisure and Entertainment Property Management Limited**

**CORPORATE GOVERNANCE**

For The Year Ended 30 June 2013

<b>ASX Corporate Governance Council Recommendations</b>		<b>Reference</b>	<b>Comply</b>
<b>Principle 3: Promote ethical and responsible decision-</b>			
3.1	Companies should establish a code of conduct and disclose the code or summary of the code as to: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity;</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Page 104	Y
3.2	Companies should establish a policy concerning diversity and disclose the policy or summary of that policy.  The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	Page 104	N
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	N/A	N
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Page 104	Y
3.5	Companies should provide the information indicated in Guide to Reporting on Principle 3.	Pages 104 - 105	Y
<b>Principle 4: Safeguard integrity in financial reporting</b>			
4.1	The Board should establish an Audit Committee.	Page 103	Y
4.2	The Audit Committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive Directors;</li> <li>• consists of a majority of independent Directors;</li> <li>• is chaired by an independent chair, who is not chair of the Board;</li> <li>• has at least three members.</li> </ul>	Page 103, 106	Y
4.3	The Audit Committee should have a formal charter.	Page 105	Y
4.4	Companies should provide the information indicated in Guide to Reporting on principle 4.	Pages 103,106	Y
<b>Principle 5: Make timely and balanced disclosure</b>			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Page 105	Y
5.2	Companies should provide the information indicated in Guide to Reporting on principle 5.	Page 105-106	Y

**Australian Leisure and Entertainment Property Management Limited**

**CORPORATE GOVERNANCE**

For The Year Ended 30 June 2013

ASX Corporate Governance Council Recommendations		Reference	Comply
<b>Principle 6: Respect the rights of shareholders</b>			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Page 105	Y
6.2	Companies should provide the information indicated in Guide to Reporting on principle 6.	Pages 105-106	Y
<b>Principle 7: Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Page 106	Y
7.2	The Board should require management to design and implement the risk management and internal control systems to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Page 106	Y
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Page 106	Y
7.4	Companies should provide the information indicated in Guide to Reporting on principle 7.	Page 106	Y
<b>Principle 8: Remunerate fairly and responsibly</b>			
8.1	The Board should establish a remuneration committee.	Page 103	Y
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent Directors;</li> <li>• is chaired by an independent chair; and</li> <li>• has at least three members.</li> </ul>	Page 103	Y
8.3	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of the executive Directors and senior executives.	Remuneration Report	Y
8.4	Companies should provide the information indicated in Guide to Reporting on principle 8.	Page 103, Remuneration Report	Y

# Investor Information

The information is provided as a short summary of investor information. Please view our website at [www.alegroup.com.au](http://www.alegroup.com.au) for all investor information.

## Major Australian Securities Exchange (ASX) Announcements

2013	
30 Jul	Full Year results, Annual Review and Property Compendium released
30 Jul	Property valuations increased by 1.9%
18 Jun	Caledonia increases substantial holding to 19.36%
17 Jun	Full Year distribution of 16.00 cents declared
6 Jun	Caledonia increases substantial holding to 17.31%
7 May	Caledonia increases substantial holding to 16.09%
2 May	Allan Gray increases substantial holding to 13.01%
5 Mar	Half Year distribution payment date
13 Feb	Half Year results released
2012	
24 Dec	Allan Gray reduces holding to 12.00%
20 Dec	Half year distribution of 8.00 cents declared
19 Dec	Property valuations increased
7 Dec	ALE finalises new hedge and locks in low interest rates
5 Dec	Completion of \$27 million Security Purchase Plan
26 Nov	Caledonia increases substantial holding to 14.97%
30 Oct	Annual General Meeting
26 Oct	Completion of \$80 million capital raising
30 Sep	Annual Report released
10 Sep	ALE completes Ferny Grove Tavern resumption
7 Aug	ALE launches Property Book
31 Jul	Full year results and Annual Review 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](http://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, Annual Report and Property Compendium 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.

## Registered Office

Level 10, Norwich House, 6 O'Connell Street, Sydney NSW 2000, Tel: +61 2 8231 8588

## Company Secretary

Mr Brendan Howell, Level 10, Norwich House, 6 O'Connell Street, Sydney NSW 2000  
Tel: +61 2 8231 8588

## Auditor

KPMG, 10 Shelley Street, Sydney NSW 2000

## Lawyers

Allens Linklaters, Level 28, Deutsche Bank Place, Corner Hunter and Phillip Streets, Sydney NSW 2000

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

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

## Trustee (of ALE Direct Property Trust)

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

## Registry

Computershare Investor Services Pty Ltd,  
Reply Paid GPO Box 7115, Sydney NSW 2000  
Level 3, 60 Carrington Street, Sydney NSW 2000  
Tel: 1300 302 429 Fax: (02) 8235 8150  
[www.computershare.com.au](http://www.computershare.com.au)

For emailed updates, visit the ALE website and join "Email Alerts" at [www.alegroup.com.au](http://www.alegroup.com.au).



[aleproperties.com.au](https://aleproperties.com.au)  
PROPERTY COMPENDIUM



[alegroup.com.au](https://alegroup.com.au)  
ALE PROPERTY GROUP