ALE PROPERTY GROUP
ANNUAL GENERAL MEETING 2009

CHAIRMAN'S ADDRESS

Good morning Ladies and Gentlemen.

Welcome to the 2009 Annual General Meeting of the ALE Property Group.

I am Peter Warne and I will chair the meeting.

It is now time to start our proceedings.

I am advised a quorum is present and I declare the meeting open.

The proceedings today will be as follows.

After my brief Address, our Managing Director, Andrew Wilkinson, will provide his report and then we will then move to the matters for decision by security holders as set out in the Notice of Meeting.

ALE Performance in FY09

When we met a year ago in the wake of the collapse of Lehman Brothers and as the global economic downturn gathered pace, I noted that the management of wider issues relating to equity, debt and property markets was beyond our control. However I affirmed the Board's belief that ALE's focus on quality assets, reduced gearing levels and conservative approach to risk management was the appropriate strategy to maintain a relatively stable position for the Group during a period of significant market uncertainty.

More than a year after the onset of the global financial crisis, it is fair to state that ALE has not only successfully weathered the GFC we have also consolidated our position in the Australian listed property sector. Andrew will provide clear evidence of this when he presents the results in detail shortly.

Once again we have outperformed all of our Real Estate Investment Trust listed peers for the five years ended June 2009, as measured by investment bank UBS Australia.

We believe that we will continue to be the long term beneficiary of a ‘flight to quality’ as investors recognise the relative competitive strengths of ALE’s business model and it is gratifying to note the steady increase in the price of our securities over the past six months.

I turn now to the highlights of the results. Over the year to June 2009, ALE’s property valuations remained relatively steady. This has reinforced the Board’s view that the properties in our portfolio, with their long leases to a high quality tenant, are high quality investments. This has been in a period where property valuations for all but the highest quality properties have been under considerable downward pressure.

Our property income rose by nearly seven per cent to around $58 million and we also note that the tenant of all of our properties, ALH, continued to grow its profitability.

From an expense management perspective, our CPI hedging initiatives early in the financial year resulted in a reduction in the cash interest expense from around $27 million to $18 million or a 33 percent reduction - a result that added materially to ALE's already healthy liquidity and distributable profit position.

As a result of the substantial growth in revenue and reduction in interest expense the Total Distributable Profit for the year rose by around 16 per cent to $34 million, or nearly 39 cents per security. I am pleased to note that Distributable Profit per security has increased every year since ALE listed on the ASX six years ago.

Actual distribution payments totalled 30 cents per security, representing 78 per cent of the Distributable Profit. This was consistent with the Board's policy of setting distributions at a level that does not exceed available free cash flow and was also based upon a best estimate at the time of what was likely to be the maintainable ongoing distribution after taking into account the increased credit margins which may be applicable to the debt refinancing due over the coming years.

In line with best practice, ALE rotated the firm used to value its portfolio with the appointment of Urbis replacing DTZ who had previously valued the portfolio.

During the past year we continued to optimise our interest rate hedging strategy with additional CPI Hedging at the start of the year and we also sought independent revaluations and assessments of all properties to verify valuations given the volatility evident in both pub properties and commercial property more generally.

Capital Management Initiatives

Nothing is more important to the ALE Board and management than continuing to manage ALE's capital structure and asset portfolio to prudently manage risk and add value for both current and future security holders.

When I spoke to you at the AGM 12 months ago I noted that the credit markets had deteriorated significantly over the previous 12 months and were at levels not seen for a very long time. Since that time credit margins deteriorated further, probably reaching their highest levels in the March/April period. While those margins have now rallied back to approximately where they were 12 months ago, credit markets are still very much in a state of flux and many of the capital markets in Australia are still not functioning normally.

In addition, as this year evolved it became apparent that the credit markets were now requiring lower maximum levels of total gearing for all borrowers. Whilst we have great confidence in our properties and the long term secure cashflows that they produce and that this provides our lenders with great security, ALE has not been immune from the change in market conditions.

With this background in mind the Board undertook a careful strategic review over the past year, with respect to our management of capital and our balance sheet structure with particular focus on the refinancing of our debt facilities due in 2011.

The Board had a range of options including selling a significant part of the property portfolio and / or undertaking a significant equity raising. After careful consideration and external advice the ALE Board decided to pursue a strategy that combined the best elements of each of the above options.

As you are aware in June 2009 ALE undertook property divestments that resulted in the sale of five hotels at very strong prices, representing significant premiums both to acquisition prices and book values.
This result confirmed the Board's view of the value of our properties and provided evidence to our valuers, lenders and the market generally of the underlying value of our assets. (Of course, having a substantial number of modestly priced properties gives ALE enormous flexibility in this situation and is one of ALE's great structural advantages compared to other trust s who may have a small number of very large and highly priced properties).

This clear evidence allowed us to subsequently launch, in early August 2009, a fully underwritten $105 million capital raising, consisting of a one-for-two renounceable Entitlement Offer and a relatively small institutional placement. The Offer was exceptionally well supported by securityholders and there was a very strong takeup. It is worth noting that the renounceable capital raising structure was highly equitable to existing securityholders and all of those who applied for additional securities received 100 per cent of the value of the securities they applied for. In addition those that were ineligible or chose to not participate also received significant value.

In August, we also announced the continuation of ALE's property sales with a $120 million target for this financial year. Already a further seven hotels have been sold to private individual investors for a combined total sale price of $43.2 million at average capitalisation rates of 5.7 percent and one as low as 4.2 percent. Again the sale prices achieved were at significant premiums both to acquisition prices and book values. All net proceeds are being applied to reduce debt.

The properties which were chosen for sale were those which the Board believed added the lowest net returns to the portfolio and also had the lowest dollar values. Their sale is expected to increase the average return on the balance of the portfolio and reduce associated management costs.

The Board believes that this strategic plan will provide ALE with the targeted financial structure which is required by today's credit markets, together with greater flexibility to adjust the structure if required by future market events.

ALE Moving Forward

At the conclusion of the capital management program in June 2010, ALE is expected to own around 80 hotels and enjoy a gearing level which credit markets will consider very respectable, at around 50 per cent. We expect that this will prepare the group for future refinancing requirements.

We expect ALE to be well positioned when hotel acquisition fundamentals return to normal and value accretion opportunities emerge. As an added strategic advantage, as a result of our debt hedging strategies, the Group is currently enjoying a lower debt funding cost due to the fall in inflation rates to the lowest level in a very long time of just 1.3%.

Corporate Governance

In accordance with past practice, the Board has again reviewed the effectiveness of the Group’s corporate governance functions. During the year the Board’s performance was the subject of a review that included a specific assessment of the work of the Audit, Compliance and Risk Management Committee.

The review concluded that the Group's governance functions are operating effectively, although a small number of procedural changes were considered and have been adopted.

This year Helen Wright retires by rotation and offers herself for re-election with the unanimous support of the Board. Helen has been a very effective Director since her appointment in 2003 and, subject to your vote, we look forward to her continued contribution. I will also be offering myself for re-election and I am advised by the rest of the Board that I have their support.

ALE has a small but effective management team and accordingly it is essential that Board and management have a sound working relationship. I am pleased to say that all members of Andrew's team have worked hard during testing times to deliver sound results with respect to both the recent asset sales and the capital raising. The success of these initiatives is a credit to the management and advisory team and the Board is grateful to all those who work so hard to lock in a sustainable capital and risk profile for ALE's securityholders.

I would also like to again express thanks to David Lawler, the independent member of the Audit, Compliance and Risk Management Committee, and Graeme McLaren, the independent director for our financing subsidiary, for the skill, experience and diligence they each bring to their roles.

Vale Hotel Matter

Given that it is imminent, I believe it is appropriate to briefly mention the matter between ALE and ALH concerning the interpretation of the ALH lease as it relates to the development of vacant land adjacent to the Vale Hotel in Melbourne. The matter will be heard in the Victorian Supreme Court next week and whatever the outcome, the important point for ALE securityholders to note is that the lease specifies that ALE is entitled to be 'kept whole', or in other words will be compensated, in the event any approved development is carried out on ALE's land by ALH the tenant. The Court's determination is expected to provide helpful guidance on the extent of ALH's development rights. Securityholders will be advised of the outcome of the hearing.

Outlook

I now turn to the outlook for ALE. The Board believes that ALE's business strategy and financial position are now on a very sound footing and that the completion of the capital management program by June 2010 will see the Group relatively well positioned in the listed property sector. Our continuing focus on quality property assets and our conservative capital and risk management strategy policies are, we believe, appropriate.

With the Group's gearing significantly reduced, we expect to complete a refinancing within the next six to twelve months and as part of this exercise we expect that the property security structure and interest rate management strategy will also be reviewed.

As part of the August 2009 capital raising we forecast a Distributable Profit for the year to June 2010 of 24.0 cents per security or 22.1 cents per security on an annualised basis. This is lower than last year's distributable profit and is primarily due to the increase in the number of securities on issue arising from the capital raising. The final level of the 2009/10 distribution will be affected to some extent by the level of profits realised by our asset sales in the current year and our desire to ensure that ALE remains untaxed.

We intend to maintain our policy of setting future distributions at levels that do not exceed the Distributable Profit available having regard for the level of distributions that may be maintained in the future. Market guidance for future distributions will be provided once the refinancing discussions are further advanced. It should be noted, of course, that refinancing credit margins are expected to be higher than those ALE currently enjoys and that this is expected to impact on the level of distributions. However, we do note that the credit markets are continuing to improve.

While ALE is well positioned to take advantage of opportunities to acquire high quality long term assets we are unlikely to move on this front until yields on high quality properties rise significantly and/or debt costs fall substantially.

The Board and management monitor closely all developments in the capital, credit and property markets and have a wide range of excellent relationships with financiers and advisers, as has been evidenced during the recent capital management program.

In closing may I again thank my fellow members of ALE's Board and Andrew and all his management team for their dedication and hard work. Let me also thank you, our investors, for your ongoing loyalty and support.

Peter Warne

Chairman

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