ALE PROPERTY GROUP

Appendix 4D

Half-year Report
Six Months Ended 31 December 2018

ALE PROPERTY GROUP

Australian Leisure and Entertainment Property Management Limited ABN 45 105 275 278
and Australian Leisure and Entertainment Property Trust ARSN 106 063 049

Half yearly (tick)	Preliminary final (tick)	Half-Year ended ('current period'):
✓		**31 December 2018** (previous corresponding period 31 December 2017)

Results for announcement to the market

	6 months to 31 December 2018 A$'000	**6 months to 31 December 2017 A$'000**	Variance %
Rental revenue	**29,676**	**28,863**	2.82%
Total income	**30,125**	**49,753**	(39.45%)
Profit / (Loss) from ordinary activities after income tax, attributable to security holders	**5,585**	**29,743**	(81.22%)
Profit before income tax, fair value adjustments, amortisation of prepaid costs and other non-cash items (Distributable profit)	**14,019**	**14,639**	(4.24%)
Distribution payable for the half-year	**20,458**	**20,262**	0.97%
Available and under/(over) distributed at the half-year (paid from distributable profit, capital and surplus cash)	**(6,439)**	**(5,623)**	-

Dividends (distributions)

	6 months to 31 December 2018 Cents	6 months to 31 December 2017 Cents	Variance %
December half-year interim distribution per security	**10.45**	10.35	0.97%
Franked amount per share	**0.00**	0.00	-
Record date for distribution entitlement	31 December 2018		
Interim distribution will be paid	5 March 2019		
The distribution will be 79.45% tax deferred			

Net tangible assets per security

	6 months to 31 December 2018	6 months to 31 December 2017	Variance %
Net tangible assets per security	**$3.09**	$3.04	1.64%

Explanation of results

Brief explanation of results

- Rental revenue increased by 2.82% due to the weighted average property rent (exclusive of Queensland land tax) increases of 1.91% in November 2017 and a 10.0% rent increase in November 2018 on 34 properties. The remaining properties that are subject to a rent review will be determined by an independent expert.
- Total income has decreased by 39.45% as there was no fair value increment to properties in the current period ($20.35 million to December 2017).
- Profit after income tax for the period decreased by $24.16 million due to:
  - Decrement to property valuations of $0.33 million compared to an increment of $20.35 million in the prior period as property values were unchanged from June 2018 values;
  - Decrement to derivatives of $6.43 million in the current period compared to a decrement of $3.74 million in the prior period as a result of lower long term interest rates;
  - Management costs increased due to expenditure on the rent review preparations; and
  - Increased land tax for QLD properties as a result of increased tax rates.
- The distribution of 10.45 cents per security represents an increase of 0.97% from the previous comparable period.

Reconciliation of profit after tax to total available for distribution

	A$'000
Profit after income tax for half-year	**$5,585**
Plus / (Less)	
Fair value adjustments to investment properties	331
Fair value adjustments to derivatives	6,434
Employee security based payments	125
Finance costs – non cash	1,539
Income tax expense / (benefit)	5
Total available for distribution	**14,019**
Distribution payable	20,458
Available and under / (over) distributed at the half-year	**(6,439)**

Audit Status

Independent auditor KPMG has completed a review of the accounts on which this report is based and provided an unqualified opinion.

A copy of the ALE Property Group 31 December 2018 Half-Year Financial Report with KPMG review opinion is attached.

ALE Property Group

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities

ABN 92 648 441 429

Half-Year Report 31 December 2018

ALE Property Group

Comprising Australian Leisure and Entertainment Property Trust and its controlled entities

Report For the half-year ended 31 December 2018

ABN 92 648 441 429

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31 December 2018

ALE Property Group (ASX: LEP)

ALE Property Group is the owner of Australia's largest portfolio of freehold pub properties. Established in November 2003, ALE owns a portfolio of 86 pub properties across the five mainland states of Australia. All the properties are leased to Australian Leisure and Hospitality Group Pty Limited (ALH).

WWW.ALEGROUP.COM.AU

DIRECTORS' REPORT

The ALE Property Group ("ALE") comprises Australian Leisure and Entertainment Property Trust ("Trust") and its controlled entities including ALE Direct Property Trust ("Sub-Trust"), ALE Finance Company Pty Limited ("Finance Company") and Australian Leisure and Entertainment Property Management Limited ("Company") as the responsible entity of the Trust.

The registered office and principal place of business of ALE is level 10, 6 O'Connell Street, Sydney NSW 2000.

The directors of the Company present their report, together with the consolidated financial statements of ALE for the half-year ended 31 December 2018.

1. DIRECTORS

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

Name	Type	Appointed	Resigned
R W Mactier (Chairman)	Independent non-executive	28 November 2016	
P J Downes	Independent non-executive	26 November 2013	
N J Milne	Independent non-executive	6 February 2015	
P G Say	Independent non-executive	24 September 2014	
M P Triguboff	Non-executive	15 February 2018	
J T McNally	Non-executive	26 June 2003	8 August 2018
A F O Wilkinson (Managing Director)	Executive	16 November 2004	

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 those activities during the half-year.

3. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL HALF-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 half-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.

4. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

ALE will continue to maintain its focus on increasing the value to stapled securityholders.

During the period the first major rent review commenced on 79 of our investment properties. In August 2018, ALE issued rent notices to our tenant, ALH, advising that the rent on the properties should increase by 10%. Two properties had already been agreed at a 10% increase. ALH accepted the rent notices on 32 of the properties and rejected the remaining notices. The remaining 45 properties are in the process of having the rent determined by an independent expert. The timing of the determination process cannot be accurately forecast at this time, however ALE expects the determination process will be concluded in the next financial year. The outcome of the determination process will be that the passing rent to be assessed may increase or decrease by to 10% for the remaining 45 properties.

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.

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 half-year were as follows:

	December 2018 cents per security	December 2017 cents per security	December 2018 $'000	December 2017 $'000
Interim Trust income distribution for the year ending 30 June 2019 to be paid on 5 March 2019	10.45	10.35	20,458	20,262
Interim Trust distribution	**10.45**	**10.35**	**20,458**	**20,262**

No provisions for or payments of Company dividends have been made during the half-year (2017: nil).

6. OPERATIONAL AND FINANCIAL REVIEW

Background
ALE Property Group is the owner of Australia's largest portfolio of freehold pub properties. Established in November 2003, ALE owns a portfolio of 86 pub properties across the five mainland states of Australia. All of the properties in the portfolio are leased to Australian Leisure and Hospitality Group Pty Limited (ALH). The average remaining initial lease term is 9.8 years plus options for ALH to extend.

ALE's high quality freehold pubs have 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 (for 83 of the 86 properties) are as follows:

- For most of the properties the leases commenced in November 2003 with an initial term of 25 years and four options of 10 years for ALH to extend;
- 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 (three of the 86 properties are double net);
- Annual CPI rent increases are not subject to any cap and rents do not decline with negative CPI;
- There is a rent review currently under way that is capped and collared within 10% of the November 2017 rent; and
- There is a full open rent review (no cap or collar) in November 2028 at which time ALH has four options of 10 years to extend the leases.

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 half-year:

- The 86 individual property values remained unchanged at $1,136.3 million; and
- Net Assets decreased by 2.4% to $605.0 million and net covenant gearing (gross borrowings less cash as a percentage of total assets less cash, derivatives and deferred tax assets of ALE DPT) remained stable at 41.6%.

Current half-year performance
ALE produced a profit after tax of $5.6 million for the half-year ended 31 December 2018 compared to a profit of $29.7 million for the half-year ended 31 December 2017. The decrease is primarily due to:

- Fair value decrements to net derivatives increased from $3.7 million in December 2017 to $6.4 million in the current period as long term interest rates decreased;
- Fair value adjustments to investment properties decreased from an increment of $20.4 million in December 2017 to a decrement of $0.3 million in the current period as directors decided to keep property values unchanged from the June 2018 values;
- Management costs increased due to costs associated with the rent review preparations; and
- Land Tax increased due to land tax rate increases imposed on ALE's Queensland properties.

The above decreases were offset by rental income that increased by 2.82% due to the full period impact of the November 2017 rent review of 1.9% and the part period impact of the 10% increase for 34 properties in November 2018.

ALE has a policy of paying distributions which are 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. Distributable Profit excludes items such as unrealised fair value adjustments arising from the effect of revaluing derivatives and investment properties, non-cash expenses and non-cash financing costs.

During the half-year ALE produced a distributable profit of $14.0 million compared to $14.6 million in the previous half-year. The table below separates the cash components of ALE's profit that are available for distribution from the non-cash components. The directors believe this will assist stapled securityholders in understanding the results of operations and distributions of ALE. Distributable Profit was impacted by increased rent, land tax and management costs.

	December 2018 $'000	December 2017 $'000
Profit after income tax for the half-year	**5,585**	**29,743**
Plus / (Less): Adjustments for non-cash items		
Fair value adjustments to investment properties and derivatives	6,765	(16,614)
Employee share based payments	125	125
Finance costs - non-cash	1,539	1,373
Income tax expense	5	12
Total adjustments for non-cash items	**8,434**	**(15,104)**
Total available for distribution	**14,019**	**14,639**
Distribution paid or provided for	20,458	20,262
Available and over distributed for the half-year	**(6,439)**	**(5,623)**
Distribution funded as follows		
Current half-year distributable profits	14,019	14,639
Capital and surplus cash	6,439	5,623
	20,458	**20,262**

	Percentage Increase / (Decrease)	December 2018 Cents	December 2017 Cents
Earnings and distribution per stapled security:			
Basic earnings	(81.22%)	2.85	15.19
Earnings available for distribution	(4.28%)	7.16	7.48
Total distribution	0.97%	10.45	10.35
Current half-year distributable profits		7.16	7.48
Capital and surplus cash		3.29	2.87
		10.45	10.35

Financial position

ALE's net assets decreased by 2.4%, compared with June 2018 which was largely attributable to reduced cash balances and increased borrowings and derivative liabilities during the period.

Investment property revaluations were maintained at June 2018 levels of $1,136.3 million. The November 2018 rent review process is currently in progress and 34 of the properties have been agreed at 10% increases in rent whilst the remaining 45 properties are subject to a rent determination process by independent valuers. As the rent review process has not been finalised, the Directors received advice from the independent valuers that:

- the 10% rent increase for 34 properties was anticipated by the valuers at June 2018;
- the valuers expectations of rent for the other properties have not altered since they were valued at June 2018;
- the demand for investment properties leased to high grade tenants remains strong;
- pub property values, pub rents and underlying capitalisation rates for comparable properties remain substantially unchanged;
- it was therefore not unreasonable for the Directors to adopt the same individual property values that prevailed at June 2018.

Therefore the Directors have elected to keep property values unchanged as at 31 December 2018. As the property values remained unchanged but rent increased by 10% on 34 properties the resulting average property yield increased from 4.98% to 5.19%.

When assessing statutory valuations at June 2018 the valuers applied both traditional capitalisation rate and discounted cash flow (DCF) based valuation methods. The average adopted property yields reflect a combination of these methods but continues to place significant emphasis upon the traditional capitalisation rate approach.

ALE believes that the DCF method can provide a comprehensive view of the quality of the lease and tenant as well as the medium and longer term opportunities for reversion to market based levels of rent. In applying the DCF method the valuers made their own independent assessment of the tenant's current level of EBITDAR and also adopted industry standard market rental ratios. The valuers also used a range of assumptions they deemed appropriate for each of the individual properties. Based upon their assessments and assumptions, the valuers' DCF valuations represented a weighted average capitalisation rate of around 4.29% for the 35 properties valued at June 2018. This compares to the adopted rate of 4.98% at June 2018 which was derived using a combination of the DCF and capitalisation rate methods.

Net assets per stapled security decreased by 2.4% from $3.17 to $3.09 compared to June 2018.

During the half-year, net covenant gearing remained constant at 41.6%. ALE continues to maintain appropriate headroom to all debt covenants with the nearest equivalent to an average 31.3% fall in property values.

ALE's capital position remains sound. This is evidenced by a steady reduction in gearing and the maintenance of an investment grade credit rating. ALE's next debt maturity of $225 million will occur in August 2020. ALE will continue to monitor credit markets and will aim to refinance in advance of the August 2020 maturity date when conditions are most favourable.

ALE's debt capital structure continues to be characterised by the following positive features:

- investment grade credit rating of Baa2 (stable);
- debt maturity dates that are diversified over the next 4.9 years;
- next debt maturity in August 2020;
- 100% of forecast net debt hedged for the next 6.9 years;
- all up cash interest rate of 4.26% p.a. fixed until the next refinancing in August 2020; and
- covenant gearing of 41.6% (June 2018: 41.6%).
- interest cover ratio well above covenant level at 2.6 times;

ALE has consistently sought to mitigate against the impact of interest expense volatility on distributions and continues to have long term hedging in place to achieve this objective.

Business strategies and future prospects

ALE continues to hold a positive outlook for the market rent prospects for the portfolio. In respect of the November 2018 rent reviews, 79 of 86 properties will be reviewed and the rent may increase or decrease by up to 10% of the 2017 rent. For 34 of the 79 properties a rent increase of 10% has already been agreed. A further four standard triple net leases have different review dates and the remaining three properties are subject to non-standard leases. There is also a full open rent review (no caps or collars) in 2028.

ALE will continue to seek acquisition opportunities that are of a high quality, meet our target criteria and represent an accretive value opportunity for securityholders. ALE will also continue to work constructively with ALH in seeking to ensure the existing portfolio of properties continues to perform profitably and to explore development opportunities together for mutual benefit.

ALE has continued to preserve the quality of the existing property portfolio. The current debt structure and long term hedging position provides significant certainty around a stable distributable profit for the medium term.

Following completion of the 2018 rent review ALE will review future distributions and the Group's capital management policy.

Material business risks

ALE is subject to a number of material business risks that may have an impact on the financial prospects of ALE. These risks and how ALE manages them include:

- Property valuation risk - the properties that ALE owns have values that are exposed to movements in the Australian commercial property markets, changes in rent and the general levels of long and short term interest rates. ALE is unable to control the market forces that impact ALE's property values however ALE constantly monitors the property market to assess general trends in property values. ALE has also undertaken significant work to prepare for the 2018 rent review. ALE undertakes on-going condition and compliance audits of our properties and has independent valuers perform valuations on one third of the property portfolio on an annual basis. Declines in ALE's property values will reduce NTA and could also reduce headroom to debt covenants. At 31 December 2018 the closest debt covenant would be triggered by a decline of around 31% in property values and a resultant average capitalisation rate of 7.56%. By way of comparison it should be noted that in the last 10 years the highest average capitalisation rate of ALE properties has been 6.60%. ALE therefore considers it has sufficient headroom in it's debt covenants.

- Interest rate risk - ALE currently has $528 million of outstanding gross borrowings and consequently faces the risk of reduced profitability and distributions should interest rates on borrowings increase materially. To mitigate this risk ALE uses fixed rate borrowings and hedges variable rate borrowings for the medium and long term. Existing arrangements effectively hedge ALE's forecasted debt to November 2025 at weighted average base rates of between 3.11% and 3.46%.

- Refinancing risk - ALE currently has outstanding borrowings representing a covenant gearing level of 41.6%. ALE consequently faces refinancing risk as and when borrowings mature and require repayment. Failure, delays or increased credit margins in refinancing borrowings could subject ALE to a number of risks that could potentially impact future earnings. To mitigate these risks ALE proactively staggers debt maturities, continually monitors debt markets, actively seeks to maintain ALE's current credit rating of Baa2 and maintains relationships with diverse funding markets to ensure multiple funding options are available. ALE has a long track record of consistently approaching debt markets for refinancing well in advance of the scheduled debt maturity dates. ALE has change of control protections. A change in more than 20% of the ownership of ALH requires ALE's consent based on its reasonable opinion that ALH will continue to have the financial capacity to enable it to conduct the permitted operating uses profitably and perform all its lease obligations (an exception applies if ALH becomes an ASX listed entity).

- Single tenant risk - all 86 of ALE's pub properties are leased to a single tenant, ALH which is owned by Woolworths Limited (75%) and the Bruce Mathieson Group (25%). In the event of a default in rental payments by the tenant, ALE may be unable to pay interest on borrowings and distributions to securityholders. ALE manages this risk by monitoring the operating performance of each of the hotels and ALH on a regular basis. ALE also has the option of selling properties and/or issuing equity to meet its debt obligations.

- Regulatory risk – changes to liquor licence regulation or gaming licence regulation could significantly impact the trading performance of the operating businesses of ALH and therefore impact the EBITDAR of our tenant. EBITDAR is a key determining factor for rent reviews and therefore could impact on ALE’s long term profitability. ALE is unable to control regulatory changes that may impact on our properties but monitors potential changes and liaises with ALH to understand the potential impact on hotel profitability.

7. 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 6.

8. 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.

9. ROUNDING OF AMOUNTS

ALE is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, 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 Instrument to the nearest thousand dollars, unless otherwise indicated.

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

Robert Mactier	**Andrew Wilkinson**
Chairman	Managing Director
Sydney	Sydney

Dated this 13th day of February 2019

KPMG

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

To the Directors of Australian Leisure and Entertainment Property Management Limited, the Responsible Entity for Australian Leisure and Entertainment Property Trust

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett

Partner

Sydney

13 February 2019

FINANCIAL STATEMENTS

Half-Year Report for the period ended 31 December 2018

Notes to the Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

Half-Year Report for the period ended 31 December 2018

	Note	December 2018 $'000	December 2017 $'000
Revenue			
Rent from investment properties		29,676	28,863
Interest from cash deposits		449	540
Total revenue		**30,125**	**29,403**
Other income			
Fair value increments to investment properties	2	-	20,350
Total other income		**-**	**20,350**
Total income		**30,125**	**49,753**
Expenses			
Fair value decrements to derivatives		6,434	3,736
Fair value decrements to investment properties	2	331	-
Finance costs	4.1	12,684	12,436
Queensland land tax expense		1,473	1,178
Other expenses		3,613	2,648
Total expenses		**24,535**	**19,998**
Profit before income tax		**5,590**	**29,755**
Income tax expense		5	12
Profit after income tax expense		**5,585**	**29,743**
Other comprehensive income		**-**	**-**
Other comprehensive income for the period after income tax		**-**	**-**
Total comprehensive income for the period		**5,585**	**29,743**
Profit attributable to:			
Members of ALE		5,585	29,743
Profit for the period		5,585	29,743
Total comprehensive income attributable to:			
Members of ALE		5,585	29,743
Total comprehensive income for the period		5,585	29,743
		Cents	**Cents**
Diluted earnings per stapled security	4.3	2.85	15.18
Basic earnings per stapled security	4.3	2.85	15.19

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

STATEMENT OF FINANCIAL POSITION

For the Half-Year Ended 31 December 2018

	Note	December 2018 $'000	June 2018 $'000
Current assets			
Cash and cash equivalents	3.5	37,797	46,014
Receivables		187	282
Other		1,692	308
Total current assets		**39,676**	**46,604**
Non-current assets			
Investment properties	2	1,136,260	1,136,260
Derivatives	3.2	691	834
Plant and equipment		53	63
Deferred tax asset		307	285
Total non-current assets		**1,137,311**	**1,137,442**
Total assets		**1,176,987**	**1,184,046**
Current liabilities			
Payables		8,502	8,347
Distribution payable		20,458	20,458
Employee entitlements		285	255
Total current liabilities		**29,245**	**29,060**
Non-current liabilities			
Borrowings	3.1	526,048	524,509
Derivatives	3.2	16,694	10,403
Total non-current liabilities		**542,742**	**534,912**
Total liabilities		**571,987**	**563,972**
Net assets		**605,000**	**620,074**
Equity			
Contributed equity	3.3	258,118	258,118
Reserve		790	855
Retained profits		346,092	361,101
Total equity		**605,000**	**620,074**
		$	$
Net assets per stapled security		**$3.09**	**$3.17**

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

STATEMENT OF CHANGES IN EQUITY

Half-Year Report for the period ended 31 December 2018

	Share Capital $'000	Share based payments reserve $'000	Retained Earnings $'000	Total $'000
Half year ended 31 December 2018				
Total equity at the beginning of the half-year	**258,118**	**855**	**361,101**	**620,074**
Total comprehensive income for the period				
Profit/(Loss) for the period	-	-	5,585	5,585
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	5,585	5,585
Employee security based payments	-	125	-	125
Employee security based payments - securities purchased	-	(190)	(136)	(326)
Distribution paid or payable	-	-	(20,458)	(20,458)
Total equity at the end of the half-year	**258,118**	**790**	**346,092**	**605,000**
Half year ended 31 December 2017				
Total equity at the beginning of the half-year	**258,118**	**893**	**326,969**	**585,980**
Total comprehensive income for the period				
Profit/(Loss) for the period	-	-	29,743	29,743
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	29,743	29,743
Employee security based payments	-	125	-	125
Employee security based payments - securities purchased	-	(273)	(239)	(512)
Distribution paid or payable	-	-	(20,262)	(20,262)
Total equity at the end of the half-year	**258,118**	**745**	**336,211**	**595,074**

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

STATEMENT OF CASH FLOWS

Half-Year Report for the period ended 31 December 2018

	Note	December 2018 $'000	December 2017 $'000
Cash flows from operating activities			
Receipts from tenant and others		32,677	31,749
Payments to suppliers and employees		(9,553)	(8,410)
Interest received		545	560
Interest received - interest rate hedges (net)		230	273
Borrowing costs paid		(11,323)	(11,274)
Net cash inflow from operating activities		**12,576**	**12,898**
Cash flows from investing activities			
Payments for plant and equipment		(4)	-
Payments for investment properties		(331)	-
Net cash inflow / (outflow) from investing activities		**(335)**	**-**
Cash flows from financing activities			
Borrowing and capital raising costs refunded/(paid)		-	(53)
Distributions paid		(20,458)	(20,066)
Net cash inflow / (outflow) from financing activities		**(20,458)**	**(20,119)**
Net increase / (decrease) in cash and cash equivalents held		**(8,217)**	**(7,221)**
Cash and cash equivalents at the beginning of the half-year		46,014	59,585
Cash and cash equivalents at the end of the half-year	3.5	**37,797**	**52,364**

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

	December 2018 $'000	December 2017 $'000
Profit for the year	5,585	29,743
Plus/(less):		
Fair value decrements/(increments) to investment property	331	(20,350)
Fair value decrements to derivatives	6,434	3,736
Finance costs amortisation	210	197
CIB Accumulated indexation	1,329	1,176
Share based payments expense	125	125
Share based payments securities purchased	(326)	(512)
Depreciation	14	6
Decrease/(increase) in -		
Receivables	95	1
Deferred tax assets	(22)	(1)
Other assets	(1,384)	(1,113)
Increase/(decrease) in -		
Payables	155	(133)
Employee entitlements	30	23
Net cash inflow from operating activities	**12,576**	12,898

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

1.
About this report

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 2018 to 31 December 2018.

The stapled securities of ALE are quoted on the Australian Securities 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.

Statement of compliance
This general purpose financial report for the interim half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by ALE during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated financial statements were authorised for issue by the Board of Directors on 13th February 2019.

Accounting 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.

Accounting estimates and judgements	Note
Investment property	2
Financial instruments	3.2

Rounding of amounts
ALE is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

Significant accounting policies
Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2019.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2018.

AASB 15 Revenue from contracts with Customers
AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue, AASB 111

AASB 15 did not have a significant impact on the Group's accounting policies.

AASB 9 Financial Instruments
AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. However, it eliminates the previous AASB 139 categories for financial assets of held to maturity, loans and receivables and available for sale.

AASB 9 did not have a significant impact on the Group's accounting policies.

1. About this report

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Senior management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as bank valuations or independent valuations, is used to measure fair values then management assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit, Compliance and Risk Management Committee.

When measuring the fair value of an asset or a liability, ALE uses market observable data as far as possible. Fair values are:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2.
Investment property

This section provides information relating to the investment properties of the Group. ALE has a strong focus on maintaining a quality investment grade portfolio of freehold pub properties.

	December 2018 $'000	June 2018 $'000
Investment properties	1,136,260	1,136,260
Reconciliation of fair value gains for half-year ending 31 December 2018		
Fair value as at beginning of the half-year	1,136,260	1,100,510
Additions during half-year	331	1,827
Carrying amount before revaluations	**1,136,591**	1,102,337
Fair value as at end of the half-year	1,136,260	1,136,260
Fair value gain / (loss) for half year	**(331)**	33,923

Recognition and measurement

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 83 of the 86 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 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.

Measurement of fair value

The basis of valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm’s length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. As at 31 December 2018, the weighted average property yield was 5.19% (June 2018: 4.98%).

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 the Statement of Comprehensive Income. 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

2. Investment property

Measurement of fair value (continued)

more regular basis if considered appropriate and as determined by the ACRMC 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 weighted average lease term of the properties is around 10 years.

In accordance with ALE's policy of independently valuing at least one-third of its property portfolio annually, 35 properties were independently valued as at 30 June 2018. 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, Savills, Herron Todd White and Opteon.

The remaining 51 properties were subject to Directors' valuations as at 30 June 2018, identified as "B". The Directors' valuations of the 51 properties were determined by taking each property's net rent as at 30 June 2018 and capitalising it at a rate equal to the prior year capitalisation rate for that property, adjusted by the average change in adopted capitalisation rate evident in the 35 independent valuations completed at 30 June 2018 on a like for like basis. The Directors received advice from CBRE, Savills and Herron Todd White, that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a like for like basis.

As at 31 December 2018, the November 2018 rent review process is still in progress. There are 79 properties out of 86 that are currently subject to a rent review, of which 34 have been agreed to receive a 10% increase. The remaining 45 properties are subject to an independent determination process. The Directors have received advice from the independent property valuers that:

- the 10% rent increase for 34 properties was anticipated by the valuers at June 2018;

- the valuers expectations of rent for the other properties have not altered since they were valued at June 2018;

- the demand for investment properties leased to high grade tenants remains strong;

- pub property values, pub rents and underlying capitalisation rates for comparable properties remain substantially unchanged;

- it was therefore not unreasonable for the Directors to adopt the same individual property values that prevailed at June 2018.

Accordingly the Directors have elected to keep the property values at the assessed June 2018 amounts.

Valuations reflect, where appropriate, the tenant in occupation, the credit worthiness of the tenant, the triple-net nature and remaining term of the leases (83 of 86 properties), land tax liabilities (Queensland only), 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.

The valuations of each independent property are prepared by considering the aggregate of the net annual 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 rent receivable to arrive at the property valuation. The independent valuer also had regard to discounted cash flows modelling in deriving an adopted capitalisation rate although the capitalisation of income method remains the predominant method used in valuing the properties.

A table showing the range of property yields applied to individual properties for each state in which the property is held is included below.

	December 2018 Average property yields	June 2018 Average property yields	**December 2018 Average**	June 2018 Average
New South Wales	**4.57% - 5.96%**	4.51% - 5.79%	**5.29%**	4.96%
Queensland	**3.28% - 5.91%**	2.86% - 5.80%	**5.07%**	4.81%
South Australia	**4.02% - 5.80%**	3.65% - 5.80%	**5.20%**	5.13%
Victoria	**2.75% - 6.35%**	2.50% - 6.10%	**5.18%**	5.04%
Western Australia	**5.80% - 6.93%**	5.41% - 6.51%	**6.22%**	5.93%

2. Investment property

The fair value measurement for investment property of $1,136.26 million has been categorised as a level 3 fair value based on inputs to the valuation technique used.

Valuation techniques and unobservable inputs

Fair Value Hierarchy	Class of Property	Fair Value December 2018 $000's	Valuation Technique	Inputs Used To Measure Fair Value	Range of Individual Property Unobservable inputs (June 2018 valuations)
Level 3	Pubs	1,136,260	Capitalisation method	Gross rent p.a. ($'000's)	$81 - $1,782
				Land tax p.a. ($'000's)	$7 - $166
				Adopted yields	2.75% - 6.93%
			Discounted cash flow method	Gross rent p.a. ($'000's)	$157 - $1,730
				Land tax p.a. ($'000's)	$15 - $171
				Discount rates p.a.	5.75% - 9.86%
				Terminal capitalisation rates	4.75% - 8.00%
				Consumer price index p.a.	2.14% - 2.60%

As noted above the independent valuer had regard to discounted cash flow modelling and the traditional capitalisation rate methodology in determining a final adopted property yields although the capitalisation of income method remains the predominant method used in valuing the individual properties.

Ownership arrangements

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, leasehold improvements and certain development rights are held by the tenant.

Leasing arrangements

83 of the 86 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.

	December 2018 $'000	December 2017 $'000
(i) Future minimum lease payments		
The future minimum lease payments in relation to non-cancellable leases are receivable as follows:		
Within one year	63,283	59,147
Later than one year but not later than five years	261,698	259,692
Later than five years	362,359	434,976
	687,340	753,815
(ii) Amount recognised in the profit and loss		
Rental income	29,676	28,863

The majority of ALE's leases expire in November 2028 and have 4 x 10 year options to extend. As the exercise of the options are unknown at this point the future minimum lease payments exclude the options. The comparative numbers have been calculated on the same basis.

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 leases. 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 at each property for an amount of $1.

Valuation type and date

The following tables detail the cost and fair value of each of the Group's investment properties. The valuation type and date is as follows:

A	Independent valuations conducted during June 2018 with a valuation date of 30 June 2018.
B	Directors' valuations conducted during June 2018 with a valuation date of 30 June 2018.
C	Directors' valuations conducted during December 2018 with a valuation date of 31 December 2018.

Properties were purchased in November 2003, unless otherwise indicated.

2. Investment property

Property	Cost including additions $'000	Valuation type	Fair value at December 2018 $'000	Fair value at June 2018 $'000	Fair Value gains/ (losses) for December 2018 $'000
New South Wales					
Blacktown Inn, Blacktown	5,472	C, B	13,550	13,550	-
Brown Jug Hotel, Fairfield Heights	5,660	C, B	13,550	13,550	-
Colyton Hotel, Colyton	8,208	C, A	20,150	20,150	-
Crows Nest Hotel, Crows Nest	8,772	C, B	19,980	19,980	-
Melton Hotel, Auburn	3,114	C, A	7,650	7,650	-
Narrabeen Sands Hotel, Narrabeen (Mar 09)	8,945	C, A	15,400	15,400	-
New Brighton Hotel, Manly	8,867	C, B	11,540	11,540	-
Pioneer Tavern, Penrith	5,849	C, B	14,600	14,600	-
Pritchard's Hotel, Mount Pritchard (Oct 07)	21,130	C, A	29,900	29,900	-
Smithfield Tavern, Smithfield	4,151	C, B	10,040	10,040	-
Total New South Wales properties	**80,168**		**156,360**	**156,360**	**-**
Queensland					
Albany Creek Tavern, Albany Creek	8,396	C, B	18,470	18,470	-
Alderley Arms Hotel, Alderley	3,303	C, B	7,730	7,730	-
Anglers Arms Hotel, Southport	4,434	C, A	11,000	11,000	-
Balaclava Hotel, Cairns	3,304	C, A	13,300	13,300	-
Breakfast Creek Hotel, Breakfast Creek	11,024	C, B	19,360	19,360	-
Burleigh Heads Hotel, Burleigh Heads (Nov 08)	6,685	C, B	15,550	15,550	-
Camp Hill Hotel, Camp Hill	2,265	C, B	7,160	7,160	-
Chardons Corner Hotel, Annerly	1,416	C, A	3,400	3,400	-
Dalrymple Hotel, Townsville	3,208	C, B	13,500	13,500	-
Edge Hill Tavern, Manoora	2,359	C, A	6,400	6,400	-
Edinburgh Castle Hotel, Kedron	3,114	C, B	7,450	7,450	-
Four Mile Creek, Strathpine (Jun 04)	3,672	C, B	9,180	9,180	-
Hamilton Hotel, Hamilton	6,604	C, A	15,700	15,700	-
Holland Park Hotel, Holland Park	3,774	C, B	14,740	14,740	-
Kedron Park Hotel, Kedron Park	2,265	C, B	4,650	4,650	-
Kirwan Tavern, Townsville	4,434	C, A	12,700	12,700	-
Lawnton Tavern, Lawnton	4,434	C, A	9,500	9,500	-
Miami Tavern, Miami	5,548	C, A	14,900	14,900	-
Mount Gravatt Hotel, Mount Gravatt	3,208	C, B	7,310	7,310	-
Mount Pleasant Tavern, Mackay	1,794	C, A	11,100	11,100	-
Noosa Reef Hotel, Noosa Heads (Jun 04)	6,874	C, A	11,800	11,800	-
Nudgee Beach Hotel, Nudgee	3,020	C, B	7,090	7,090	-
Palm Beach Hotel, Palm Beach	6,886	C, A	14,900	14,900	-
Pelican Waters, Caloundra (Jun 04)	4,237	C, B	8,980	8,980	-
Prince of Wales Hotel, Nundah	3,397	C, B	9,940	9,940	-
Racehorse Hotel, Booval	1,794	C, B	7,100	7,100	-
Redland Bay Hotel, Redland Bay	5,189	C, B	10,530	10,530	-
Royal Exchange Hotel, Toowong	5,755	C, B	10,300	10,300	-
Springwood Hotel, Springwood	9,150	C, A	19,900	19,900	-
Stones Corner Hotel, Stones Corner	5,377	C, B	10,800	10,800	-
Vale Hotel, Townsville	5,661	C, B	15,010	15,010	-
Wilsonton Hotel, Toowoomba	4,529	C, B	11,940	11,940	-
Total Queensland properties	**147,110**		**361,390**	**361,390**	**-**

2. Investment property

Property	Cost including additions $'000	Valuation type	Fair value at December 2018 $'000	Fair value at June 2018 $'000	Fair Value gains/ (losses) for December 2018 $'000
South Australia					
Aberfoyle Hub Tavern, Aberfoyle Park	3,303	C, B	7,250	7,250	-
Eureka Tavern, Salisbury	3,303	C, B	6,300	6,300	-
Exeter Hotel, Exeter	1,888	C, B	4,590	4,590	-
Finsbury Hotel, Woodville North	1,605	C, B	4,040	4,040	-
Gepps Cross Hotel, Blair Athol	2,507	C, A	8,200	8,200	-
Hendon Hotel, Royal Park	1,605	C, A	4,200	4,200	-
Stockade Tavern, Salisbury	4,435	C, A	6,250	6,250	-
Total South Australian properties	**18,646**		**40,830**	**40,830**	**-**
Victoria					
Ashley Hotel, Braybrook	3,963	C, B	9,860	9,860	-
Bayswater Hotel, Bayswater	9,905	C, A	22,000	22,000	-
Berwick Inn, Berwick (Feb 06)	15,888	C, B	21,280	21,280	-
Blackburn Hotel, Blackburn	9,433	C, A	19,500	19,500	-
Blue Bell Hotel, Wendouree	1,982	C, B	5,410	5,410	-
Boundary Hotel, East Bentleigh (Jun 08)	17,943	C, B	26,640	26,640	-
Burvale Hotel, Nunawading	9,717	C, B	23,630	23,630	-
Club Hotel - FTG, Ferntree Gully	5,095	C, A	12,200	12,200	-
Cramers Hotel, Preston	8,301	C, B	19,030	19,030	-
Deer Park Hotel, Deer Park	6,981	C, A	16,200	16,200	-
Doncaster Inn, Doncaster	12,169	C, B	25,590	25,590	-
Ferntree Gully Hotel/Motel, Ferntree Gully	4,718	C, A	9,000	9,000	-
Gateway Hotel, Corio	3,114	C, B	8,380	8,380	-
Keysborough Hotel, Keysborough	9,622	C, A	23,500	23,500	-
Mac's Melton Hotel, Melton	6,886	C, B	15,010	15,010	-
Meadow Inn Hotel/Motel, Fawkner	7,689	C, B	18,090	18,090	-
Mitcham Hotel, Mitcham	8,584	C, B	18,690	18,690	-
Morwell Hotel, Morwell	1,511	C, B	2,580	2,580	-
Olinda Creek Hotel, Lilydale	3,963	C, A	8,900	8,900	-
Pier Hotel, Frankston	8,019	C, B	16,990	16,990	-
Plough Hotel, Mill Park	8,490	C, B	17,440	17,440	-
Prince Mark Hotel, Doveton	9,810	C, A	22,000	22,000	-
Royal Exchange, Traralgon	2,171	C, B	5,270	5,270	-
Sandbelt Club Hotel, Moorabbin	10,849	C, B	24,780	24,780	-
Sandown Park Hotel/Motel, Noble Park	6,321	C, B	13,970	13,970	-
Sandringham Hotel, Sandringham	4,529	C, B	12,940	12,940	-
Somerville Hotel, Somerville	2,733	C, A	7,380	7,380	(16)
Stamford Inn, Rowville	12,733	C, A	30,000	30,000	-
Sylvania Hotel, Campbellfield	5,377	C, A	13,500	13,500	-
The Vale Hotel, Mulgrave	5,566	C, A	13,650	13,650	-
Tudor Inn, Cheltenham	5,519	C, A	12,800	12,800	(47)
Village Green Hotel, Mulgrave	12,546	C, B	26,370	26,370	-
Young & Jackson, Melbourne	6,132	C, A	23,400	23,400	-
Total Victorian properties	**248,259**		**545,980**	**545,980**	**(63)**
Western Australia					
Queens Tavern, Highgate	4,812	C, B	10,090	10,090	-
Sail & Anchor Hotel, Fremantle	3,114	C, A	4,700	4,700	-
The Brass Monkey Hotel, Northbridge (Nov 07)	7,815	C, A	9,550	9,550	-
Balmoral Hotel, East Victoria Park (Jul 07)	6,645	C, B	7,360	7,360	(268)
Total Western Australian properties	**22,386**		**31,700**	**31,700**	**(268)**
Total investment properties	**516,569**		**1,136,260**	**1,136,260**	**(331)**

3.
Capital structure and financing

This section provides information on the Group's capital structure and its exposure to financial risk, how they affect the Group's financial position, and how the risks are managed.

3.1 Borrowings

3.2 Financial risk management

3.3 Equity

3.4 Capital management

3.5 Cash and cash equivalents

3.1 Borrowings

	December 2018 $'000	June 2018 $'000
Non-current borrowings		
Capital Indexed Bond (CIB)	152,024	150,652
Australian Medium Term Notes (AMTN)	374,024	373,857
	526,048	**524,509**

CIB	December 2018 $'000	June 2018 $'000
Gross value of debt	111,900	111,900
Accumulated indexation	40,672	39,343
Unamortised borrowing costs	(548)	(591)
Net balance	**152,024**	**150,652**

$125 million of CIB was issued in May 2006 of which $111.9 million face value remains outstanding. 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.

AMTN	December 2018 $'000	June 2018 $'000
Gross value of debt	375,000	375,000
Unamortised borrowing costs	(976)	(1,143)
Net balance	**374,024**	**373,857**

On 10 June 2014 ALE issued $225 million AMTN with a maturity date of 20 August 2020. On 8 March 2017 ALE issued a further $150m AMTN, with a maturity date of 20 August 2022. The AMTN are fixed rate securities with interest payable semi annually.

Recognition and measurement

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.

Assets pledged as security

The carrying amounts of assets pledged as security as at the balance date for CIB borrowings and certain interest rate derivatives are:

	December 2018 $'000	June 2018 $'000
Current assets		
Cash - CIB borrowings reserves	8,390	8,390
Non-current assets		
Total investment properties	1,136,260	1,136,260
Less: Properties not subject to mortgages:		
Pritchard's Hotel, NSW	(29,900)	(29,900)
Miami Hotel, QLD[1]	(1,400)	(1,400)
Properties subject to mortgages	1,104,960	1,104,960
Total assets pledged as security	**1,113,350**	1,113,350

1. Adjoining property purchased in April 2018

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 CIB borrowings, the CIB holders are also entitled in certain circumstances to recover certain unpaid amounts from the business assets of ALH.

3. Capital structure and financing

Terms and Repayment Schedule

	Nominal Interest Rate	Maturity Date[1]	31 December 2018 Face Value $'000	31 December 2018 Carrying Amount $'000	30 June 2018 Face Value $'000	30 June 2018 Carrying Amount $'000
AMTN	5.00%	Aug-2020	225,000	225,000	225,000	225,000
AMTN	4.00%	Aug-2022	150,000	150,000	150,000	150,000
CIB	3.40%[2]	Nov-2023	111,900	152,572	111,900	151,243
			486,900	527,572	486,900	526,243
Unamortised borrowing costs				(1,524)		(1,734)
Total borrowings				526,048		524,509

1. Maturity date refers to the first scheduled maturity date for each tranche of borrowing.
2. Interest is payable on the indexed balance of the CIB at a fixed rate.

Reconciliation of movements in liabilities to cash flows arising from financing activities

	CIB Borrowings	AMTN Borrowings	Total Borrowings
Balance as at 1 July 2018	150,652	373,857	524,509
Changes from financing cash flows			
Capitalised borrowing costs	-	-	-
Total changes from financing cash flows	-	-	-
Other changes			
Amortisation of capitalised borrowing costs	43	167	210
Accumulated indexation	1,329	-	1,329
Total other changes	1,372	167	1,539
Balance as at 31 December 2018	152,024	374,024	526,048

3.2 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2017.

Fair Value

The basis for determining fair values is disclosed in Note 1.

The fair value of derivative financial instruments (level 2) is disclosed in the Statement of Financial Position.

AMTN and CIB Borrowings are classed as Level 2.

The carrying amount of all financial assets and liabilities approximates their fair value with the exception of borrowings which is shown below:

Valuation techniques used to derive Level 2 fair values

The fair value of derivatives is determined by using counterparty mark-to-market valuation notices, cross checked internally by using a generally accepted pricing model based on discounted cash flow analysis using quoted market inputs (interest rates) adjusted for specific features of the instruments and applying a debit or credit value adjustment based on ALE's or the derivative counterparty's credit worthiness.

Credit value adjustments are applied to mark-to-market assets based on the counterparty's credit risk using the credit default swap curves as a benchmark for credit risk.

Debit value adjustments are applied to mark-to-market liabilities based on the ALE's credit risk using the credit rating of ALE issued by a rating agency for the recent AMTN issue.

	31 December 2018 Carrying Amount $'000	31 December 2018 Fair Value $'000	30 June 2018 Carrying Amount $'000	30 June 2018 Fair Value $'000
CIB	152,024	156,863	150,652	165,572
AMTN	374,024	381,677	373,857	382,082
	526,048	**538,540**	**524,509**	**547,654**

3. Capital structure and financing

Interest rate hedges

ALE uses derivative financial instruments, being interest rate hedges, to manage its exposure to interest rate risk on borrowings. As at balance date, ALE has hedged all non CIB net borrowings past the maturity date of the AMTN through nominal interest rate hedges.

	December 2018 $'000	June 2018 $'000
Current assets	-	-
Non current assets	691	834
Total assets	691	834
Current liabilities	-	-
Non current liabilities	(16,694)	(10,403)
Total liabilities	(16,694)	(10,403)
Net assets/(liabilities)	(16,003)	(9,569)

Fair value adjustments to derivatives

	December 2018 $'000	December 2017 $'000
Fair value increments/ (decrements) to interest rate hedge derivatives	(6,434)	(3,736)

Recognition and measurement

Interest rate hedges are initially recognised at fair value and are subsequently remeasured to their fair value at each reporting date. Any gains or losses arising from the change in fair value of the interest rate hedges are recognised in the Statement of Comprehensive Income.

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.

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.

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.

At 31 December 2018, the notional principal amounts and periods of expiry of the interest rate hedge contracts are as follows:

	Nominal Interest Rate		Counter Hedges on		Net Derivative Position	
	December 2018 $'000	June 2018 $'000	December 2018 $'000	June 2018 $'000	December 2018 $'000	June 2018 $'000
Less than 1 year	-	-	-	-	-	-
1 - 2 years	-	-	(30,000)	(30,000)	(30,000)	(30,000)
2 - 3 years	-	-	-	-	-	-
3 - 4 years	-	-	-	-	-	-
4 - 5 years	-	-	-	-	-	-
Greater than 5 years	506,000	506,000	-	-	506,000	506,000
	506,000	506,000	(30,000)	(30,000)	476,000	476,000

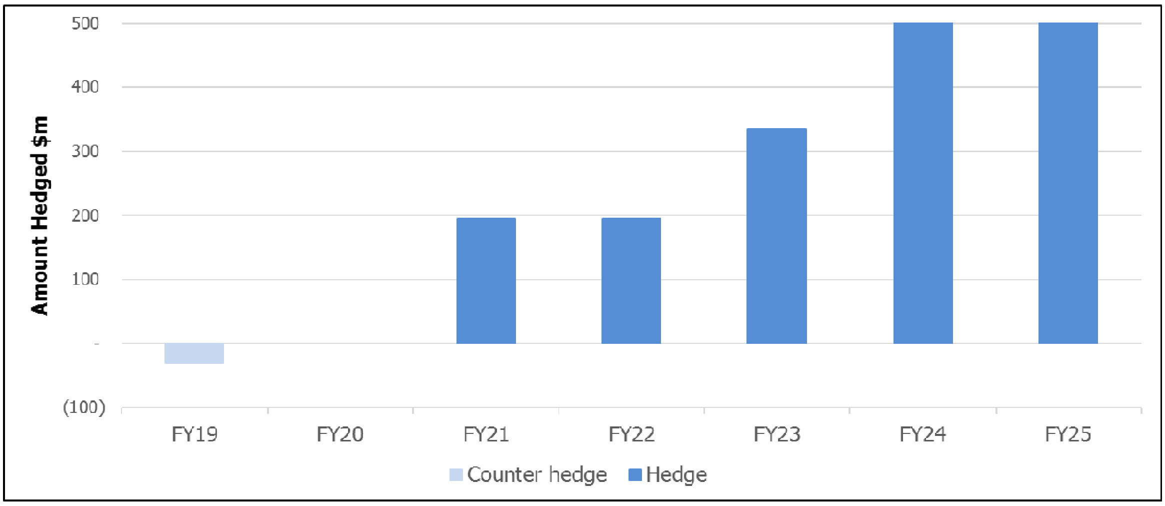
3. Capital structure and financing

ALE has a series of forward start hedges in place and a counter hedge that is currently active. The forward start hedge commences on the date of the maturity of the August 2020 AMTN borrowings. The forward start hedges terminate in November 2025.

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 term of the interest rate hedges and fixed rate securities in relation to the total borrowings of ALE is 6.9 years at 31 December 2018.

The following chart shows the hedge balances over the life of the hedges.



Financial covenants

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

Interest Cover Ratio covenants (ICR)

Borrowing	ICR covenant	Consequence
CIB	ALH EBITDAR to be greater than 7.5 times CIB Interest expense	Stapled security distributions lockup
AMTN	ALE DPT EBITDA to be greater than or equal to 1.5 times ALE DPT interest expense	Note holders may call for notes to be redeemed
Hedging	As per AMTN above	As per AMTN above

Definitions
Interest amounts include all derivative rate swap payments and receipts
EBITDAR - Earnings before Interest, Tax, Depreciation, Amortisation and Rent for ALE owned properties

Rating covenant

Borrowing	Covenant	Consequence
AMTN	AMTN issue rating to be maintained at investment grade. (i.e. at least Baa3/BBB-)	Published rating of Ba1/BB+ or lower results in a step up margin of 1.25% to be added to the interest rate payable

3. Capital structure and financing

Loan to Value Ratio covenants (LVR)

Borrowing	LVR Covenant	Consequence
CIB	The issuance of new CIB is not permitted if the indexed value of the resultant CIB exceeds 25% of the value of properties held as security	Note holders may call for notes to be redeemed
CIB	Outstanding value of CIB not to exceed 66.6% of the value of properties held as security	Note holders may call for notes to be redeemed
AMTN	The new issuance of Net Priority Debt is not permitted to exceed 20% of Net Total Assets	Note holders may call for notes to be redeemed
AMTN	Net Finance Debt not to exceed 60% of Net Total Assets	Stapled Security distribution lockup
AMTN	Net Finance Debt not to exceed 65% of Net Total Assets	Note holders may call for notes to be redeemed
Hedging	As per AMTN above	As per AMTN above

Definitions
All covenants exclude the mark to market value of derivatives

Net Total Assets	Total Assets less Cash less Derivative Assets less Deferred Tax Assets.
Net Priority Debt	ALE Finance Company Pty Limited (ALEFC) borrowings less Cash held against the ALEFC borrowings, divided by Total Assets less Cash less Derivative Assets less Deferred Tax Assets
Net Finance Debt	Total Borrowings less Cash, divided by Total Assets less Cash less Derivative Assets less Deferred Tax Assets.

ALE currently considers that significant headroom exists with respect of all the above covenants. At all times during the periods ended 31 December 2018 and 30 June 2018, ALE and its subsidiaries were in compliance with all the above covenants.

3.3 Equity

	December 2018 $'000	June 2018 $'000
Balance at the beginning of the period	258,118	258,118
No movements	-	-
Closing balance	**258,118**	258,118

Movements in the number of fully paid stapled securities during the year	**Number of Stapled Securities**	**Number of Stapled Securities**
Stapled securities on issue:		
Opening balance	195,769,080	195,769,080
No movements	-	-
Closing balance	195,769,080	195,769,080

Measurement and recognition

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.

Stapled securities

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

No income voting units (NIVUS)

The Trust issued 9,080,010 of no income voting units (NIVUS) to the Company, fully paid at $1.00 each in November 2003. The NIVUS are not stapled to shares in the Company, have an issue and withdrawal price of $1.00, carry no rights to income from the Trust and entitle the holder to no more than $1.00 per NIVUS upon the winding-up of the Trust. The Company has a voting power of 4.43% 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.

3. Capital structure and financing

3.4 Capital management

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the 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 may undertake on-market buybacks of ALE stapled securities. ALE also makes capital distribution payments to stapled securityholders. 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 the ALE 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 31 December 2018 and 30 June 2018 were 48.6% and 47.7% respectively.

The covenent gearing ratios (gross borrowings less cash as a percentage of total assets less cash, derivatives and deferred tax assets of ALE DPT) at 30 December 2018 and 30 June 2018 were both 41.6%.

3.5 Cash and cash equivalents

	December 2018 $'000	**June 2018 $'000**
Cash at bank and in hand	4,834	2,551
Deposits at call	24,573	35,073
Cash reserve	8,390	8,390
	37,797	46,014

Recognition and measurement

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.

Cash obligations

An amount of $8.39 million is required to be held as a cash reserve as part of the terms of the CIB issue in order to provide liquidity for CIB obligations to their scheduled maturity date of 20 November 2023.

An amount of $2 million is required to be held in a term deposit by the Company to meet minimum net tangible asset requirements of the AFSL licence.

4.
Business performance

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

4.1 Finance costs

4.2 Distributable income

4.3 Earnings per security

4.1 Finance costs

	December 2018 $'000	December 2017 $'000
Finance costs - cash		
Capital Indexed Bonds (CIB)	2,596	2,560
Australian Medium Term Notes (AMTN)	8,665	8,665
Interest rate derivative payments/(receipts)	(231)	(267)
Other finance expenses	115	105
	11,145	11,063
Finance costs - non-cash		
Accumulating indexation - CIB	1,329	1,176
Amortisation - CIB	43	39
Amortisation - AMTN	167	158
	1,539	1,373
Finance costs (cash and non-cash)	**12,684**	12,436

Recognition and measurement
Interest expense is recognised on an accruals basis.

Borrowing costs are recognised using the effective interest rate method.

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

Finance cost details
Other borrowing costs such as rating agency fees and liquidity fees.

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

4.2 Distributable income
Reconciliation of profit after tax to amounts available for distribution:

	December 2018 $'000	December 2017 $'000
Profit after income tax	**5,585**	29,743
Plus /(less)		
Fair value adjustments to investment properties	331	(20,350)
Fair value adjustments to derivatives	6,434	3,736
Employee share based payments expense	125	125
Finance costs - non cash	1,539	1,373
Income tax expense	5	12
Adjustments for non-cash items	8,434	(15,104)
Total available for distribution	14,019	14,639
Distribution paid or provided for	20,458	20,262
Over distributed	(6,439)	(5,623)
Distribution funded as follows		
Current year distributable profits	14,019	14,639
Capital and surplus cash	6,439	5,623
	20,458	**20,262**

4.3 Earnings per security

Basic earnings per stapled security

The calculation of basic earnings per stapled security is based on the profit attributable to ordinary securityholders and the weighted-average number of ordinary stapled securities outstanding.

	December 2018	December 2017
Profit attributable to members of the Group ($000's)	5,585	29,743
Weighted average number of stapled securities	195,769,080	195,769,080
Basic earnings per security (cents)	2.85	15.19

Diluted earnings per stapled security

The calculation of diluted earnings per stapled security is based on the profit attributable to ordinary securityholders and the weighted-average number of ordinary stapled securities outstanding after adjustments for the effects of all dilutive potential ordinary stapled securities.

	December 2018	December 2017
Profit attributable to members of the Group ($000's)	5,585	29,743
Weighted average number of stapled securities	195,932,008	195,954,314
Diluted earnings per security (cents)	2.85	15.18

Distributable profit per security

ALE has a policy of paying distributions which are 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. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs.

The calculation of distributable profit per stapled security is based on the distributable profit attributable to ordinary securityholders and the number of ordinary stapled securities outstanding.

	December 2018	December 2017
Distributable profit attributable to members of the Group ($000's)	14,019	14,639
Number of stapled securities	195,769,080	195,769,080
Distributable profit per security (cents)	7.16	7.48

Distributed profit per security

	December 2018	December 2017
Distributable income per stapled security	7.16	7.48
Distribution paid per stapled security	10.45	10.35
Under/(over) distributed for the half year	(3.29)	(2.87)

5.
Other

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements.

5.1 Segment information

5.2 Investments in controlled entities

5.3 Events occurring after reporting date

5.1 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 of ALE Property Group's pub properties are leased to members of the ALH Group, and accordingly 100% of the rental income is received from ALH (2017: 100%). Non pub rental income comprises less than 1% of total revenue.

5.2 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.3, which in turns owns 100% of the issued shares of ALE Finance Company No.3 Pty Limited. Both of these Trust subsidiaries are dormant.

5.3 Events occurring after reporting date

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

In the directors' opinion:

1. the financial statements and notes set out on pages 8 to 27 are in accordance with the *Corporations Act 2001* including:

   (a) giving a true and fair view of the Company's financial position as at 31 December 2018 and of its performance for the six month period ended on that date: and

   (b) complying with Australian Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Robert Mactier
Chairman
Sydney

Andrew Wilkinson
Managing Director
Sydney

Dated this 13th day of February 2019

Independent Auditor's Review Report

To the stapled security holders of ALE Property Group

Report on the Half-year Financial Report

Conclusion

We have reviewed the half-year financial report of ALE Property Group (the Stapled Group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the ***half-year financial report*** of the Stapled Group is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Stapled Group's*** financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***half-year financial report*** comprises:

- the consolidated statement of financial position as at 31 December 2018
- the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date
- notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information
- the Directors' Declaration.

The ***Stapled Group*** comprises Australian Leisure and Entertainment Property Trust ("the Trust") and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of Australian Leisure and Entertainment Property Management Limited, the Responsible Entity of the Trust, are responsible for:

- the preparation of the half-year financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Stapled Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of ALE Property Group, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett

Partner

Sydney

13 February 2019

INVESTOR INFORMATION AND CORPORATE DIRECTORY

INVESTOR INFORMATION

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.

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

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

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.

Annual Tax Statement
Accompanying the final stapled security distribution payment, normally in September each year, will be an annual tax statement which details the tax components of the year's distribution.

Publications
The Annual Review and Annual Report are the main sources of information for stapled securityholders. In August each year the Annual Review, Annual Report and Full Year Financial Report, and in February each year, the Half-Year Financial Report are released to the ASX and posted on the ALE website. The Annual Review is mailed to stapled securityholders unless we are requested not to do so. The Full Year and Half-Year Financial Reports are only mailed on request. Periodically ALE may also send releases to the ASX covering matters of relevance to investors. These releases are also posted on the ALE website and may be distributed by email to stapled securityholders by registering on ALE’s website. The election by stapled securityholders to receive communications electronically is encouraged by ALE.

Website
The ALE website, www.alegroup.com.au, is a useful source of information for stapled securityholders. It includes details of ALE's property portfolio, current activities and future prospects. ASX announcements are also included on the site on a regular basis. The ALE Property website, www.aleproperties.com.au, provides further detailed information on ALE's property portfolio.

CORPORATE DIRECTORY

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

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