

ANNUAL
REPORT
2017

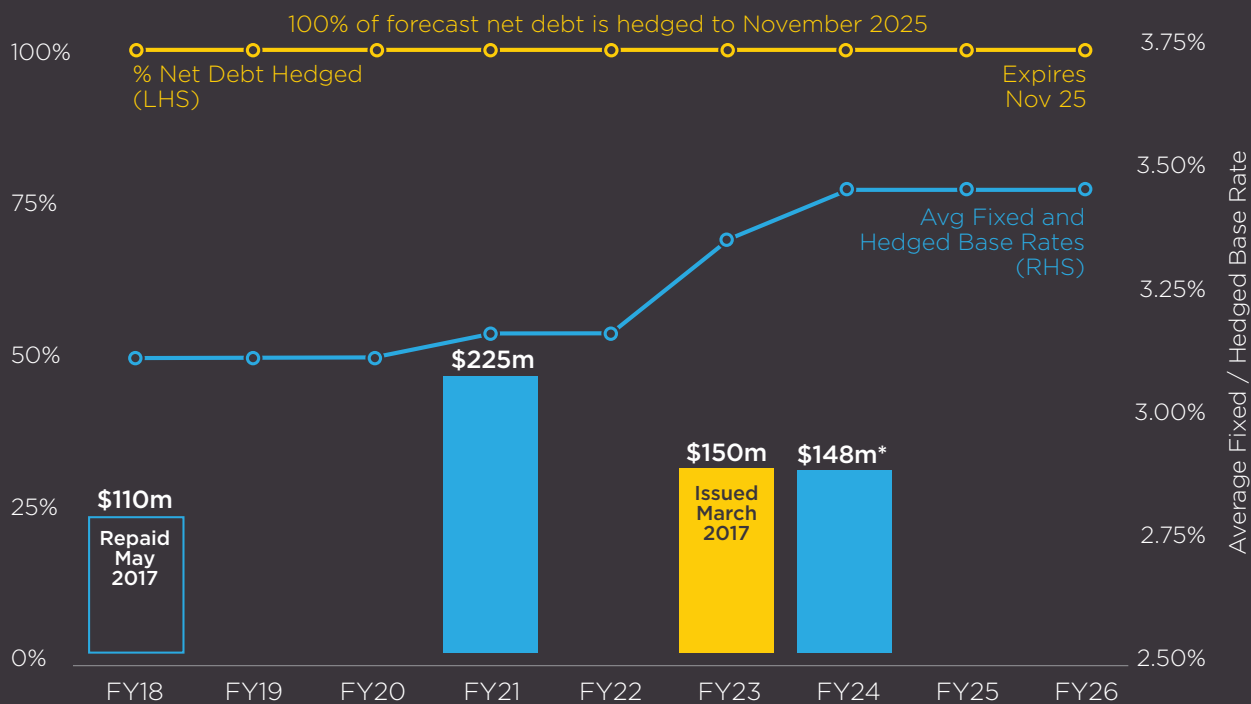
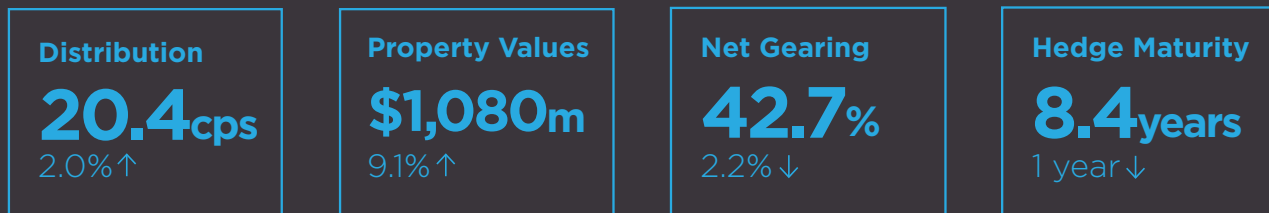
VALUE

INCOME
GROWTH
OPPORTUNITIES

“It is an honour to succeed Peter Warne as Chairman of ALE. On behalf of my fellow Directors, I acknowledge and thank Peter for his outstanding service and leadership as Chairman since ALE listed on the Australian Securities Exchange (ASX) in 2003.

Over those nearly 14 years, the accumulated value of a securityholder’s original \$1.00 investment, with reinvested distributions, had grown to \$14.72 at 30 June 2017. Peter oversaw ALE’s market capitalisation growth from \$91 million to more than \$900 million today, delivering a total return of around 22% per annum. This is testament to Peter, the Board and management team and a good relationship with a strongly performing tenant.”

Robert Mactier
Chairman



* balance escalates with CPI

ALE Property Group

Comprising Australian Leisure and Entertainment
Property Trust and its controlled entities
Report For the Year ended 30 June 2017

ABN 92 648 441 429

ANNUAL REPORT

2017

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

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DIRECTORS' REPORT

For the Year ended 30 June 2017

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



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

Level 10
6 O'Connell Street
Sydney NSW 2000

The directors of the Company present their report, together with the financial statements of ALE, for the year ended 30 June 2017.





1. DIRECTORS

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

Name	Experience, responsibilities and other directorships
<p>Robert Mactier, B.Ec, MAICD <i>Independent Non Executive Director Chairman of the Board</i></p> 	<p>Appointed: 28 November 2016 Appointed Chairman: 23 May 2017 Member of the Audit, Compliance and Risk Management Committee (ACRMC) Member of the Nominations Committee Member of the Remuneration Committee</p> <p>Robert's other current roles include Chairman of ASX-listed WPP AUNZ Limited (since 2006) and Consultant to UBS AG in Australia (since June 2007). Between 2006 and January 2017 he served as a non-executive Director of NASDAQ listed Melco Resorts and Entertainment Limited.</p> <p>Robert began his career at KPMG and from January 1986 to April 1990 worked across their audit, management consulting and corporate finance practices. He has extensive investment banking experience in Australia, having previously worked for Citigroup, E.L. & C. Baillieu and Ord Minnett Securities between 1990 and 2006.</p> <p>Robert holds a Bachelor's degree in economics from the University of Sydney and has been a Member of the Australian Institute of Company Directors since 2007.</p>
<p>Phillipa Downes, BSc (Bus Ad), MAppFin, GAICD <i>Independent Non Executive Director</i></p> 	<p>Appointed: 26 November 2013 Chair of the ACRMC Member of the Nominations Committee Member of the Remuneration Committee</p> <p>Phillipa (Pippa) is a Director of the Infotrack Group, the ASX Clearing and Settlement companies, the Sydney Olympic Park Authority and is also on the panel of the ASX Appeals Tribunal. Pippa is also a director of the Pinnacle Foundation and was a Managing Director and Equity Partner of Goldman Sachs in Australia until October 2011, working in the Proprietary Investment division. Pippa has had a successful international banking and finance career spanning over 20 years where she has led the local investment, derivative and trading arms of several of the world's leading Investment Banks. She has extensive experience in Capital Markets, derivatives and asset management.</p> <p>Prior to joining Goldman Sachs in 2004, Ms Downes was a director and the Head of Equity Derivatives Trading at Deutsche Bank in Sydney. When Morgan Stanley was starting its equity franchise in Australia in 1998 she was hired to set up the Derivative and Proprietary Trading business based in Hong Kong and Australia. Ms Downes started her career working for Swiss Bank O'Connor on the Floor of the Pacific Coast Stock Exchange in San Francisco, followed by the Philadelphia Stock Exchange before returning to work in Sydney as a director for UBS.</p> <p>Pippa was previously an appointed Director on the Board of Swimming Australia and the Swimming Australia Foundation. Pippa graduated from the University of California at Berkeley with a Bachelor of Science in Business Administration majoring in Finance and Accounting. Pippa also completed a Masters of Applied Finance from Macquarie University in 1998.</p>

DIRECTORS' REPORT

For the Year ended 30 June 2017


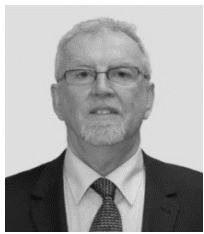
Name	Experience, responsibilities and other directorships
<p>Nancy Milne, <i>OAM, LLB, FAICD</i> <i>Independent Non Executive Director</i></p> 	<p>Appointed: 6 February 2015 Member of the ACRMC Member of the Nominations Committee Member of the Remuneration Committee</p> <p>Nancy has been a professional non-executive director for over a decade. She is a former lawyer with over 30 years' experience with primary areas of legal expertise in insurance, risk management and corporate governance. She was a partner with Clayton Utz until 2003 and a consultant until 2012. She is currently Chairman of the Securities Exchange Guarantee Corporation and deputy chairman of the State Insurance Regulatory Authority. She was previously a director of Australand Property Group, Crowe Horwarth Australasia, State Plus and Novion Property Group (now Vicinity Centres).</p> <p>Nancy has a Bachelor of Laws from the University of Sydney. She is a member of the NSW Council of the Australian Institute of Company Directors and the Institute's Law Committee.</p>
<p>Paul Say, <i>FRICS, FAPI</i> <i>Independent Non Executive Director</i></p> 	<p>Appointed: 24 September 2014 Member of the ACRMC Chair of the Nominations Committee Chair of the Remuneration Committee</p> <p>Paul has over 30 years' experience in commercial and residential property management, development and real estate transactions with major multinational institutions. Paul was Chief Investment Officer at Dexus Property Group from 2007 to 2012. Prior to that he was with Lend Lease Corporation for 11 years in various positions culminating with being the Head of Corporate Finance. Paul is a director of GPT Metro Office Fund and Frasers Logistic & Industrial Trust (SGX listed).</p> <p>Paul has a Graduate Diploma in Finance and Investment and a Graduate Diploma in Financial Planning. He is a Fellow of the Royal Institute of Chartered Surveyors, Fellow of the Australian Property Institute and a Licensed Real Estate Agent (NSW, VIC and QLD).</p>
<p>James McNally <i>B.Bus (Land Economy), Dip. Law</i> <i>Non Executive Director</i></p> 	<p>Appointed: 26 June 2003</p> <p>James is an executive and founding director of the company. James has over 20 years' experience in the funds management industry, having worked in both property trust administration and compliance roles for Perpetual Trustees Australia Limited and MIA Services Pty Limited, a company that specialises in compliance services to the funds management industry. James' qualifications include a Bachelor of Business in land economy and a Diploma of Law. James is also a registered valuer and licensed real estate agent.</p> <p>James is not considered an Independent Director as he has held an Executive Director position with ALE for the last three years to 15 April 2017.</p>
<p>Peter Warne, <i>B.A, FAICD</i> <i>Independent Non Executive Director</i></p> 	<p>Appointed: 8 September 2003 Resigned: 23 May 2017 Member of the Audit, Compliance and Risk Management Committee (ACRMC) Member of the Nominations Committee Member of the Remuneration Committee</p> <p>Peter began his career with the NSW Government Actuary's Office and the NSW Superannuation Board before joining Bankers Trust Australia Limited (BTAL) in 1981. Peter held senior positions in the Fixed Income Department, the Capital Markets Division and the Financial Markets Group of BTAL and acted as a consultant to assist with integration issues when the investment banking business of BTAL was acquired by Macquarie Bank Limited in 1999. Peter is Chairman of Macquarie Group Limited and a board member of ASX Limited. He is also a Director of the Securities Exchanges Guarantee Corporation and NSW Treasury Corporation.</p> <p>Peter graduated from Macquarie University with a Bachelor of Arts, majoring in Actuarial Studies. He qualified as an associate of, and received a Certificate of Finance and Investment from, the Institute of Actuaries, London.</p>

DIRECTORS' REPORT

For the Year ended 30 June 2017

Name	Experience, responsibilities and other directorships
<p>Andrew Wilkinson <i>B.Bus, CFTP, MAICD</i> <i>Managing Director</i></p> 	<p>Appointed: 16 November 2004 Chief Executive Officer and Managing Director of the Company Responsible Manager of the Company under the Company's Australian Financial Services Licence (AFSL)</p> <p>Andrew was appointed Managing Director of the Company in November 2004. He joined ALE as Chief Executive Officer at the time of its listing in November 2003. Andrew has around 35 years' experience in banking, corporate finance and funds management. He was previously a corporate finance partner with PricewaterhouseCoopers and spent 15 years in finance and investment banking with organisations including ANZ Capel Court and Schroders.</p>

2. OTHER OFFICERS

Name	Experience
<p>Michael Clarke <i>BCom, MMan, CA, ACIS</i> <i>Company Secretary and Finance Manager</i></p> 	<p>Appointed: 30 June 2016</p> <p>Michael joined ALE in October 2006 and was appointed Company Secretary on 30 June 2016. Michael has a Bachelor of Commerce from the University of New South Wales and a Masters of Management from the Macquarie Graduate School of Management. He is an associate member of both the Governance Institute of Australia and the Institute of Chartered Accountants in Australia and New Zealand.</p> <p>Michael has over 30 years' experience in accounting, taxation and financial management. Michael previously held senior financial positions with subsidiaries of listed public companies and spent 12 years working for Grant Thornton. He has also owned and managed his own accounting practice.</p>
<p>David Lawler <i>B.Bus, CPA</i> <i>Independent member of ACRMC</i></p> 	<p>Appointed: 9 December 2005</p> <p>David was appointed to ALE's ACRMC on 9 December 2005 and has over 25 years' experience in internal auditing in the banking and finance industry. He was the Chief Audit Executive for Citibank in the Philippines, Italy, Switzerland, Mexico, Brazil, Australia and Hong Kong. David was Group Auditor for the Commonwealth Bank of Australia. David is the Chairman of the Australian Trade and Investment Commission Audit and Risk Committee, and the National Mental Health Commission Audit Committee, and is an audit committee member of the Australian Office of Financial Management, Cancer Australia, the Department of Foreign Affairs and Trade, the Australian Sports Anti-Doping Authority, and the Australian Maritime Safety Authority. David is Chairman of Australian Settlements Limited. David has a Bachelor of Business Studies from Manchester Metropolitan University in the UK. He is a Fellow of CPA Australia and a past President of the Institute of Internal Auditors – Australia.</p>

3. INFORMATION ON DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directorships of listed entities within the last three years

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

Director	Directorships of listed entities	Type	Appointed as Director	Resigned as Director
R W Mactier	WPP AUNZ Limited	Non-executive	December 2006	
R W Mactier	Melco Resorts and Entertainment Limited (Nasdaq listed)	Non-executive	December 2006	January 2017
P G Say	GPT Metro Office Fund	Non-executive	August 2014	September 2016
P G Say	Frasers Logistic & Industrial Trust (SGX listed)	Non-executive	June 2016	

DIRECTORS' REPORT

For the Year ended 30 June 2017

Directors' and key management personnel interests in stapled securities and ESSS rights

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

Name	Role	held at the start of the year	Net movement	Number held at the end of the year
R W Mactier	Non-executive Director	-	50,000	50,000
P H Warne (Resigned 23 May 2017)	Non-executive Director	1,185,000	-	1,185,000
P J Downes	Non-executive Director	213,904	(24,794)	189,110
P G Say	Non-executive Director	25,000	-	25,000
N J Milne	Non-executive Director	20,000	-	20,000
A F O Wilkinson	Executive Director	317,859	49,878	367,737
J T McNally	Executive Director	55,164	-	55,164
A J Slade	Capital Manager	73,611	(13,611)	60,000
M J Clarke	Company Secretary and Finance Manager	17,500	500	18,000
D J Shipway	Asset Manager	4,000	8,825	12,825

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

Name	Role	Number held at the start of the year	Granted during the year	Lapsed / Delivered during the year	Number held at the end of the year
<u>ESSS Rights</u>					
A F O Wilkinson	Executive Director	131,975	27,020	(34,878)	124,117
A J Slade	Capital Manager	66,355	13,510	(19,092)	60,773
M J Clarke	Finance Manager	23,024	5,246	(8,825)	19,445
D J Shipway	Asset Manager	17,514	1,968	(8,825)	10,657

Meetings of directors

The number of meetings of the **Company's** Board of Directors held and of each Board committee during the year ended 30 June 2017 and the number of meetings attended by each director at the time the director held office during the year were:

Director	Board		ACRMC		Nominations Committee and Remuneration Committee	
	Held ¹	Attended	Held ¹	Attended	Held ¹	Attended
R W Mactier	6	6	2	2	2	2
P H Warne	9	9	6	6	3	3
P J Downes	10	10	7	7	4	4
P G Say	10	10	7	7	4	4
N J Milne	10	10	7	7	4	4
A F O Wilkinson	10	10	n/a	n/a	n/a	n/a
J T McNally	10	9	n/a	n/a	n/a	n/a

Member of Audit, Compliance and Risk Management Committee

D J Lawler	n/a	n/a	7	7	n/a	n/a
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¹ "Held" reflects the number of meetings which the director or member was eligible to attend.

4. PRINCIPAL ACTIVITIES

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

DIRECTORS' REPORT

For the Year ended 30 June 2017

5. 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 (ALH) for an average remaining initial lease term of 11.3 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 to 2028;
- 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 market rent review in November 2018 that is capped and collared within 10% of the 2017 rent; and
- There is a full open market rent review (no cap and collar) in November 2028.

Significant changes in the state of affairs

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

- The 86 individual property values increased by an average of 9.1% to \$1,080.2 million; and
- Net Assets increased by 18.2% to \$586.0 million and net borrowings (total borrowings less cash) as a percentage of assets (total assets less cash, derivatives and deferred tax assets) decreased from 44.9% to 42.7%.

Current year performance

ALE produced a profit after tax of \$130.0 million for the year ended 30 June 2017 compared to a profit of \$91.2 million for the year ended 30 June 2016. The increase is primarily due to:

- Fair value adjustments to investment properties remained stable at \$89.6 million in the current year due to rental growth and continued reductions in capitalisation rates;
- Fair value adjustments to derivatives liabilities increased from a \$25.2 million decrement in 2016 to a \$14.3 million increment in the current year as long term interest rates increased;
- Rental income increased by 1.5% due to the full year impact of the November 2015 rent review of 1.5% and the part year impact of the November 2016 rent review of 1.4%;
- Interest income was higher due to additional funds on deposit following the March 2017 AMTN financing ;
- Finance costs were higher due to the new AMTN borrowings raised in March 2017 overlapping the existing AMTN borrowing that was repaid in May 2017; and
- Management costs increased during the year due to costs associated with various property related projects. ALE's management expense ratio continues to be one of the lowest in the A-REIT sector.

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.

During the financial year ALE produced a distributable profit of \$29.1 million compared to \$29.6 million in the previous financial 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 primarily impacted by the same cash items that affected Operating Profit, namely changes in rent and finance costs.

DIRECTORS' REPORT

For the Year ended 30 June 2017

	30 June 2017 \$'000	30 June 2016 \$'000
Profit/(loss) after income tax for the year	130,043	91,178
Adjustment for non-cash items		
Fair value increments to derivatives and investment properties	(103,899)	(64,434)
Employee share based payments	248	182
Finance costs - non-cash	2,712	2,613
Income tax expense	14	35
Total adjustments for non-cash items	(100,925)	(61,604)
Total profit available for distribution	29,118	29,574
Distribution paid or provided for	39,937	39,154
Available and under/(over) distributed for the year	(10,819)	(9,580)
<u>Distribution funded as follows</u>		
Current year distributable profits	29,118	29,574
Prior year undistributed profits	-	6,523
Capital and surplus cash	10,819	3,057
	39,937	39,154

	Percentage Increase / (Decrease)	30 June 2017 Cents	30 June 2016 Cents
Earnings and distribution per stapled security:			
Basic and diluted earnings	42.61%	66.43	46.58
Earnings available for distribution	(1.54%)	14.87	15.11
Total distribution	2.00%	20.40	20.00
Current year distributable profits		14.87	15.11
Prior year undistributed profits		0.00	3.33
Capital and surplus cash		5.53	1.56
		20.40	20.00

Financial position

ALE's net assets increased by 18.2%, compared with the previous year which was largely attributable to an increase in property values during the year.

Investment property valuations increased the value by 9.1% from \$990.5 million to \$1,080.2 million during the year. The increase in property valuations was attributable to the November 2016 CPI rent increase and average capitalisation rates decreasing from around 5.5% to 5.1% across the portfolio. When assessing statutory valuations the valuers applied both traditional capitalisation rate and discounted cashflow (DCF) based valuation methods. The valuation results reflect a combination of these methods but continue 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 4.5% for the 33 properties valued.** This compares to the rate of around 5.1% which was derived using a combination of the DCF and capitalisation rate methods.

DIRECTORS' REPORT

For the Year ended 30 June 2017

Net assets per stapled security increased by 18.2% from \$2.53 to \$2.99 compared to June 2016, primarily as a result of the increase in property values.

ALE's market capitalisation this year increased by around 2.6% to around \$914 million at 30 June 2017.

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 is scheduled to occur in August 2020. During the year net covenant gearing reduced from 44.9% to 42.7%. ALE continues to maintain appropriate headroom to all debt covenants with the nearest equivalent to an average 29% fall in property values.

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

- debt structure with two types of fixed rate bonds;
- maturity dates that are diversified over the next six years;
- 100% of net debt hedged for around eight years;
- all up cash interest rate of 4.26% p.a. fixed until the next refinancing in August 2020; and
- lower gearing of 42.7% (2016: 44.9%).

ALE has consistently sought to mitigate interest rate volatility and continues to have long term hedging in place to achieve this objective.

Historical performance

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

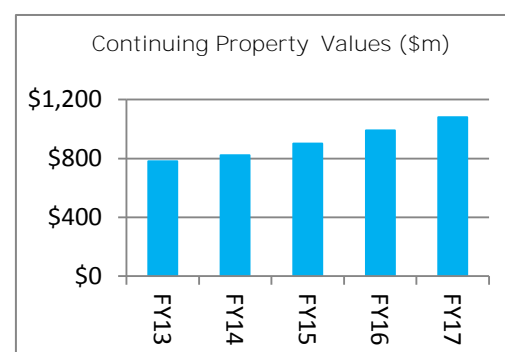
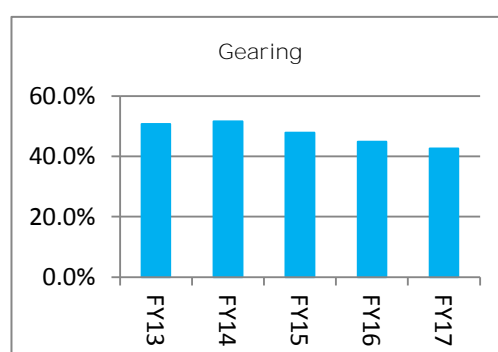
	FY13	FY14	FY15	FY16	FY17
Distributable profit (\$m)	31.7	31.2	29.1	29.6	29.1
Distribution per Security (cents)	16.00	16.45	16.85	20.00	20.40
Continuing property values (\$m) ²	781.5	821.6	900.5	990.5	1,080.2
Net gearing ¹	50.8%	51.7%	47.9%	44.9%	42.7%

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

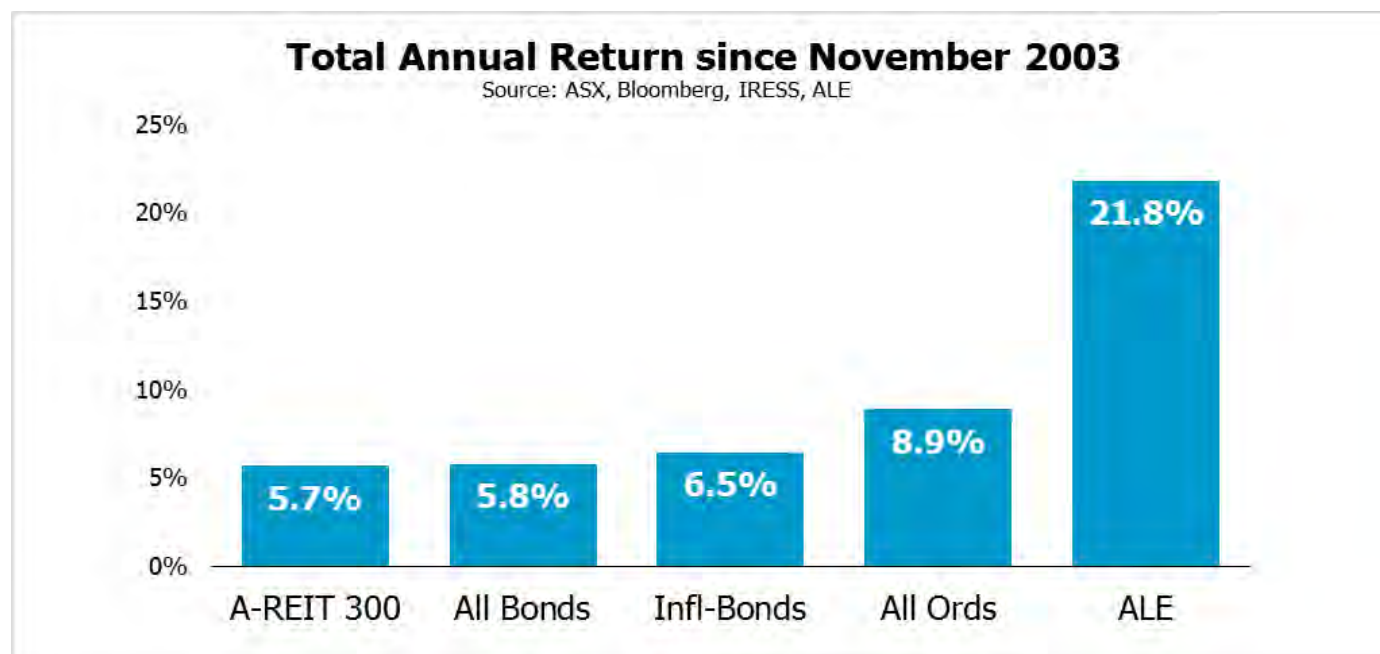
2. Includes only the value of properties held as at 30 June 2017

The accumulated value of \$1.00 initial public offering (IPO) investment in ALE and reinvested distributions, rights renunciation payments and current market value of securities as at 30 June 2017 totalled \$14.72.

According to investment bank UBS, for the period ending 30 June 2017, ALE continued to outperform other equity return benchmarks including the AREIT 300 index and the All Ordinaries index for periods including one, three, five and ten years. For the one year period ALE's return of 7.5% outperformed the AREIT 300 index of (5.6%).



The following chart shows the total annual return of an ALE security since listing in November 2003.



1. Includes ALE's equity market price of \$4.67 as at 30 June 2017 and reinvestment of distributions and 2009 renunciation payment
2. All Ordinaries Accumulation Index
3. BAICO Index - Australian credit inflation-linked securities
4. UBS S&P REIT 300 Index
5. BAMSTO Index- composite of the Composite Bond, Inflation and Credit FRN indices

Business strategies and future prospects

ALE continues to hold a positive outlook for the market rent prospects for the portfolio. In around two years' time the first major review will occur with the fair market rent capped and collared within 10% of the 2017 rent for the majority of properties. There is also a full open fair market rent review (no caps or collars) in November 2028.

ALE will continue to seek acquisition opportunities that are of a high quality, meet all specified criteria and represent an accretive value opportunity for securityholders. Even if these opportunities are not available, ALE will continue to work constructively with ALH with a focus on maintaining and exploring the potential to further enhance the properties' existing strong profitability through development or better site utilisation.

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 distribution profile for the medium term.

ALE's objective is to continue to grow distributions at least in line with increases in the CPI.

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 as well as 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 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 30 June 2017 the closest debt covenant would be triggered by a decline of around 29% in property values and a resultant average capitalisation rate of 7.26%. 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 its exposure to property valuation risk is appropriate.

DIRECTORS' REPORT

For the Year ended 30 June 2017

Interest rate risk - ALE currently has \$521 million of outstanding 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 debt to November 2025 at average base rates of between 3.11% and 3.46%.

Refinancing risk - ALE currently has outstanding borrowings representing a gearing level of 42.7% and has a medium term policy of maintaining gearing within a range of 50% to 55%. 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.

Single tenant risk - all 86 of ALE's 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 our tenant and therefore impact the EBITDA of our tenant. EBITDA is a key determining factor for market 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.

6. DISTRIBUTIONS AND DIVIDENDS

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

	30 June 2017 cents per security	30 June 2016 cents per security	30 June 2017 \$'000	30 June 2016 \$'000
Final Trust income distribution for the year ending 30 June 2017 to be paid on 5 September 2017	10.25	10.10	20,066	19,773
Interim Trust income distribution for the year ending 30 June 2017 paid on 6 March 2017	10.15	9.90	19,871	19,381
Total distribution for the year ending 30 June 2017	20.40	20.00	39,937	39,154

No provisions for or payments of Company dividends have been made during the year (2016: nil).

7. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

ALE will continue to maintain its defined strategy of identifying opportunities to increase its profitability and value to its stapled securityholders.

In accordance with the leases of its investment properties, ALE expects to receive annual increases in rental income in line with increases in the consumer price index until the first major market rent review in November 2018.

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

DIRECTORS' REPORT

For the Year ended 30 June 2017

9 REMUNERATION REPORT (Audited)

The Remuneration Report presented below is the remuneration report included in the Directors' Report of Australian Leisure and Entertainment Property Management Limited (the "Company"). This report provides details on ALE's remuneration structure, decisions and outcomes for the year ended 30 June 2017 for employees of ALE including the directors, the Managing Director and key management personnel. This information has been audited as required by section 308(3C) of the Act.

9.1 Remuneration Objectives and Approach

In determining a remuneration framework, the Board aims to ensure the following:

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

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

- alignment with ALE's financial, operational, compliance and risk management objectives so as to achieve alignment with positive outcomes for stapled securityholders;
- alignment with ALE's overall performance;
- transparent, reasonable and acceptable to employees and securityholders;
- rewards the responsibility, capability, experience and contribution made by executives;
- recognises individual executive's contributions towards value accretive outcomes when measured against Key Performance Indicators (KPI's); and
- market competitive and complementary to the reward strategy of the organisation.

The framework provides a mix of fixed and variable remuneration. Since the year ending 30 June 2012 the variable remuneration has been provided through the Executive Incentive Scheme (EIS). Any award under the EIS is paid 50% in cash following the year end and 50% in stapled securities with delivery deferred three years.

9.2 Remuneration Committee

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

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

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

The Committee operates independently of management in its recommendations to the Board and engages remuneration consultants independently of management. During the year ended 30 June 2017, the Committee consisted of the following:

P G Say	Non-executive Director	Chairman of Remuneration Committee
P H Warne	Non-executive Director	(Resigned 23 May 2017)
R W Mactier	Non-executive Director	(Appointed 22 February 2017)
P J Downes	Non-executive Director	
N J Milne	Non-executive Director	

Page 2 of this report provides information on the skills, experience and expertise of the Committee members.

The number of meetings held by the Committee and the members' attendance at them is set out on page 5.

The Committee considers advice from a wide range of external advisors in performing its role. During the current financial year the Committee did not retain an external consultant to advise on remuneration.

DIRECTORS' REPORT

For the Year ended 30 June 2017

9.3 Executive Remuneration

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

- Fixed Annual Remuneration (FAR)
- Executive Incentive Scheme (EIS)

9.3.1 Fixed Annual Remuneration (FAR)

What is FAR? FAR is the guaranteed salary package of the executive and includes superannuation guarantee levy and salary sacrificed components such as motor vehicles, computers and superannuation.

How is FAR set? FAR is set by reference to external market data for comparable roles and responsibilities within similar listed and unlisted entities within Australia.

When is FAR Reviewed? FAR is reviewed in December each year with any changes being effective from 1 January of the following year.

9.3.2 Executive Incentive Scheme (EIS)

What is EIS? EIS is an "at risk" component of executive remuneration.

EIS is used to reward executives for achieving and exceeding annual individual KPIs.

The target EIS opportunity for executives varies according to the role and responsibility of the executive.

EIS awards comprise 50% cash and 50% deferred delivery stapled securities issued under the Executive Stapled Securities Scheme (ESSS). For executives not invited to participate in the ESSS, the EIS is paid fully in cash.

Executive	Position	Standard EIS Target (as a % of FAR)	% of EIS paid as cash	% of EIS paid as ESSS
Andrew Wilkinson	Managing Director	60%	50%	50%
Andrew Slade	Capital Manager	50%	50%	50%
Michael Clarke	Company Secretary and Finance Manager	n/a ¹	50%	50%
Don Shipway	Asset Manager	n/a ¹	50%	50%

1. EIS awards are at the discretion of the Committee and the Board

How are EIS targets and objectives chosen? At the beginning of each year, in addition to the standard range of operational requirements, the Board sets a number of strategic objectives for ALE for that year. These objectives are dependent on the strategic opportunities and issues facing ALE for that year and may include objectives that relate to the short and longer term performance of ALE. Additionally, specific KPIs are established for all executives with reference to their individual responsibilities which link to the addition to and protection of securityholder value, improving business processes, ensuring compliance with legislative requirements, reducing risks within the business and ensuring compliance with risk management policies, as well as other key strategic non-financial measures linked to drivers of performance in future economic periods.

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

The quantum of EIS payments and awards are directly linked to over or under achievement against the specific KPIs. The Board has due regard to the achievements outlined in section 9.4.

DIRECTORS' REPORT

For the Year ended 30 June 2017

How are EIS awards delivered? EIS cash payments are made in August each year following the signing of ALE's full year statutory financial statements.

The deferred component comprises an award of stapled securities under the ESSS. Any securities awarded under the ESSS are delivered three years after the award date provided certain conditions have been met.

How is the ESSS award calculated? The number of ESSS Rights awarded annually under the ESSS will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE's full year statutory financial statements, and grossing this number up for the future value of the estimated distributions over the three year deferred delivery period.

What conditions are required to be met for the delivery of an ESSS award? During the three year deferred delivery period, the delivery of the Stapled Securities issued under the ESSS remains subject to the following clawback tests. ESSS rights will be forfeited in whole or in part at the discretion of the Remuneration Committee if before the end of the deferred delivery period:

- **the Committee becomes aware of any executive performance matter which, had it been aware of the matter at the time of the original award, would have in their reasonable opinion resulted in a lower original award; or**
- **the executive engages in any conduct or commits any act which, in the Committee's reasonable opinion, adversely affects ALE Property Group including, and without limitation, any act which:**
 - **results in ALE having to make any material negative financial restatements;**
 - **causes ALE to incur a material financial loss; or**
 - **causes any significant financial or reputational harm to ALE and/or its businesses.**

9.3.3 Summary of Key Contract Terms

Contract Details

Executive	Andrew Wilkinson	Andrew Slade	Michael Clarke	Don Shipway	James McNally
Position	Managing Director	Capital Manager	Finance Manager and Company Secretary	Asset Manager	Executive Director
Contract Length	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Fixed Annual Remuneration	\$466,550	\$263,488	\$225,420	\$204,820	\$105,000
Notice by ALE	6 months	3 months	3 months	1 month	1 month
Notice by Executive	6 months	3 months	3 months	1 month	1 month

Managing Director

Mr Wilkinson has signed a service agreement that commenced on 1 September 2014. The agreement stipulates the starting minimum base salary, inclusive of superannuation, as being \$425,000, to be reviewed annually each 31 December by the Board. An EIS, if earned, would be paid 50% as a cash bonus in August each year and 50% in stapled securities issued under the ESSS and delivered three years following each of the annual grant dates.

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

9.4 Executive Remuneration outcome for year ended 30 June 2017

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

Executive Incentive Scheme Outcomes

ALE continues to perform well when compared to other Australian real estate investment trusts (AREITs).

The Committee reviewed the overall performance of ALE and the individual performance of all executives for the year ending 30 June 2017.

It was the view of the Committee that all of the standard key performance indicators (KPIs) and all of the major items in the Board approved corporate strategy had been met. In particular the Committee noted:

Capital Matters

- In March 2017 ALE completed a \$150 million Australian Medium Term Note (AMTN) issue with a term of 5.5 years. At a 1.50% credit margin and an all up rate of 4.00% this was a competitively priced outcome and reduced ALE's weighted average cost of debt from 4.35% to 4.26%. ALE received a strong response from a wide range of domestic and international institutional investors, a number of whom have participated in ALE's various debt issues since 2003;
- As the new AMTN issue was a fixed rate instrument, ALE efficiently removed a corresponding amount of the existing forward start hedging over the term to August 2022 at a cost of \$7.2 million. This cost is similar to the benefit arising from the reduction in ALE's base interest expense over the same term;
- The refinancing strengthened ALE's debt capital position further. ALE now has debt maturities spread over the next six years and base interest rates 100% locked away for the next eight years;
- ALE's investment grade credit rating of Baa2 (with stable outlook) was fully maintained;
- Management continued to explore a range of debt funding solutions in both the domestic and offshore capital markets with a view to enhancing ALE's readiness to implement future debt refinancings and additional debt funding of any acquisitions; and
- Management reviewed a range of other strategic initiatives with particular focus on value enhancement and risk mitigation.

Other matters

- Worked constructively with ALH to explore and agree a range of developments that are value enhancing for ALE for a number of properties;
- Undertook a more comprehensive statutory valuation exercise to ensure that the independent valuers were fully apprised of the key value drivers of each of the properties;
- Explored a number of acquisition opportunities that accorded with ALE's strategic criteria;
- Worked on a number of strategic initiatives during the year;
- Completed a comprehensive review of ALE's service providers with a view to ensuring cost savings were maximised and service levels enhanced; and
- Continued to deliver both short and long term total returns for securityholders that outperformed most if not all other AREITs in the sector.

The remuneration committee considered these achievements and compared them to key performance indicators for each executive that were set at the beginning of the financial year. Individual executives contributed to the valuable outcomes outlined above and this was recognised in the EIS payments made. All the EIS payments are included in the staff remuneration expenses in the current year.

The EIS awarded to each member of the management team was as follows:

Executive	Target EIS (as % of FAR)	EIS		EIS Awarded	Cash Component	ESSS Component
		Awarded (as % of FAR)	EIS Awarded as a % of Target			
Andrew Wilkinson	60%	60.0%	100.0%	\$279,930	\$139,965	\$139,965
Andrew Slade	50%	57.6%	115.2%	\$151,744	\$75,872	\$75,872
Michael Clarke	n/a	17.7%	-	\$40,000	\$20,000	\$20,000
Don Shipway	n/a	12.2%	-	\$25,000	\$12,500	\$12,500

DIRECTORS' REPORT

For the Year ended 30 June 2017

Consequences of performance on securityholder wealth

In considering the Group's performance and benefits to securityholder wealth, the remuneration committee have regard to a number of performance indicators in relation to the current and previous financial years.

A review of ALE's current year performance and history is provided in the Operational and Financial Review on page 6 of the Directors Report.

9.5 Disclosures relating to equity instruments granted as compensation

9.5.1 Outstanding equity instruments granted as compensation

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

Executive	Number of Rights Outstanding	Grant Date	Performance Period Start Date	Fair value of Right at Grant Date (\$)	Approximate Delivery Date	% vested in year	% forfeited in year
ESSS Rights							
A F O Wilkinson	63,732	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
A F O Wilkinson	33,365	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
A F O Wilkinson	27,020	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil
A J Slade	31,375	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
A J Slade	15,888	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
A J Slade	13,510	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil
M J Clarke	7,844	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
M J Clarke	6,355	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
M J Clarke	5,246	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil
D J Shipway	3,922	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
D J Shipway	4,767	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
D J Shipway	1,968	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil

9.5.2 Modification of terms of equity settled share based payment transactions

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

9.5.3 Analysis of movements in ESSS rights

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

Executive	Opening Balance	Granted in Year	Stapled Securities Delivered in the Year	Lapsed in the Year	Closing Balance	Securities Delivered in the year - value paid \$
By Value (\$)						
A F O Wilkinson	346,540	103,000	(79,040)	-	370,500	154,575
A J Slade	173,264	51,500	(43,264)	-	181,500	84,613
M J Clarke	60,000	20,000	(20,000)	-	60,000	39,111
D J Shipway	45,000	7,500	(20,000)	-	32,500	39,111
By Number						
A F O Wilkinson	131,975	27,020	(34,878)	-	124,117	
A J Slade	66,355	13,510	(19,092)	-	60,773	
M J Clarke	23,024	5,246	(8,825)	-	19,445	
D J Shipway	17,514	1,968	(8,825)	-	10,657	

9.5.4 Directors' and key management personnel interests in stapled securities and ESSS rights

A summary of directors, key management personnel and their associates holdings in stapled securities and ESSS interests in ALE is shown on page 5 of the Directors' Report.

DIRECTORS' REPORT

For the Year ended 30 June 2017

9.6 Equity based compensation

The value of ESSS disclosed in section 9.5.3 and 9.8 is based on the value of the grant at the award date. The number of Stapled Securities issued annually under the ESSS award will be determined by dividing the value of the grant by the volume weighted average price for the **five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements, and grossing this** number up for estimated distributions over the deferred delivery period. The number of securities granted in the current year will be determined on 16 August 2017.

9.7 Non-executive Directors' Remuneration

9.7.1 Remuneration Policy and Strategy

Non-executive directors' individual fees are determined by the Company Board within the aggregate amount approved by shareholders. The current aggregate amount which has been approved by shareholders at the AGM on 6 November 2014 was \$650,000.

The Board reviews its fees to ensure that ALE non-executive directors are remunerated fairly for their services, recognising the level of skill, expertise and experience required to conduct the role. The Board reviews its fees from time to time to ensure it is remunerating directors at a level that enables ALE to attract and retain the right non-executive directors. Fees and payments to non-executive directors reflect the **demands which are made on, and the responsibilities of the Directors. Non-executive directors' fees and payments were reviewed in the current financial year. The results of this review are shown in the fees listed below. The Chairman's fees are determined independently from** the fees of the other non-executive directors, based on comparative roles in the external market. The Chairman is not present at any discussion relating to the determination of his own remuneration. Non-executive directors do not receive any equity based payments, retirement benefits or other incentive payments.

9.7.2 Remuneration Structure

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

The current remuneration was reviewed in January 2017. This resulted in changes to the fee levels indicated below. The Directors' fees are inclusive of superannuation, where applicable.

	Board		ACRMC		Remuneration Committee	
	Chairman*	Member	Chairman	Member	Chairman	Member
Board and Committee Fees	\$195,000	\$95,000	\$15,000	\$10,000	\$15,000	\$5,000

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

James McNally's remuneration is determined in accordance with the above fees. He received an additional \$5,000 for being a Responsible **Manager of the Company under the Company's AFSL (retired in April 2017)** and \$10,000 for being a director of ALE Finance Company Pty Limited.

9.8 Details of remuneration

Amount of remuneration

Details of the remuneration of the key management personnel for the current year and for the comparative year are set out below in tables 1 and 2. The cash bonuses were dependent on the satisfaction of performance conditions as set out in the section 9.4 headed "Executive Incentive Scheme Outcomes". Equity based payments for 2017 are non-market based performance related as set out in section 9.4. All other elements of remuneration were not directly related to performance.

Table 1 Remuneration details 1 July 2016 to 30 June 2017

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2017 are set out in the following table:

Key management personnel		Short term			Post employment benefits			Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of equity based payment as proportion of remuneration
Name	Role	Salary & Fees	STI Cash Bonus	Non monetary benefits	Total	Superannuation benefits	Other long term benefits	Termination benefits	ESSS		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
R W Mactier ¹	Non-executive Director	67,013	-	-	67,013	6,366	-	-	-	73,379	-
P H Warne ²	Non-executive Director	150,280	-	-	150,280	14,277	-	-	-	164,557	-
P J Downes	Non-executive Director	100,457	-	-	100,457	9,543	-	-	-	110,000	-
P G Say	Non-executive Director	115,000	-	-	115,000	-	-	-	-	115,000	-
N J Milne	Non-executive Director	95,890	-	-	95,890	9,110	-	-	-	105,000	-
A F O Wilkinson	Executive Director	442,359	139,965	-	582,324	19,615	2,283	-	139,965	744,187	37.6%
J T McNally	Non-executive Director	103,750	-	-	103,750	-	-	-	-	103,750	-
A J Slade	Capital Manager	241,652	75,872	-	317,524	19,615	8,686	-	75,872	421,697	36.0%
M J Clarke	Company Secretary and Finance Manager	204,781	20,000	-	224,781	18,509	8,062	-	20,000	271,352	14.7%
D J Shipway	Asset Manager	185,200	12,500	-	197,700	17,610	5,582	-	12,500	233,392	10.7%
		1,706,382	248,337	-	1,954,719	114,645	24,613	-	248,337	2,342,314	

1. Robert Mactier was appointed a director on 23 November 2016

2. Peter Warne resigned as a director on 23 May 2017

Table 2 Remuneration details 1 July 2015 to 30 June 2016

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2016 are set out in the following table:

Key management personnel		Short term			Post employment benefits			Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of equity based payment as proportion of remuneration
Name	Role	Salary & Fees	STI Cash Bonus	Non monetary benefits	Total	Superannuation benefits	Other long term benefits	Termination benefits	ESSS		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
P H Warne	Non-executive Director	159,817	-	-	159,817	15,183	-	-	-	175,000	-
H I Wright ³	Non-executive Director	31,963	-	-	31,963	3,037	-	-	-	35,000	-
P J Downes	Non-executive Director	96,184	-	-	96,184	9,137	-	-	-	105,321	-
P G Say	Non-executive Director	108,750	-	-	108,750	-	-	-	-	108,750	-
N J Milne	Non-executive Director	91,324	-	-	91,324	8,676	-	-	-	100,000	-
B R Howell ⁴	Company Secretary	90,000	-	-	90,000	-	-	-	-	90,000	-
A F O Wilkinson	Executive Director	411,512	103,000	-	514,512	35,000	7,310	-	103,000	659,822	31.2%
J T McNally	Executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-
A J Slade	Capital Manager	222,160	51,500	-	273,660	30,000	3,980	-	51,500	359,140	28.7%
M J Clarke ⁴	Company Secretary and Finance Manager	188,465	20,000	-	208,465	17,485	3,088	-	20,000	249,038	16.1%
D J Shipway	Asset Manager	178,967	7,500	-	186,467	17,040	3,060	-	7,500	214,067	7.0%
		1,679,142	182,000	-	1,861,142	135,558	17,438	-	182,000	2,196,138	

3. Helen Wright resigned as a director on 27 October 2015

4. Brendan Howell resigned as Company Secretary on 30 June 2016 and Michael Clarke was appointed Company Secretary on 30 June 2016

DIRECTORS' REPORT

For the Year ended 30 June 2017

10 STAPLED SECURITIES UNDER OPTION

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

11 STAPLED SECURITIES ISSUED ON THE EXERCISE OF OPTIONS

No stapled securities were issued on the exercise of options during the financial year.

12 INSURANCE OF OFFICERS

During the financial year, the Company paid a premium of \$53,560 (2016: \$51,535) to insure the directors and officers of the Company. The auditors of the Company are in no way indemnified out of the assets of the Company.

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

13 NON-AUDIT SERVICES

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

The Board of Directors has considered the position and in accordance with the advice received from the ACRMC is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. During the current financial year non-audit services were performed by the auditors.

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

	30 June 2017 \$	30 June 2016 \$
Audit services		
KPMG Australian firm:		
Audit and review of the financial reports of the Group and other audit work required under the <i>Corporations Act 2001</i>		
- in relation to current year	180,000	171,500
- in relation to prior year	15,000	12,500
Total remuneration for audit services	195,000	184,000
Other services		
KPMG Australian firm:		
Risk assurance and property development advisory services	152,352	18,259
Total other services	152,352	18,259
Total remuneration	347,352	202,259

14 ENVIRONMENTAL REGULATION

While ALE is not subject to significant environmental regulation in respect of its property activities, the directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance with various licence requirements and regulations. Further, the directors are not aware of any material breaches of these requirements. At four 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.

DIRECTORS' REPORT

For the Year ended 30 June 2017

15 AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

16 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
Chairman



Andrew Wilkinson
Managing Director

Dated this 8th day of August 2017

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2017 there have been:

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



KPMG



John Teer

Partner

Sydney

8 August 2017

FINANCIAL STATEMENTS

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STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Revenue			
Rent from investment properties	4.1	57,007	56,172
Interest from cash deposits	4.1	1,324	1,054
Total revenue		58,331	57,226
Other income			
Fair value increments to investment properties	2	89,605	89,644
Fair value increments to derivatives - net	4.1	14,294	-
Other income	4.1	-	43
Total other income		103,899	89,687
Total revenue and other income		162,230	146,913
Expenses			
Fair value decrements to derivatives - net		-	25,210
Finance costs (cash and non-cash)	4.3	24,551	23,280
Queensland land tax expense		2,228	2,141
Salaries and related costs	4.2	2,758	2,509
Other expenses	4.2	2,636	2,560
Total expenses		32,173	55,700
Profit before income tax		130,057	91,213
Income tax expense/(benefit)	4.4	14	35
Profit after income tax		130,043	91,178
Profit/(Loss) attributable to stapled securityholders of ALE		130,043	91,178
		Cents	Cents
Basic earnings per stapled security	4.7	66.43	46.58

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

STATEMENT OF FINANCIAL POSITION

For the Year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents	3.5	59,585	37,919
Receivables		258	278
Other		253	218
Total current assets		60,096	38,415
Non-current assets			
Investment properties	2	1,080,160	990,480
Derivatives	3.2	1,471	-
Plant and equipment		28	36
Deferred tax asset		282	288
Total non-current assets		1,081,941	990,804
Total assets		1,142,037	1,029,219
Current liabilities			
Payables		8,151	7,457
Employee benefits	5.1	190	169
Distribution payable		20,066	19,773
Total current liabilities		28,407	27,399
Non-current liabilities			
Borrowings	3.1	521,348	479,528
Derivatives	3.2	6,302	26,349
Total non-current liabilities		527,650	505,877
Total liabilities		556,057	533,276
Net assets		585,980	495,943
Equity			
Contributed equity	3.3	258,118	258,118
Reserve		893	807
Retained profits		326,969	237,018
Total equity		585,980	495,943
Net assets per stapled security		\$ \$2.99	\$ \$2.53

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

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2017

	Share Capital \$'000	Share Based Payments Reserve \$'000	Retained Earnings \$'000	Total \$'000
2017				
Total equity at the beginning of the year	258,118	807	237,018	495,943
Total comprehensive income for the period				
Profit/(Loss) for the year	-	-	130,043	130,043
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	130,043	130,043
<i>Transactions with Members of ALE recognised directly in Equity:</i>				
Employee share based payments	-	248	-	248
Securities purchased - Employee share based payments	-	(162)	(155)	(317)
Distribution paid or payable	-	-	(39,937)	(39,937)
Total equity at the end of the year	258,118	893	326,969	585,980
2016				
Total equity at the beginning of the year	257,870	735	185,132	443,737
Total comprehensive income for the period				
Profit/(Loss) for the year	-	-	91,178	91,178
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	91,178	91,178
<i>Transactions with Members of ALE recognised directly in Equity:</i>				
Employee share based payments	-	182	-	182
Securities issued - Employee share based payments	248	(110)	(138)	-
Distribution paid or payable	-	-	(39,154)	(39,154)
Total equity at the end of the year	258,118	807	237,018	495,943

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

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
Receipts from tenant and others	62,862	61,905
Payments to suppliers and employees	(13,281)	(12,847)
Interest received - bank deposits	1,312	1,031
Net interest received - interest rate hedges	501	385
Borrowing costs paid	(21,882)	(21,049)
Net cash inflow from operating activities	29,512	29,425
Cash flows from investing activities		
Payments for investment property	(75)	(366)
Payments for plant and equipment	(11)	(34)
Net cash outflow from investing activities	(86)	(400)
Cash flows from financing activities		
Capitalised borrowing costs paid	(892)	-
Borrowings repaid - AMTN	(110,000)	-
Borrowings issued - AMTN	150,000	-
Interest rate hedge termination payment	(7,224)	-
Distributions paid (net of DRP securities issued)	(39,644)	(35,918)
Net cash inflow/(outflow) from financing activities	(7,760)	(35,918)
Net increase/(decrease) in cash and cash equivalents	21,666	(6,893)
Cash and cash equivalents at the beginning of the year	37,919	44,812
Cash and cash equivalents at the end of the year	59,585	37,919

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

	2017 \$'000	2016 \$'000
Profit for the year	130,043	91,178
<i>Plus/(less):</i>		
Fair value (increments) to investment property	(89,605)	(89,644)
Fair value (increments)/decrements to derivatives	(14,294)	25,210
Finance costs amortisation	433	382
CIB accumulated indexation	2,279	2,231
Share based payments expense	248	182
Share based payments securities purchased	(317)	-
Depreciation	19	15
Decrease/(increase) in -		
Receivables	20	37
Deferred tax assets	6	27
Other assets	(35)	32
Increase/(decrease) in -		
Payables	694	(249)
Provisions	21	24
Net cash inflow from operating activities	29,512	29,425

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 30 June 2017

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 2016 to 30 June 2017.

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 8th August 2017.

Basis of preparation

The Financial Report has been prepared on an historical cost basis, except for the revaluation of investment properties and certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are represented in Australian dollars, unless otherwise noted.

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.

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
Income taxes	4
Measurement of share based payments	5

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Other significant accounting policies are contained in the notes to the financial statements to which they relate to.

(a) Principles of consolidation

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

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

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

Notes to the financial statements (continued)

For the Year ended 30 June 2017

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 the to the Audit, Compliance, and Risk Management Committee.

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Investment property

This section provides information relating to the investment properties of the Group.

	2017 \$'000	2016 \$'000
Investment properties	1,080,160	990,480
Reconciliation of fair value gains/losses for year ending 30 June 2017		
Fair value as at beginning of the year	990,480	900,470
Disposals during the year	-	-
Resumptions during the year	-	-
Additions during year	75	366
Carrying amount before revaluations	990,555	900,836
Fair value as at end of the year	1,080,160	990,480
Fair value gain/(loss) for year	89,605	89,644

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 classified as 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 30 June 2017, the weighted average investment property capitalisation rate used to determine the value of all investment properties was 5.14% (2016: 5.53%).

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

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Investment property

Measurement of fair value (continued)

more regular basis if considered appropriate and as determined by management in accordance with the Board's approved valuation policy. These external independent valuations are taken into consideration when determining the fair value of the investment properties. The weighted average lease term of the properties is around 11.3 years.

In accordance with ALE's policy of independently valuing at least one-third of its property portfolio annually, 33 properties were independently valued as at 30 June 2017. 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 and Herron Todd White.

The remaining 53 properties were subject to Directors' valuations as at 30 June 2017, identified as "B". The Directors' valuations of the 53 properties were determined by taking each property's net rent as at 30 June 2017 and capitalising it at a rate equal to the prior year capitalisation rate for that property, adjusted by the average change in capitalisation rate evident in the 33 independent valuations completed at 30 June 2017 on a like for like basis. The Directors have received advice from CBRE 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.

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 passing rental receivable from the individual properties and, where relevant, associated costs. A capitalisation rate, which reflects the specific risks inherent in the net cash flows, is then applied to the net annual passing rentals to arrive at the property valuation. The independent valuer also had regard to discounted cash flows modelling in deriving a final capitalisation rate although the capitalisation of income method remains the predominate method used in valuing the properties. A table showing the range of capitalisation rates applied to individual properties for each state in which the property is held is included below.

	2017 Yields	2016 Yields	2017 Average	2016 Average
New South Wales	4.65% - 5.76%	4.97% - 6.10%	5.08%	5.37%
Victoria	3.54% - 6.17%	3.80% - 6.38%	5.16%	5.54%
Queensland	3.01% - 6.06%	3.20% - 6.49%	5.02%	5.46%
South Australia	4.76% - 5.98%	5.01% - 6.38%	5.52%	5.81%
Western Australia	5.41% - 6.51%	5.98% - 7.29%	5.96%	6.47%

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Investment property

The fair value measurement for investment property of \$1,080.16 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 30 June 2017 \$'000's	Valuation Technique	Inputs Used To Measure Fair Value	Range of Individual Property Unobservable Inputs
Level 3	Pubs	1,080,160	Capitalisation method	Gross rent p.a. (\$'000's) Land tax p.a. (\$'000's) Adopted capitalisation rate	\$154 - \$1,680 \$14 - \$156 3.01% - 6.51%
			Discounted cash flow method	Gross rent p.a. (\$'000's) Land tax p.a. (\$'000's) Discount rates p.a. Terminal capitalisation rates Consumer price index p.a.	\$154 - \$1,680 \$14 - \$156 6.25% - 8.75% 4.75% - 8.50% 2.28% - 2.29%

As noted above the independent valuer had regard to discounted cash flow modelling in deriving a final capitalisation rate 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.

	2017 \$'000	2016 \$'000
(i) Future minimum lease payments		
The future minimum lease payments in relation to non-cancellable leases are receivable as follows:		
Within one year	58,144	57,139
Later than one year but not later than five years	255,796	249,246
Later than five years	626,653	589,312
	940,593	895,697

(ii) Amount recognised in the profit and loss

Rental income	57,007	56,172
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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 market 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 2017 with a valuation date of 30 June 2017.
B	Directors' valuations conducted during June 2017 with a valuation date of 30 June 2017.

Properties were purchased in November 2003, unless otherwise indicated.

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Investment property

Property	Cost including additions \$'000	Valuation type and date	Fair value at 30 June 2017 \$'000	Fair value at 30 June 2016 \$'000	Fair value gains/ (losses) 2017 \$'000
New South Wales					
Blacktown Inn, Blacktown	5,472	B	12,900	12,000	900
Brown Jug Hotel, Fairfield Heights	5,660	A	12,900	12,230	670
Colyton Hotel, Colyton	8,208	B	18,520	17,220	1,300
Crows Nest Hotel, Crows Nest	8,772	B	19,030	17,700	1,330
Melton Hotel, Auburn	3,114	B	7,050	6,550	500
Narrabeen Sands Hotel, Narrabeen (Mar 09)	8,945	B	15,500	14,400	1,100
New Brighton Hotel, Manly	8,867	A	11,000	10,260	740
Pioneer Tavern, Penrith	5,849	A	13,900	12,690	1,210
Pritchard's Hotel, Mount Pritchard (Oct 07)	21,130	B	29,140	26,750	2,390
Smithfield Tavern, Smithfield	4,151	B	9,560	8,900	660
Total New South Wales properties	80,168		149,500	138,700	10,800
Queensland					
Albany Creek Tavern, Albany Creek	8,396	B	17,240	15,800	1,440
Alderley Arms Hotel, Alderley	3,303	A	7,350	6,320	1,030
Anglers Arms Hotel, Southport	4,434	B	10,500	8,840	1,660
Balaclava Hotel, Cairns	3,304	B	12,710	11,650	1,060
Breakfast Creek Hotel, Breakfast Creek	11,024	B	18,410	16,950	1,460
Burleigh Heads Hotel, Burleigh Heads (Nov 08)	6,685	B	14,880	13,700	1,180
Camp Hill Hotel, Camp Hill	2,265	A	6,800	4,240	2,560
Chardons Corner Hotel, Annerly	1,416	B	3,290	3,070	220
Dalrymple Hotel, Townsville	3,208	B	12,600	11,550	1,050
Edge Hill Tavern, Manooora	2,359	B	6,410	5,900	510
Edinburgh Castle Hotel, Kedron	3,114	B	7,080	6,500	580
Four Mile Creek, Strathpine (Jun 04)	3,672	A	8,725	7,280	1,445
Hamilton Hotel, Hamilton	6,604	A	14,500	12,550	1,950
Holland Park Hotel, Holland Park	3,774	B	13,800	12,750	1,050
Kedron Park Hotel, Kedron Park	2,265	B	4,420	4,000	420
Kirwan Tavern, Townsville	4,434	A	11,600	10,540	1,060
Lawnton Tavern, Lawnton	4,434	B	8,680	7,950	730
Miami Tavern, Miami	4,057	B	13,190	12,750	440
Mount Gravatt Hotel, Mount Gravatt	3,208	A	6,975	6,170	805
Mount Pleasant Tavern, Mackay	1,794	A	9,800	9,700	100
Noosa Reef Hotel, Noosa Heads (Jun 04)	6,874	B	11,240	10,310	930
Nudgee Beach Hotel, Nudgee	3,020	A	6,750	5,880	870
Palm Beach Hotel, Palm Beach	6,886	B	14,580	13,620	960
Pelican Waters, Caloundra (Jun 04)	4,237	B	8,530	7,900	630
Prince of Wales Hotel, Nundah	3,397	A	9,700	6,630	3,070
Racehorse Hotel, Booval	1,794	A	6,500	6,000	500
Redland Bay Hotel, Redland Bay	5,189	A	10,000	10,320	(320)
Royal Exchange Hotel, Toowong	5,755	A	9,850	10,000	(150)
Springwood Hotel, Springwood	9,150	B	18,710	17,130	1,580
Stones Corner Hotel, Stones Corner	5,377	B	10,590	10,000	590
Vale Hotel, Townsville	5,661	B	14,020	12,850	1,170
Wilsonton Hotel, Toowoomba	4,529	B	11,190	10,300	890
Total Queensland properties	145,619		340,620	309,150	31,470

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Investment property

Property	Cost including additions \$'000	Valuation type and date	Fair value at 30 June 2017 \$'000	Fair value at 30 June 2016 \$'000	Fair value gains/(losses) 2017 \$'000
South Australia					
Aberfoyle Hub Tavern, Aberfoyle Park	3,303	A	6,900	6,570	330
Eureka Tavern, Salisbury	3,303	A	6,000	5,560	440
Exeter Hotel, Exeter	1,888	B	4,370	4,100	270
Finsbury Hotel, Woodville North	1,605	A	3,850	3,590	260
Gepps Cross Hotel, Blair Athol	2,171	B	6,180	5,800	380
Hendon Hotel, Royal Park	1,605	B	4,030	3,790	240
Stockade Tavern, Salisbury	4,435	B	5,920	5,550	370
Total South Australian properties	18,310		37,250	34,960	2,290
Victoria					
Ashley Hotel, Braybrook	3,963	B	9,530	8,750	780
Bayswater Hotel, Bayswater	9,905	A	21,500	19,790	1,710
Berwick Inn, Berwick (Feb 06)	15,888	B	20,580	18,700	1,880
Blackburn Hotel, Blackburn	9,433	B	19,000	17,450	1,550
Blue Bell Hotel, Wendouree	1,982	B	5,230	4,800	430
Boundary Hotel, East Bentleigh (Jun 08)	17,943	A	25,750	22,900	2,850
Burvale Hotel, Nunawading	9,717	B	22,840	21,000	1,840
Club Hotel, Ferntree Gully	5,095	B	11,910	10,940	970
Cramers Hotel, Preston	8,301	A	18,400	17,260	1,140
Deer Park Hotel, Deer Park	6,981	A	15,500	14,520	980
Doncaster Inn, Doncaster	12,169	A	24,750	22,920	1,830
Ferntree Gully Hotel/Motel, Ferntree Gully	4,718	B	8,840	8,120	720
Gateway Hotel, Corio	3,114	A	8,100	7,710	390
Keysborough Hotel, Keysborough	9,622	A	23,000	19,530	3,470
Mac's Melton Hotel, Melton	6,886	A	14,500	13,850	650
Meadow Inn Hotel/Motel, Fawkner	7,689	A	17,500	15,770	1,730
Mitcham Hotel, Mitcham	8,584	B	18,070	16,600	1,470
Morwell Hotel, Morwell	1,511	A	2,500	2,710	(210)
Olinda Creek Hotel, Lilydale	3,963	B	8,730	8,020	710
Pier Hotel, Frankston	8,019	B	16,430	15,100	1,330
Plough Hotel, Mill Park	8,490	B	16,860	15,500	1,360
Prince Mark Hotel, Doveton	9,810	B	21,410	19,660	1,750
Royal Exchange, Traralgon	2,171	A	5,100	5,000	100
Sandbelt Club Hotel, Moorabbin	10,849	B	23,960	22,000	1,960
Sandown Park Hotel/Motel, Noble Park	6,321	A	13,500	12,380	1,120
Sandringham Hotel, Sandringham	4,529	B	12,520	11,500	1,020
Somerville Hotel, Somerville	2,717	B	7,080	6,510	495
Stamford Inn, Rowville	12,733	B	28,290	26,000	2,290
Sylvania Hotel, Campbellfield	5,377	B	12,690	11,660	1,030
The Vale Hotel, Mulgrave	5,566	B	13,330	12,240	1,090
Tudor Inn, Cheltenham	5,472	B	12,460	11,440	1,020
Village Green Hotel, Mulgrave	12,546	A	25,500	23,790	1,710
Young & Jackson, Melbourne	6,132	B	16,160	14,840	1,320
Total Victorian properties	248,196		521,520	478,960	42,485
Western Australia					
Queens Tavern, Highgate	4,812	A	10,000	8,300	1,700
Sail & Anchor Hotel, Fremantle	3,114	B	4,520	4,500	20
The Brass Monkey Hotel, Northbridge (Nov 07)	7,815	B	9,450	9,410	40
Balmoral Hotel, East Victoria Park (Jul 07)	6,377	A	7,300	6,500	800
Total Western Australian properties	22,118		31,270	28,710	2,560
Total investment properties	514,411		1,080,160	990,480	89,605

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3.

Capital structure and financing

This section provides information on the Group's capital structure and its exposure to financial risk, how they effect 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

	2017 \$'000	2016 \$'000
Non-current borrowings		
Capital Indexed Bond (CIB) Australian Medium Term Notes (AMTN)	147,753	145,402
	373,595	334,126
	521,348	479,528

CIB	2017 \$'000	2016 \$'000
Gross value of debt	111,900	111,900
Accumulated indexation	36,524	34,245
Unamortised borrowing costs	(671)	(743)
Net balance	147,753	145,402

\$125 million of CIB were 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	2017 \$'000	2016 \$'000
Gross value of debt	375,000	335,000
Unamortised borrowing costs	(1,405)	(874)
Net balance	373,595	334,126

On 10 June 2014 ALE issued \$335 million AMTN in two tranches, \$110 million with a maturity date of 20 August 2017 and \$225 million with a maturity date of 20 August 2020. The AMTN are fixed rate securities with interest payable semi annually. The \$110m tranche was repaid early in May 2017.

On 8 March 2017 ALE issued a further \$150m AMTN, with a maturity date of 20 August 2022.

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:

	2017 \$'000	2016 \$'000
Current assets		
Cash - CIB borrowings reserves	8,390	8,390
Non-current assets		
Total investment properties	1,080,160	990,480
Less: Properties not subject to mortgages		
Pritchard's Hotel, NSW	(29,140)	(26,750)
Properties subject to mortgages	1,051,020	963,730
Total assets pledged as security	1,059,410	972,120

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

Terms and Repayment Schedule

	Nominal Interest Rate	Maturity Date ¹	30 June 2017		30 June 2016	
			Face Value \$'000	Carrying Amount \$'000	Face Value \$'000	Carrying Amount \$'000
AMTN	4.25%	Aug-2017	-	-	110,000	110,000
AMTN	5.00%	Aug-2020	225,000	225,000	225,000	225,000
AMTN	4.00%	Aug-2022	150,000	150,000	-	-
CIB	3.40% ²	Nov-2023	111,900	148,424	111,900	146,145
			486,900	523,424	446,900	481,145
Unamortised borrowing costs				(2,076)		(1,617)
Total borrowings				521,348		479,528

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.

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.

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

	Carrying Amount \$'000	Fair Value \$'000
30 June 2017		
CIB	147,753	153,386
AMTN	373,595	385,474
	521,348	538,860
30 June 2016		
CIB	145,402	151,370
AMTN	334,126	347,019
	479,528	498,389

Both borrowings are classed as Level 3.

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 ALE's credit risk using the credit rating of ALE issued by a rating agency for the AMTN issue.

3.2 Financial Risk Management

The Trust and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- market risk
- liquidity risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

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

Credit risk

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

Cash

Credit risk on cash is managed through ensuring all cash deposits are held with authorised deposit taking institutions.

Trade and other receivables

ALE's exposure to credit risk is influenced mainly by the individual characteristics of its tenant. ALE has one tenant (Australian Leisure and Hospitality Group Pty Limited) and therefore there is significant concentration of credit risk with that company. Credit risk of the tenant is constantly monitored to ensure the tenant has appropriate financial standing. There are also cross default provisions in the leases and the properties are essential to the tenant's business operations and those of the tenant's shareholders.

The Group has considered the collectability and recoverability of trade receivables. Where warranted, an allowance for doubtful debts has been made for the estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience.

Market risk

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

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

Interest rate risk

ALE adopts a policy of ensuring that short and medium term exposure to changes in interest rates on borrowings are hedged. This is achieved by entering into interest rate hedges to fix the interest rates or by issuing fixed rate borrowings.

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

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

Profile

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

	2017 \$'000	2016 \$'000
Derivative financial assets	1,471	-
Derivative financial liabilities	(6,302)	(26,349)
Borrowings		
CIB	(147,753)	(145,402)
AMTN	(373,595)	(334,126)
	(526,179)	(505,877)

Sensitivity analysis

A change of 100 basis points in the prevailing nominal market interest rates at the reporting date would have increased/(decreased) Statement of Comprehensive Income and Equity by the amounts shown below. This analysis assumes that all other variables, in particular the CPI, remain constant. The analysis was performed on the same basis for 2016.

	100 bps increase \$'000	100 bps decrease \$'000
30 June 2017		
Interest rate hedges	12,814	(14,891)
CIB	-	-
AMTN	-	-
	12,814	(14,891)
30 June 2016		
Interest rate hedges	19,801	(22,474)
CIB	-	-
AMTN	-	-
	19,801	(22,474)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

Consumer price index risk

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

Profile

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

	2017 \$'000	2016 \$'000
Financial instruments		
Investment properties	1,080,160	990,480
CIB	(147,753)	(145,402)
	932,407	845,078

Sensitivity analysis for variable rate instruments

A change of 100 bps in CPI at the reporting date would increase rent and hence property value would have increased Statement of Comprehensive Income and Equity by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates and capitalisation rates applicable to investment properties, remain constant. The analysis was performed on the same basis for 2016.

	100 bps increase \$'000	100 bps decrease \$'000
30 June 2017		
Investment properties	11,612	-
CIB	-	-
	11,612	-
30 June 2016		
Investment properties	9,937	-
CIB	-	-
	9,937	-

Investment properties have been included in the sensitivity analysis as, although they are not financial instruments, the long term CPI linked leases attaching to the investment properties are similar in nature to financial instruments. Under the terms of the leases on the ALE properties there is no change to rental income should CPI decrease.

There is no impact on the Statement of Comprehensive Income or Equity arising from a 100 bps movement in CPI at the reporting date on the CIB, as the terms of this instrument use CPI rates for the quarters ending the preceding March and December to determine their values at 30 June.

Property valuation risk

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

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

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

	Contractual cash flows \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than five years \$'000
30 June 2017						
Non-derivative financial liabilities						
Trade and other payables	(8,151)	(8,151)	-	-	-	-
CIB	(200,484)	(2,536)	(2,559)	(5,187)	(16,112)	(174,090)
AMTN	(447,375)	(8,625)	(8,625)	(17,250)	(259,875)	(153,000)
Derivative financial instruments						
Interest rate hedges	(6,096)	257	235	450	(2,767)	(4,271)
	(662,106)	(19,055)	(10,949)	(21,987)	(278,754)	(331,361)
30 June 2016						
Non-derivative financial liabilities						
Trade and other payables	(7,457)	(7,457)	-	-	-	-
CIB	(209,970)	(2,454)	(2,478)	(4,994)	(15,522)	(184,522)
AMTN	(392,637)	(7,962)	(7,962)	(123,588)	(253,125)	-
Derivative financial instruments						
Interest rate hedges	(32,293)	225	149	(1,497)	(8,464)	(22,706)
	(642,357)	(17,648)	(10,291)	(130,079)	(277,111)	(207,228)

Interest rates used to determine contractual cash flows

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

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.

	2017 \$'000	2016 \$'000
Current assets	-	-
Non current assets	1,471	-
Total assets	1,471	-
Current liabilities	-	-
Non current liabilities	(6,302)	(26,349)
Total liabilities	(6,302)	(26,349)
Net assets/(liabilities)	(4,831)	(26,349)

Current year fair value adjustments to derivatives

	2017 \$'000	2016 \$'000
Fair value increments/ (decrements) to interest rate hedge derivatives	14,294	(25,210)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

At 30 June 2017, the notional principal amounts and periods of expiry of the interest rate hedge contracts are as follows:

	Nominal Interest Rate Hedges		Counter Hedges on Nominal Interest Rate Hedges		Net Derivative Position	
	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Less than 1 year	-	-	-	-	-	-
1 - 2 years	-	-	-	-	-	-
2 - 3 years	-	-	(30,000)	-	(30,000)	-
3 - 4 years	-	-	-	(30,000)	-	(30,000)
4 - 5 years	-	-	-	-	-	-
Greater than 5 years	506,000	506,000	-	-	506,000	506,000

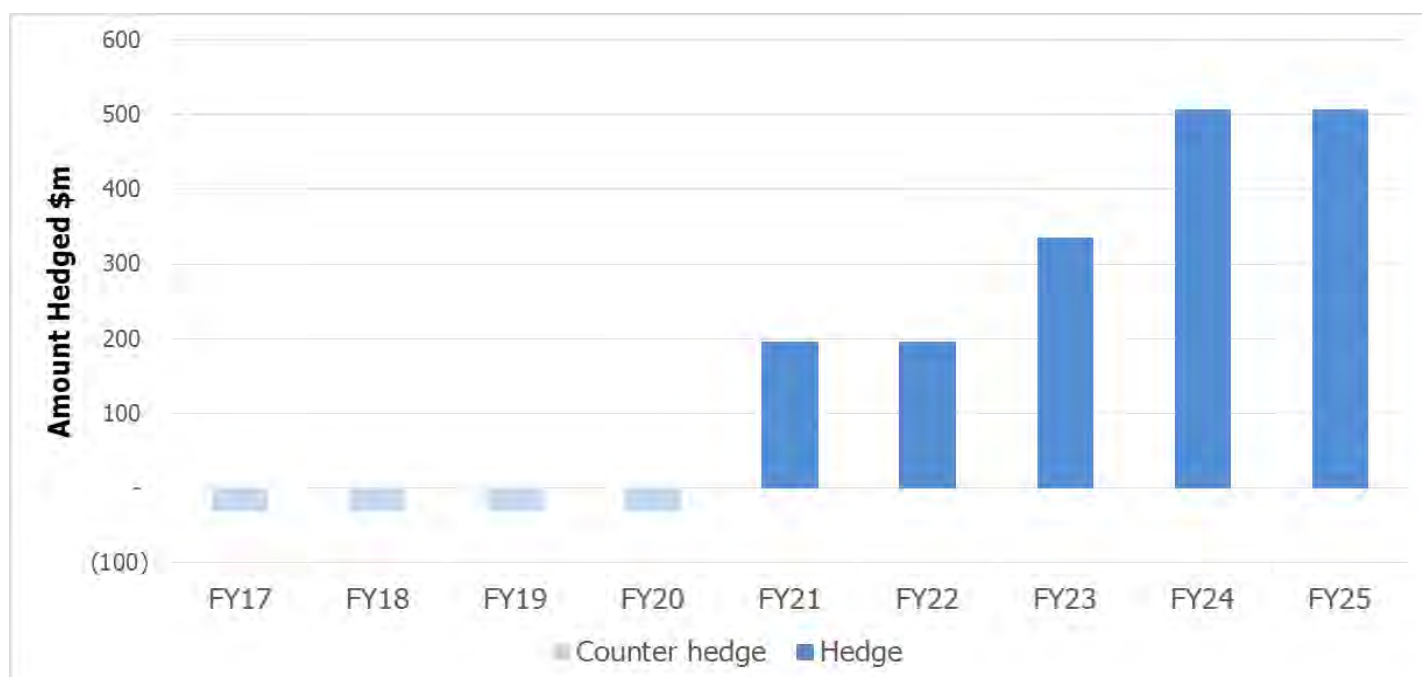
ALE has a series of forward start hedges in place and a counter hedge that is currently active. During the current year following the early repayment of the August 2017 AMTN and new fixed rate AMTN borrowing that will mature in August 2022, hedging relating to the August 2017 to August 2022 period was no longer required and was terminated.

The continuing forward start hedge commences on the date of the maturity of the fixed rate August 2020 AMTN borrowing and increases on maturity of the fixed rate August 2022 AMTN borrowings, extending out to 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 8.4 years at 30 June 2017.

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

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

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

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 total 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 years ended 30 June 2017 and 30 June 2016, ALE and its subsidiaries were in compliance with all the above covenants.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

3.3 Equity

	2017 \$'000	2016 \$'000
Balance at the beginning of the period	258,118	257,870
Securities issued - ESSS	-	248
	258,118	258,118

	2017 Number	2016 Number
Opening balance	195,769,080	195,702,333
Securities issued - ESSS	-	66,747
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.

The NIVUS were issued to ensure the Responsible Entity maintained sufficient Net Tangible Assets to satisfy the requirements of the company's AFSL Licence.

3.4 Capital management

Capital management

ALE monitors securityholder equity and manages it to address risks and add value where appropriate.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain 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 from time to time may undertake on-market buybacks of ALE stapled securities. ALE has also from time to time made distributions from surplus cash or capital to stapled securityholders on a fully transparent basis. Additionally, the available total returns on all new acquisitions are tested against the anticipated weighted cost of capital at the time of the acquisition.

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

Gearing ratios are monitored in the context of any increase or decrease from time to time based on existing property value movements, acquisitions completed, the levels of debt financing used and a range of prudent financial metrics, both at the time and on a projected basis going forward.

The outcomes of 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 30 June 2017 and 30 June 2016 were 48.7% and 51.8% respectively.

The net gearing ratios (total borrowings less cash as a percentage of total assets less cash, derivatives and deferred tax assets) at 30 June 2017 and 30 June 2016 were 42.7% and 44.9% respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

3. Capital structure and financing

3.5 Cash and cash equivalents

	2017 \$'000	2016 \$'000
Cash at bank and in hand	4,122	3,456
Deposits at call	47,073	26,073
Cash reserve	8,390	8,390
	59,585	37,919

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 scheduled maturity of 20 November 2023.

An amount of \$2.00 million is required to be held in a term deposit by the Company to meet minimum net tangible asset requirements of the AFSL licence.

During the year ended 30 June 2017 all cash assets were placed on deposit with various banks. As at 30 June 2017, the weighted average interest rate on all cash assets was 2.30% (2016:2.66%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

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 Revenue and income

4.2 Other expenses

4.3 Finance costs

4.4 Taxation

4.5 Remuneration of auditors

4.6 Distributable income

4.7 Earnings per security

4.1 Revenue and income

	2017 \$'000	2016 \$'000
Revenue		
Rent from investment properties	57,007	56,172
Interest from cash deposits	1,324	1,054
Total revenue	58,331	57,226
Other income		
Fair value increments to investment properties	89,605	89,644
Fair value increments to derivatives	14,294	-
Other income	-	43
Total other income	103,899	89,687
Total revenue and other income	162,230	146,913

Recognition and measurement

Revenue

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

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

Rental income

During the current and previous financial years, ALE's investment property lease rentals were reviewed to state based CPI annually and are not subject to fixed increases, apart from the lease for the Pritchard's Hotel, NSW which has fixed increases of 3%.

Interest income

As at 30 June 2017 the weighted average interest rate earned on cash was 2.30% (2016: 2.66%)

4.2 Other expenses

	2017 \$'000	2016 \$'000
Audit, accounting, tax and professional fees	234	206
Annual reports	75	105
Depreciation expense	19	16
Insurance	160	167
Legal fees	308	187
Occupancy costs	113	115
Corporate and property expenses	985	908
Property revaluations, and condition and compliance	393	466
Registry fees	110	100
Staff training	23	32
Travel and accommodation	55	102
Trustee and custodian fees	161	156
Total other expenses	2,636	2,560
Total other expenses	2,636	2,560
Salaries and related costs	2,758	2,509
Less: Share based payments expense	(248)	(182)
Total cash other expenses	5,146	4,887

Recognition and measurement

Expenses including operating expenses, Queensland land tax expense and other outgoings (if any) are brought to account on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

4. Business performance

4.3 Finance costs

	2017 \$'000	2016 \$'000
Finance costs - cash		
Capital Indexed Bonds (CIB)	4,997	4,929
Australian Medium Term Notes (AMTN)	17,149	15,937
Interest rate derivative payments/(receipts)	(507)	(390)
Other finance expenses	200	191
	<u>21,839</u>	<u>20,667</u>
Finance costs - non-cash		
Accumulating indexation - CIB	2,279	2,231
Amortisation - CIB	72	64
Amortisation - AMTN	313	284
Amortisation - AMTN discount	48	34
Other finance expenses	-	-
	<u>2,712</u>	<u>2,613</u>
Finance costs (cash and non-cash)	<u>24,551</u>	<u>23,280</u>

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 costs 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.

4.4 Taxation

Reconciliation of income tax expense

The prima facie income tax expense on profit before income tax reconciles to the income tax expense in the financial statements as follows:

	2017 \$'000	2016 \$'000
Profit before income tax	130,057	91,213
Profit attributable to entities not subject to tax	129,923	91,291
Profit/(Loss) before income tax expense subject to tax	134	(78)
Tax at the Australian tax rate	40	(23)
Share based payments	(27)	58
Other	1	1
Under/(over) provision in prior years	-	(1)
Income tax expense/(benefit)	14	35
Current tax expense/(benefit)	6	62
Deferred tax expense/(benefit)	8	(27)
Income tax expense/(benefit)	14	35

Recognition and measurement

Trusts

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

Current tax

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

4. Business performance

4.4 Taxation (continued)

Deferred tax

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

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

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

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

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

4.5 Remuneration of auditors

	2017 \$	2016 \$
Audit services		
<i>KPMG Australian firm:</i>		
Audit and review of the financial reports		
- in relation to current year	180,000	171,500
- in relation to prior year	15,000	12,500
Total remuneration for audit services	195,000	184,000
<i>KPMG Australian firm:</i>		
Other services	152,352	18,259
Total remuneration for all services	347,352	202,259

4.6 Distributable income

Reconciliation of profit after tax to amounts available for distribution:

	2017 \$'000	2016 \$'000
Profit after income tax	130,043	91,178
Plus /(less)		
Fair value adjustments to investment properties	(89,605)	(89,644)
Fair value adjustments to derivatives	(14,294)	25,210
Employee share based payments	248	182
Finance costs - non cash	2,712	2,613
Income tax expense	14	35
Adjustments for non-cash items	(100,925)	(61,604)
Total available for distribution	29,118	29,574
Distribution paid or provided for	39,937	39,154
Available and under/(over) distributed	(10,819)	(9,580)
<u>Distribution funded as follows</u>		
Current year distributable profits	29,118	29,574
Prior year undistributed profits	-	6,523
Capital and surplus cash	10,819	3,057
	39,937	39,154

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

4. Business performance

4.7 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.

	2017	2016
Profit attributable to members of the Group (\$000's)	130,043	91,178
Weighted average number of stapled securities	195,769,080	195,759,597
Basic earnings per security (cents)	66.43	46.58

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.

	2017	2016
Profit attributable to members of the Group (\$000's)	130,043	91,178
Weighted average number of stapled securities	195,988,389	195,999,370
Diluted earnings per security (cents)	66.35	46.52

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 weighted average number of ordinary stapled securities outstanding.

	2017	2016
Distributable profit attributable to members of the Group (\$000's)	29,118	29,574
Number of stapled securities at the end of the year	195,769,080	195,769,080
Distributable profit per security (cents)	14.87	15.11

Distributed profit per security

	2017	2016
Distributable income per stapled security	14.87	15.11
Distribution paid per stapled security	20.40	20.00
Under/(over) distributed for the year	(5.53)	(4.89)
<u>Distribution funded as follows</u>		
Current year distributable profits	14.87	15.11
Prior year undistributed profits	-	3.33
Capital and surplus cash	5.53	1.56
	20.40	20.00

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 30 June 2017

5.

Employee benefits

This section provides a breakdown of the various programs ALE uses to reward and recognise employees and key executives, including Key Management Personnel (KMP). ALE believes that these programs reinforce the value of ownership and incentives and drive performance both individually and collectively to deliver better returns to securityholders.

5.1 Employee benefits

5.3 Employee share plans

5.2 Key management personnel compensation

5.1 Employee benefits

	2017 \$'000	2016 \$'000
Employee benefits provision:		
Current	190	169

Recognition and measurement

The employee benefits liability represents accrued wages and salaries, leave entitlements and other incentives recognised **in respect of employees' services up to the end of the reporting period**. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers compensation insurance, superannuation and payroll tax.

Long service leave

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

Retirement benefit obligations

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

5.2 Key management personnel compensation

	2017 \$	2016 \$
Short term employee benefits	1,954,719	1,861,142
Post employment benefits	114,645	135,558
Other long term benefits	24,613	17,438
Share based payments	248,337	182,000
Termination benefits	-	-
	2,342,314	2,196,138

Recognition and measurement

Wages and salaries, annual leave and sick leave

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

Bonus and incentive plans

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

5.3 Employee share plans

Executive Staped Security Scheme (ESSS)

The ESSS was established in 2012. The grant date fair value of ESSS Rights granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the ESSS rights. The amount recognised as an expense is adjusted to reflect the actual number of ESSS Rights that vest.

The fair value at grant date is determined as the value of the ESSS Rights in the year in which they are awarded. The number of ESSS Rights issued annually under the ESSS will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property **Group's full year statutory financial statements and grossing** this number up for the future value of the estimated distributions over the three year deferred delivery period. Upon the exercise of ESSS rights, the balance of the share based payments reserve relating to those rights is transferred to Contributed Equity.

Notes to the financial statements (continued)

For the Year ended 30 June 2017

6. Other

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

6.1 New accounting standards

6.2 Segment reporting

6.3 Events occurring after balance date

6.4 Contingent liabilities and contingent assets

6.5 Investments in controlled entities

6.6 Related party transactions

6.7 Parent Entity Disclosures

6.1 New accounting standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flow and non-cash changes.

The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements the Group intends to present a reconciliation between opening and closing balances for liabilities with changes arising from financing activities.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group has assessed the potential impact on its consolidated financial statements resulting from the amendments and there will be no significant impacts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has completed an assessment of the potential impact of the adoption of IFRS 15 on its financial statements and there will be no significant changes.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependant on the financial instruments that the Group holds and the economic conditions at that time as well as accounting elections and judgements that it will make in the future.

The Group has assessed the potential impact on its consolidated financial statement resulting from the application of IFRS 9 based on its positions as at

Notes to the financial statements (continued)

For the Year ended 30 June 2017

6. Other

30 June 2017 and hedging arrangements during 2017 under IAS 39.

Based on its preliminary assessment the Group does not believe the new classification and measurement approach for financial assets, financial liabilities or the impairment requirements for financial assets will have a material impact on the group's consolidated financial statements.

IFRS 16 Leasing

IFRS 16 establishes a comprehensive framework the accounting policies and disclosures applicable to leases, both for lessees and lessors. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

The Group has assessed the potential impact on its financial statements resulting from the application of IFRS 16 and believes that there will be no material changes required.

6.2 Segment reporting

Business segment

The results and financial position of ALE's single operating segment, ALE Strategic Business Unit, are prepared for the Managing Director on a quarterly basis. The strategic business unit covers the operations of the responsible entity for the ALE Property Group.

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

All ALE Property Group's properties are leased to members of the ALH Group, and accordingly 100% of the rental income is received from ALH (2016: 100%).

6.3 Events occurring after balance date

There has not arisen in the interval between the end of the financial year and the date of this report, any transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

6.4 Contingent liabilities and contingent assets

Bank guarantee

ALE has entered into a bank guarantee of \$73,273 in respect of the office tenancy at Level 10, 6 O'Connell Street, Sydney.

6.5 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 AASB.

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 non operating.

6.6 Related party transactions

Parent entity and subsidiaries

Details are set out in Note 6.5 and 6.7.

Key management personnel

Key management personnel and their compensation are set out in the Remuneration Report on Page 17.

Transactions with related parties

For the year ended 30 June 2017, the Company received \$4,460,628 of expense reimbursement from the Trust (2016: \$4,108,938), and the Finance Company charged the Sub Trust \$7,366,400 interest (2016: \$7,243,821).

Peter Warne is Chairman of Macquarie Group Limited (Macquarie). Macquarie has provided investment banking services to ALE in the past and may continue to do so in the future. Mr Warne did not take part in any decisions to appoint Macquarie in relation to any of the above matters. Mr Warne resigned on 23 May 2017.

Robert Mactier is a consultant to UBS AG. UBS AG has provided investment banking services to ALE in the past and may continue to do so in the future. Mr Mactier does not take part in any decisions to appoint UBS AG in relation to corporate advice provided by UBS AG to ALE.

Terms and conditions

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

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

Notes to the financial statements (continued)

For the Year ended 30 June 2017

6. Other

6.7 Parent Entity Disclosures

As at, and throughout, the financial year ending 30 June 2017 the parent entity of ALE was Australian Leisure and Entertainment Property Trust.

	2017 \$'000	2016 \$'000
Profit for the year	29,155	70,356
<i>Financial position of the parent entity</i>		
Current assets		
Cash	196	21
Non current assets		
Investments in controlled entities	275,656	275,656
Total assets	275,852	275,677
Current liabilities		
Payables	15,563	4,900
Provisions	20,066	19,773
Total liabilities	35,629	24,673
Net assets	240,223	251,004
Issued units	252,431	252,431
Retained earnings	(12,208)	(1,427)
Total equity	240,223	251,004

DIRECTORS' DECLARATION

For the Year ended 30 June 2017

In the opinion of the directors of the Company:

- (a) the financial statements and notes that are set out on pages 22 to 49 and the Remuneration report contained in **Section 9 of the Directors' report, are in accordance with the *Corporations Act 2001***, including
 - (i) **giving a true and fair view of ALE's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;** and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that ALE will be able to pay its debts as and when they become due and payable.
- (c) The directors have been given the declarations required by *Section 295A of the Corporations Act 2001* from the Managing Director, Finance Manager, and Company Secretary as required for the financial year ended 30 June 2017.
- (d) The directors draw attention to Note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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



Robert Mactier
Chairman



Andrew Wilkinson
Managing Director

Dated this 8th day of August 2017



Independent Auditor's Report

To the stapled security holders of ALE Property Group

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of ALE Property Group (the Stapled Group Financial Report).

In our opinion, the accompanying Stapled Group Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Stapled Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Stapled Group comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Stapled Group** consists of Australian and Leisure Entertainment Property Trust and the entities it controlled at year's end or from time to time during the financial year and Australian Leisure and Entertainment Property Management Limited

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Stapled Group, Australian and Leisure Entertainment Property Trust and Australian Leisure and Entertainment Property Management Limited (the Responsible Entity) in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Stapled Group Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investment Properties (\$1,080.16m)	
Refer to Note 2 of the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties is a key audit matter due to the significance of the balance and judgement required by us in assessing the key valuation assumptions, methodologies and the final adopted values.</p> <p>The Group's investment properties comprise direct ownership of 86 freehold hotels. All 86 properties have long-term lease agreements in place with Australian Leisure and Hospitality Group (ALH).</p> <p>Investment properties are subject to external independent valuation once every three years on a rotational basis. In the years they are not independently valued, they are valued internally by the directors, using key comparators from like-properties subject to independent valuation.</p> <p>We focused on important features of the Group's investment property valuation process, as they critically impact property values selected. In order of application, these included:</p> <ul style="list-style-type: none"> • Categorisation of investment properties: used firstly to distinguish their rotational schedule for independent valuation, such that at least one property in each category is covered, and secondly, to identify unique attributes of the property. These attributes include location, asset condition, trading performance, land area and iconic profile of the building. We assessed the use of these unique attributes for the implications on property values for bias and consistency of application; • Key assumptions and methodology adopted in the independent valuation methodologies: being capitalisation rates, discount rates and future rental income inputs to the capitalisation rate (cap rate) and discounted cash flow (DCF) methodology. A key feature of the long-term leases that impact DCF 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Checking the investment properties valuation process is carried out rotationally in accordance with Group policies; and • Assessing the consistency of the valuation methodology applied to the accounting standards and Group policies. <p><i>For a sample of externally valued properties:</i></p> <ul style="list-style-type: none"> • Assessing the competence and objectivity of the Group's external valuation experts; • Challenging key assumptions including capitalisation rates, discount rates, terminal capitalisation rates and future rental income by comparing to publically available sales evidence from industry commentators, historical data and the property specific attributes including location, asset condition and land area; • Challenging the final property value by comparing the cap rate and DCF valuations, and reconciling differences to property specific attributes. These include location, asset condition, trading performance, land area and the proximity to the next market rent reassessments. <p><i>For a sample of internally valued properties:</i></p> <ul style="list-style-type: none"> • Assessing the basis for the extrapolation methodology including stratification by state and asset type by evaluating the extrapolation advice from the independent valuers. • Evaluating the adjustments made to the average percentage change in capitalisation rate by evaluating the reason for the exclusion. Using our knowledge of the business and the industry we reconciled this to our understanding of the impact of the property specific attributes.

<p>values are the rental reassessments in 2018 (limited to +/-10%) and 2028, reverting to market based levels of rent;</p> <ul style="list-style-type: none"> • Judgements in assessing the results: the Group adopts a final property value based on their evaluation of the results of the independent valuers work, taking into consideration property specific attributes. We spent significant effort in assessing the basis of these judgements, their consistent application and available market comparators; and • Extrapolation approach: for the remaining properties not independently valued, director's valuations capitalise current rent using last year's capitalisation rate for that property, adjusted by the average percentage change in capitalisation rate from the external independent valuations (percentage change) for properties with similar attributes. 	
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Other Information

Other Information is financial and non-financial information in ALE Property Group's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Director's Report. The Directors of the Responsible Entity are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report of Australian Leisure and Entertainment Property Management Limited

The information below is a reproduction of our opinion on the Remuneration Report of Australian Leisure and Entertainment Property Management Limited, (the Company) as the Responsible Entity of Australian and Leisure Entertainment Property Trust.

Opinion

In our opinion, the Remuneration Report of Australian Leisure and Entertainment Property Management Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

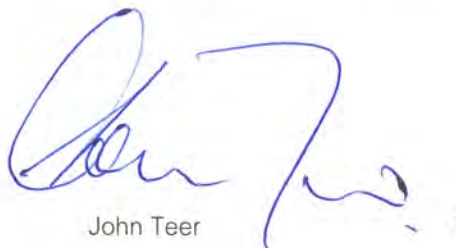
Our responsibilities

We have audited the Remuneration Report included in section 9 of the Directors' report of the Company, also included in ALE Property Group annual report, for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report of the Company, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



John Teer

Partner

Sydney

8 August 2017

INVESTOR INFORMATION

For the Year ended 30 June 2017

Securityholders

The securityholder information as set out below was applicable as at 12 July 2017.

A. DISTRIBUTION OF EQUITY SECURITIES

Range	Total Holders	Number of Securities	% of Issued Capital
1 - 1,000	707	226,083	0.12
1,001 - 5,000	1,324	4,094,136	2.09
5,001 - 10,000	958	7,331,166	3.74
10,001 - 100,000	1,646	42,941,109	21.93
100,001 - 200,000,000	112	141,176,586	72.12
Total	4,747	195,769,080	100.00

The stapled securities are listed on the ASX and each stapled security comprises one share in Australian Leisure and Entertainment Property Management Limited (Company) and one unit in Australian Leisure and Entertainment Property Trust (Trust). The number of securityholders holding less than a marketable parcel of stapled securities is 315.

B. TOP 20 EQUITY SECURITYHOLDERS

The names of the 20 largest security holders of stapled securities are listed below

Rank	Name	Number of Securities	% of Issued Capital
1	UBS Nominees Pty Ltd	32,198,197	16.45
2	HSBC Custody Nominees (Australia) Limited	20,439,513	10.44
3	Woolworths Limited	17,076,936	8.72
4	Citicorp Nominees Pty Limited	11,796,447	6.03
5	National Nominees Limited [Db Account]	7,170,700	3.66
6	National Nominees Limited	6,153,869	3.14
7	Manderrah Pty Ltd [GJJ Family Account]	5,192,733	2.65
8	HSBC Custody Nominees (Australia) Limited - Account 2	4,291,467	2.19
9	J P Morgan Nominees Australia Limited	3,254,235	1.66
10	Mr Edward Furnival Griffin + Mr Alastair Charles Griffin [Est Jean Falconer Griffin Ac]	2,795,751	1.43
11	HSBC Custody Nominees (Australia) Limited-Gsco Eca	2,771,863	1.42
12	CS Third Nominees Pty Limited [HSBC Customer Nominees AU Ltd 13 Account]	2,500,001	1.28
13	C J H Holdings Pty Ltd [CJH Family Account]	1,419,465	0.73
14	Mr David Calogero Loggia	1,058,398	0.54
15	Merlor Holdings Pty Ltd [Basserabie Family Settlement Account]	845,741	0.43
16	BNP Paribas Nominees Pty Limited [IB AU Nominees Retail Client DRP]	754,982	0.39
17	BT Portfolio Services Limited [Caergwrle Invest P/L Account]	745,787	0.38
18	Bond Street Custodians Limited [Caergwrle Investments Pty Limited Account]	700,000	0.36
19	Mr Nicholas Anthony Dyer	675,000	0.34
20	C J H Holdings Pty Ltd [Superannuation Fund Account]	660,953	0.34
Totals: Top 20 Holders of Stapled Securities		122,502,038	62.57
Totals: Remaining Holders Balance		73,267,042	37.43

C. SUBSTANTIAL HOLDERS

Substantial holders of ALE (as per notices received as at 12 July 2017) are set out below:

Stapled S Name	Number of Securities	% of Issued Capital
Caledonia (Private) Investments Pty Ltd	60,101,799	30.70
Woolworths Limited	17,076,936	8.72
Allan Gray Australia	13,868,884	7.08

INVESTOR INFORMATION

For the Year ended 30 June 2017

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Stapled securities

On a show of hands every stapled securityholder present at a meeting in person or by proxy shall be entitled to have one vote and upon a poll each stapled security will have one vote.

(b) NIVUS

Each NIVUS entitles the Company to one vote at a meeting of the Trust. 9,080,010 NIVUS have been issued by the Trust to the Company and 195,769,080 units have been issued by the Trust to stapled securityholders. The NIVUS therefore represent 4.43% of the voting rights of the Trust.

E. EQUITY RESEARCH COVERAGE OF ALE

The following equity research analysts currently cover ALE's stapled securities:

Rob Freeman and Stuart McLean – Macquarie Securities
Richard Jones – JP Morgan Securities
Andrew Legget – Intelligent Investor
Johannes Faul – Morningstar

F. ASX ANNOUNCEMENTS

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

2017	2016
31 Oct Annual General Meeting	06 Dec Property valuation increased by 10%
05 Sep 2nd half distribution payment	06 Dec Half Year distribution of 10.15 cents declared
08 Aug Full Year Results, Annual Review / Report and Property Compendium released	28 Nov Appointment of Robert Mactier as Director
09 Jun Property valuations increased by 9.1%	16 Nov Caledonia increases substantial holding to 29.66%
09 Jun Half Year distribution of 10.25 cents declared	25 Oct Annual General Meeting
09 Jun Full Year distribution of 20.40 cents announced	08 Sep Caledonia increases substantial holding to 28.50%
23 May Succession of Chairman	05 Sep 2nd half distribution payment
23 May ALE Redeems maturing AMTN	31 Aug Taxation Components of Distribution
14 Mar Caledonia increases substantial holding to 30.70%	04 Aug Full Year Results, Annual Review / Report and Property Compendium released
08 Mar ALE completes AMTN refinancing	14 Jun Property valuation increased by 10% for the full year
06 Mar 1st half distribution payment	10 Jun Half year distribution of 10.00 cents declared
02 Mar Taxation Components of Distribution	10 Jun Full year distribution of 20.00 cents announced
23 Feb Half Year results released	08 Mar Change in substantial holding from WOW
	07 Mar 1st half distribution payment
	29 Feb Taxation Components of Distribution
	16 Feb Half Year results released
	11 Feb Caledonia increases substantial holding to 27.05%
	04 Feb Hedging Extended At Low Interest Rates

INVESTOR INFORMATION

For the Year ended 30 June 2017

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.

Securityholder Enquiries

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

Registered Office

Level 10, 6 O'Connell Street
Sydney NSW 2000
Telephone (02) 8231 8588

Company Secretary

Mr Michael Clarke
Level 10, 6 O'Connell Street
Sydney NSW 2000
Telephone (02) 8231 8588

Auditors

KPMG
Level 38, Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

Lawyers

Allens Linklaters
Level 28, Deutsche Bank Place
Sydney NSW 2000

Custodian (of Australian Leisure and Entertainment Property Trust)

The Trust Company Limited
Level 13, 123 Pitt Street
Sydney NSW 2000

Trustee (of ALE Direct Property Trust)

The Trust Company (Australia) Limited
Level 13, 123 Pitt Street
Sydney NSW 2000

Registry

Computershare Investor Services Pty Ltd
Reply Paid GPO Box 7115, Sydney NSW 2000
Level 3, 60 Carrington Street, Sydney NSW 2000
Telephone 1300 302 429
Facsimile (02) 8235 8150
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Australian Leisure and Entertainment Property Management Limited

ABN 45 105 275 278



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DIRECTORS' REPORT

For the Year ended 30 June 2017



The Directors of Australian Leisure and Entertainment Property Management Limited (the "Company") present their report for the year ended 30 June 2017.

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

Level 10
6 O'Connell Street
Sydney NSW 2000





1. DIRECTORS

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

Name	Experience, responsibilities and other directorships
<p>Robert Mactier, B.Ec, MAICD <i>Independent Non Executive Director Chairman of the Board</i></p> 	<p>Appointed: 28 November 2016 Member of the Audit, Compliance and Risk Management Committee (ACRMC) Member of the Nominations Committee Member of the Remuneration Committee</p> <p>Robert's other current roles include Chairman of ASX-listed WPP AUNZ Limited (since 2006) and Consultant to UBS AG in Australia (since June 2007). Between 2006 and January 2017 he served as a non-executive Director of NASDAQ listed Melco Resorts and Entertainment Limited.</p> <p>Robert began his career at KPMG and from January 1986 to April 1990 worked across their audit, management consulting and corporate finance practices. He has extensive investment banking experience in Australia, having previously worked for Citigroup, E.L. & C. Baillieu and Ord Minnett Securities between 1990 and 2006.</p> <p>Robert holds a Bachelor's degree in economics from the University of Sydney and has been a Member of the Australian Institute of Company Directors since 2007.</p>
<p>Phillipa Downes, BSc (Bus Ad), MAppFin, GAICD <i>Independent Non Executive Director</i></p> 	<p>Appointed: 26 November 2013 Chair of the ACRMC Member of the Nominations Committee Member of the Remuneration Committee</p> <p>Phillipa (Pippa) is a Director of the Infotrack Group, the ASX Clearing and Settlement companies, the Sydney Olympic Park Authority and is also on the panel of the ASX Appeals Tribunal. Pippa is also a director of the Pinnacle Foundation and was a Managing Director and Equity Partner of Goldman Sachs in Australia until October 2011, working in the Proprietary Investment division. Pippa has had a successful international banking and finance career spanning over 20 years where she has led the local investment, derivative and trading arms of several of the world's leading Investment Banks. She has extensive experience in Capital Markets, derivatives and asset management.</p> <p>Prior to joining Goldman Sachs in 2004, Ms Downes was a director and the Head of Equity Derivatives Trading at Deutsche Bank in Sydney. When Morgan Stanley was starting its equity franchise in Australia in 1998 she was hired to set up the Derivative and Proprietary Trading business based in Hong Kong and Australia. Ms Downes started her career working for Swiss Bank O'Connor on the Floor of the Pacific Coast Stock Exchange in San Francisco, followed by the Philadelphia Stock Exchange before returning to work in Sydney as a director for UBS.</p> <p>Pippa was previously an appointed Director on the Board of Swimming Australia and the Swimming Australia Foundation. Pippa graduated from the University of California at Berkeley with a Bachelor of Science in Business Administration majoring in Finance and Accounting. Pippa also completed a Masters of Applied Finance from Macquarie University in 1998.</p>

DIRECTORS' REPORT

For the Year ended 30 June 2017



Name	Experience, responsibilities and other directorships
<p>Nancy Milne, <i>OAM, LLB, FAICD</i> <i>Independent Non Executive Director</i></p> 	<p>Appointed: 6 February 2015</p> <ul style="list-style-type: none">Member of the ACRMCMember of the Nominations CommitteeMember of the Remuneration Committee <p>Nancy has been a professional non-executive director for over a decade. She is a former lawyer with over 30 years' experience with primary areas of legal expertise in insurance, risk management, and corporate governance. She was a partner with Clayton Utz until 2003 and a consultant until 2012. She is currently Chairman of the Securities Exchange Guarantee Corporation and deputy chairman of the State Insurance Regulatory Authority. She was previously a director of Australand Property Group, Crowe Horwarth Australasia, State Plus and Novion Property Group (now Vicinity Centres).</p> <p>Nancy has a Bachelor of Laws from the University of Sydney. She is a member of the NSW Council of the Australian Institute of Company Directors and the Institute's Law Committee.</p>
<p>Paul Say, <i>FRICS, FAPI</i> <i>Independent Non Executive Director</i></p> 	<p>Appointed: 24 September 2014</p> <ul style="list-style-type: none">Member of the ACRMCChair of the Nominations CommitteeChair of the Remuneration Committee <p>Paul has over 30 years' experience in commercial and residential property management, development and real estate transactions with major multinational institutions. Paul was Chief Investment Officer at Dexus Property Group from 2007 to 2012. Prior to that he was with Lend Lease Corporation for 11 years in various positions culminating with being the Head of Corporate Finance. Paul is a director of GPT Metro Office Fund and Frasers Logistic & Industrial Trust (SGX listed).</p> <p>Paul has a Graduate Diploma in Finance and Investment and a Graduate Diploma in Financial Planning. He is a Fellow of the Royal Institute of Chartered Surveyors, Fellow of the Australian Property Institute and a Licensed Real Estate Agent (NSW, VIC and QLD).</p>
<p>James McNally <i>B.Bus (Land Economy), Dip. Law</i> <i>Non Executive Director</i></p> 	<p>Appointed: 26 June 2003</p> <p>James is an executive and founding director of the company. James has over 20 years' experience in the funds management industry, having worked in both property trust administration and compliance roles for Perpetual Trustees Australia Limited and MIA Services Pty Limited, a company that specialises in compliance services to the funds management industry. James' qualifications include a Bachelor of Business in land economy and a Diploma of Law. James is also a registered valuer and licensed real estate agent.</p> <p>James is not considered an Independent Director as he has held an Executive Director position with ALE for the last three years to 15 April 2017.</p>
<p>Peter Warne, <i>B.A, FAICD</i> <i>Independent Non Executive Director</i></p> 	<p>Appointed: 8 September 2003 Resigned: 23 May 2017</p> <ul style="list-style-type: none">Member of the Audit, Compliance and Risk Management Committee (ACRMC)Member of the Nominations CommitteeMember of the Remuneration Committee <p>Peter began his career with the NSW Government Actuary's Office and the NSW Superannuation Board before joining Bankers Trust Australia Limited (BTAL) in 1981. Peter held senior positions in the Fixed Income Department, the Capital Markets Division and the Financial Markets Group of BTAL and acted as a consultant to assist with integration issues when the investment banking business of BTAL was acquired by Macquarie Bank Limited in 1999. Peter is Chairman of Macquarie Group Limited and a board member of ASX Limited. He is also a Director of the Securities Exchanges Guarantee Corporation and NSW Treasury Corporation.</p> <p>Peter graduated from Macquarie University with a Bachelor of Arts, majoring in Actuarial Studies. He qualified as an associate of, and received a Certificate of Finance and Investment from, the Institute of Actuaries, London.</p>

DIRECTORS' REPORT

For the Year ended 30 June 2017

Name	Experience, responsibilities and other directorships
<p>Andrew Wilkinson <i>B.Bus, CFTP, MAICD</i> <i>Managing Director</i></p> 	<p>Appointed: 16 November 2004 Chief Executive Officer and Managing Director of the Company Responsible Manager of the Company under the Company's Australian Financial Services Licence (AFSL)</p> <p>Andrew was appointed Managing Director of the Company in November 2004. He joined ALE as Chief Executive Officer at the time of its listing in November 2003. Andrew has around 35 years' experience in banking, corporate finance and funds management. He was previously a corporate finance partner with PricewaterhouseCoopers and spent 15 years in finance and investment banking with organisations including ANZ Capel Court and Schroders.</p>

2. OTHER OFFICERS

Name	Experience
<p>Michael Clarke <i>BCom, MMan, CA, ACIS</i> <i>Company Secretary and Finance Manager</i></p> 	<p>Appointed: 30 June 2016</p> <p>Michael joined ALE in October 2006 and was appointed Company Secretary on 30 June 2016. Michael has a Bachelor of Commerce from the University of New South Wales and a Masters of Management from the Macquarie Graduate School of Management. He is an associate member of both the Governance Institute of Australia and the Institute of Chartered Accountants in Australia and New Zealand.</p> <p>Michael has over 30 years' experience in accounting, taxation and financial management. Michael previously held senior financial positions with subsidiaries of listed public companies and spent 12 years working for Grant Thornton. He has also owned and managed his own accounting practice.</p>
<p>David Lawler <i>B.Bus, CPA</i> <i>Independent member of ACRMC</i></p> 	<p>Appointed: 9 December 2005</p> <p>David was appointed to ALE's ACRMC on 9 December 2005 and has over 25 years' experience in internal auditing in the banking and finance industry. He was the Chief Audit Executive for Citibank in the Philippines, Italy, Switzerland, Mexico, Brazil, Australia and Hong Kong. David was Group Auditor for the Commonwealth Bank of Australia. David is the Chairman of the Australian Trade and Investment Commission Audit and Risk Committee, and the National Mental Health Commission Audit Committee, and is an audit committee member of the Australian Office of Financial Management, Cancer Australia, the Department of Foreign Affairs and Trade, the Australian Sports Anti-Doping Authority, and the Australian Maritime Safety Authority. David is Chairman of Australian Settlements Limited. David has a Bachelor of Business Studies from Manchester Metropolitan University in the UK. He is a Fellow of CPA Australia and a past President of the Institute of Internal Auditors – Australia.</p>

3. INFORMATION ON DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directorships of listed entities within the last three years

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

Director	Directorships of listed entities	Type	Appointed as Director	Resigned as Director
R W Mactier	WPP AUNZ Limited	Non-executive	December 2006	
R W Mactier	Melco Resorts and Entertainment Limited (Nasdaq listed)	Non-executive	December 2006	January 2017
P G Say	GPT Metro Office Fund	Non-executive	August 2014	September 2016
P G Say	Frasers Logistic & Industrial Trust (SGX listed)	Non-executive	June 2016	

DIRECTORS' REPORT

For the Year ended 30 June 2017

Directors' and key management personnel interests in stapled securities and ESSS rights

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

Name	Role	held at the start of the year	Net movement	Number held at the end of the year
R W Mactier	Non-executive Director	-	50,000	50,000
P H Warne	Non-executive Director	1,185,000	-	1,185,000
P J Downes	Non-executive Director	213,904	(24,794)	189,110
P G Say	Non-executive Director	25,000	-	25,000
N J Milne	Non-executive Director	20,000	-	20,000
A F O Wilkinson	Executive Director	317,859	49,878	367,737
J T McNally	Executive Director	55,164	-	55,164
A J Slade	Capital Manager	73,611	(13,611)	60,000
M J Clarke	Company Secretary and Finance Manager	17,500	500	18,000
D J Shipway	Asset Manager	4,000	8,825	12,825

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

Name	Role	Number held at the start of the year	Granted during the year	Lapsed / Delivered during the year	Number held at the end of the year
ESSS Rights					
A F O Wilkinson	Executive Director	131,975	27,020	(34,878)	124,117
A J Slade	Capital Manager	66,355	13,510	(19,092)	60,773
M J Clarke	Finance Manager	23,024	5,246	(8,825)	19,445
D J Shipway	Asset Manager	17,514	1,968	(8,825)	10,657

Meetings of directors

The number of meetings of the **Company's** Board of Directors held and of each Board committee during the year ended 30 June 2017 and the number of meetings attended by each director at the time the director held office during the year were:

Director	Board		ACRMC		Nominations Committee and Remuneration Committee	
	Held ¹	Attended	Held ¹	Attended	Held ¹	Attended
R W Mactier	6	6	2	2	2	2
P H Warne	9	9	6	6	3	3
P J Downes	10	10	7	7	4	4
P G Say	10	10	7	7	4	4
N J Milne	10	10	7	7	4	4
A F O Wilkinson	10	10	n/a	n/a	n/a	n/a
J T McNally	10	9	n/a	n/a	n/a	n/a
Member of Audit, Compliance and Risk Management Committee						
D J Lawler	n/a	n/a	7	7	n/a	n/a

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

4. PRINCIPAL ACTIVITIES

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

DIRECTORS REPORT

For the Year ended 30 June 2017

5. OPERATIONAL AND FINANCIAL REVIEW

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 in the portfolio are leased to Australian Leisure and Hospitality Group (ALH) for an average remaining initial lease term of 11.3 years plus options for ALH to extend.

The Company is responsible for the management activities of the ALE Group and also acts as the responsible entity for the Australian Leisure and Entertainment Property Trust (the "Trust").

	30 June 2017 \$	30 June 2016 \$
Revenue		
Expense reimbursement	4,460,628	4,108,938
Interest income	7,077	23,795
Total revenue	4,467,705	4,132,733
Expenses		
Salaries, fees and related costs	2,727,951	2,479,253
Other expenses	1,663,604	1,811,685
Total expenses	4,391,555	4,290,938
Profit/(loss) before income tax	76,150	(158,205)
Income tax expense / (benefit)	(526)	7,763
Profit/(loss) attributable to the shareholders of the Company	76,676	(165,968)
	Cents	Cents
Basic and diluted earnings per share	0.04	(0.08)
Dividend per share for the year	-	-
Net assets per share	7.28	7.27

Significant Changes In The State Of Affairs

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

6. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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.

7. DIVIDENDS

No provisions for or payments of Company dividends have been made during the year (2016: nil).

8. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

DIRECTORS' REPORT

For the Year ended 30 June 2017

9 REMUNERATION REPORT (Audited)

This report provides details on ALE's remuneration structure, decisions and outcomes for the year ended 30 June 2017 for employees of ALE including the directors, the Managing Director and key management personnel. This information has been audited as required by section 308(3C) of the Act.

9.1 Remuneration Objectives and Approach

In determining a remuneration framework, the Board aims to ensure the following:

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

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

- alignment with ALE's financial, operational, compliance and risk management objectives so as to achieve alignment with positive outcomes for stapled securityholders;
- alignment with ALE's overall performance;
- transparent, reasonable and acceptable to employees and securityholders;
- rewards the responsibility, capability, experience and contribution made by executives;
- recognises individual executive's contributions towards value accretive outcomes when measured against Key Performance Indicators (KPI's); and
- market competitive and complementary to the reward strategy of the organisation.

The framework provides a mix of fixed and variable remuneration. Since the year ending 30 June 2012 the variable remuneration has been provided through the Executive Incentive Scheme (EIS). Any award under the EIS is paid 50% in cash following the year end and 50% in stapled securities with delivery deferred three years.

9.2 Remuneration Committee

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

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

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

The Committee operates independently of management in its recommendations to the Board and engages remuneration consultants independently of management. During the year ended 30 June 2017, the Committee consisted of the following:

P G Say	Non-executive Director	Chairman of Remuneration Committee
P H Warne	Non-executive Director	(Resigned 23 May 2017)
R W Mactier	Non-executive Director	(Appointed 22 February 2017)
P J Downes	Non-executive Director	
N J Milne	Non-executive Director	

Page 2 of this report provides information on the skills, experience and expertise of the Committee members.

The number of meetings held by the Committee and the members' attendance at them is set out on page 5.

The Committee considers advice from a wide range of external advisors in performing its role. During the current financial year the Committee did not retain an external consultant to advise on remuneration.

DIRECTORS' REPORT

For the Year ended 30 June 2017

9.3 Executive Remuneration

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

- Fixed Annual Remuneration (FAR)
- Executive Incentive Scheme (EIS)

9.3.1 Fixed Annual Remuneration (FAR)

What is FAR? FAR is the guaranteed salary package of the executive and includes superannuation guarantee levy and salary sacrificed components such as motor vehicles, computers and superannuation.

How is FAR set? FAR is set by reference to external market data for comparable roles and responsibilities within similar listed and unlisted entities within Australia.

When is FAR Reviewed? FAR is reviewed in December each year with any changes being effective from 1 January of the following year.

9.3.2 Executive Incentive Scheme (EIS)

What is EIS? EIS is an "at risk" component of executive remuneration.

EIS is used to reward executives for achieving and exceeding annual individual KPIs.

The target EIS opportunity for executives varies according to the role and responsibility of the executive.

EIS awards comprise 50% cash and 50% deferred delivery stapled securities issued under the Executive Stapled Securities Scheme (ESSS). For executives not invited to participate in the ESSS, the EIS is paid fully in cash.

Executive	Position	Standard EIS Target (as a % of FAR)	% of EIS paid as cash	% of EIS paid as ESSS
Andrew Wilkinson	Managing Director	60%	50%	50%
Andrew Slade	Capital Manager	50%	50%	50%
Michael Clarke	Company Secretary and Finance Manager	n/a ¹	50%	50%
Don Shipway	Asset Manager	n/a ¹	50%	50%

1. EIS awards are at the discretion of the Committee and the Board

How are EIS targets and objectives chosen? At the beginning of each year, in addition to the standard range of operational requirements, the Board sets a number of strategic objectives for ALE for that year. These objectives are dependent on the strategic opportunities and issues facing ALE for that year and may include objectives that relate to the short and longer term performance of ALE. Additionally, specific KPIs are established for all executives with reference to their individual responsibilities which link to the addition to and protection of securityholder value, improving business processes, ensuring compliance with legislative requirements, reducing risks within the business and ensuring compliance with risk management policies, as well as other key strategic non-financial measures linked to drivers of performance in future economic periods.

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

The quantum of EIS payments and awards are directly linked to over or under achievement against the specific KPIs. The Board has due regard to the achievements outlined in section 9.4.

DIRECTORS' REPORT

For the Year ended 30 June 2017

<i>How are EIS awards delivered?</i>	<p>EIS cash payments are made in August each year following the signing of ALE's full year statutory financial statements.</p> <p>The deferred component comprises an award of stapled securities under the ESSS. Any securities awarded under the ESSS are delivered three years after the award date provided certain conditions have been met.</p>
<i>How is the ESSS award calculated?</i>	<p>The number of ESSS Rights awarded annually under the ESSS will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE's full year statutory financial statements, and grossing this number up for the future value of the estimated distributions over the three year deferred delivery period.</p>
<i>What conditions are required to be met for the delivery of an ESSS award?</i>	<p>During the three year deferred delivery period, the delivery of the Stapled Securities issued under the ESSS remains subject to the following clawback tests. ESSS rights will be forfeited in whole or in part at the discretion of the Remuneration Committee if before the end of the deferred delivery period:</p> <ul style="list-style-type: none">• the Committee becomes aware of any executive performance matter which, had it been aware of the matter at the time of the original award, would have in their reasonable opinion resulted in a lower original award; or• the executive engages in any conduct or commits any act which, in the Committee's reasonable opinion, adversely affects ALE Property Group including, and without limitation, any act which:<ul style="list-style-type: none">• results in ALE having to make any material negative financial restatements;• causes ALE to incur a material financial loss; or• causes any significant financial or reputational harm to ALE and/or its businesses.

9.3.3 Summary of Key Contract Terms

Contract Details

Executive	Andrew Wilkinson	Andrew Slade	Michael Clarke	Don Shipway	James McNally
Position	Managing Director	Capital Manager	Finance Manager and Company Secretary	Asset Manager	Executive Director
Contract Length	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Fixed Annual Remuneration	\$466,550	\$263,488	\$225,420	\$204,820	\$105,000
Notice by ALE	6 months	3 months	3 months	1 month	1 month
Notice by Executive	6 months	3 months	3 months	1 month	1 month

Managing Director

Mr Wilkinson has signed a service agreement that commenced on 1 September 2014. The agreement stipulates the starting minimum base salary, inclusive of superannuation, as being \$425,000, to be reviewed annually each 31 December by the Board. An EIS, if earned, would be paid 50% as a cash bonus in August each year and 50% in stapled securities issued under the ESSS and delivered three years following each of the annual grant dates.

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

9.4 Executive Remuneration outcome for year ended 30 June 2017

The amount of remuneration paid to Directors and Key Management Personnel is detailed in the table on page 13.

Executive Incentive Scheme Outcomes

ALE continues to perform well when compared to other Australian real estate investment trusts (AREITs).

The Committee reviewed the overall performance of ALE and the individual performance of all executives for the year ending 30 June 2017.

It was the view of the Committee that all of the standard key performance indicators (KPIs) and all of the major items in the Board approved corporate strategy had been met. In particular the Committee noted:

Capital Matters

- In March 2017 ALE completed a \$150 million Australian Medium Term Note (AMTN) issue with a term of 5.5 years. At a 1.50% credit margin and an all up rate of 4.00% this was a competitively priced outcome and reduced ALE's weighted average cost of debt from 4.35% to 4.26%. ALE received a strong response from a wide range of domestic and international institutional investors, a number of whom have participated in ALE's various debt issues since 2003;
- As the new AMTN issue was a fixed rate instrument, ALE efficiently removed a corresponding amount of the existing forward start hedging over the term to August 2022 at a cost of \$7.2 million. This cost is similar to the benefit arising from the reduction in ALE's base interest expense over the same term;
- The refinancing strengthened ALE's debt capital position further. ALE now has debt maturities spread over the next six years and base interest rates 100% locked away for the next eight years;
- ALE's investment grade credit rating of Baa2 (with stable outlook) was fully maintained;
- Management continued to explore a range of debt funding solutions in both the domestic and offshore capital markets with a view to enhancing ALE's readiness to implement future debt refinancings and additional debt funding of any acquisitions; and
- Management reviewed a range of other strategic initiatives with particular focus on value enhancement and risk mitigation.

Other matters

- Worked constructively with ALH to explore and agree a range of developments that are value enhancing for ALE for a number of properties;
- Undertook a more comprehensive statutory valuation exercise to ensure that the independent valuers were fully appraised of the key value drivers of each of the properties;
- Explored a number of acquisition opportunities that accorded with ALE's strategic criteria;
- Worked on a number of strategic initiatives during the year;
- Completed a comprehensive review of ALE's service providers with a view to ensuring cost savings were maximised and service levels enhanced; and
- Continued to deliver both short and long term total returns for securityholders that outperformed most if not all other AREITs in the sector.

The remuneration committee considered these achievements and compared them to key performance indicators for each executive that were set at the beginning of the financial year. Individual executives contributed to the valuable outcomes outlined above and this was recognised in the EIS payments made. All the EIS payments are included in the staff remuneration expenses in the current year.

The EIS awarded to each member of the management team was as follows:

Executive	Target EIS (as % of FAR)	EIS		EIS Awarded	Cash Component	ESSS Component
		Awarded (as % of FAR)	EIS Awarded as a % of Target			
Andrew Wilkinson	60%	60.0%	100.0%	\$279,930	\$139,965	\$139,965
Andrew Slade	50%	57.6%	115.2%	\$151,744	\$75,872	\$75,872
Michael Clarke	n/a	17.7%	-	\$40,000	\$20,000	\$20,000
Don Shipway	n/a	12.2%	-	\$25,000	\$12,500	\$12,500

DIRECTORS' REPORT

For the Year ended 30 June 2017

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits to shareholder wealth, the remuneration committee have regard to a number of performance indicators in relation to the current and previous financial years.

A review of ALE's current year performance and history is provided in the Operational and Financial Review on page 6 of the Directors Report located in the ALE Property Group's Annual Report.

9.5 Disclosures relating to equity instruments granted as compensation

9.5.1 Outstanding equity instruments granted as compensation

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

Executive	Number of Rights Outstanding	Grant Date	Performance Period Start Date	Fair value of Right at Grant Date (\$)	Approximate Delivery Date	% vested in year	% forfeited in year
ESSS Rights							
A F O Wilkinson	63,732	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
A F O Wilkinson	33,365	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
A F O Wilkinson	27,020	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil
A J Slade	31,375	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
A J Slade	15,888	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
A J Slade	13,510	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil
M J Clarke	7,844	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
M J Clarke	6,355	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
M J Clarke	5,246	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil
D J Shipway	3,922	1 Oct 14	1 Jul 13	2.55	31 Jul 17	Nil	Nil
D J Shipway	4,767	20 Aug 15	1 Jul 14	3.15	31 Jul 18	Nil	Nil
D J Shipway	1,968	24 Oct 16	1 Jul 15	3.81	31 Jul 19	Nil	Nil

9.5.2 Modification of terms of equity settled share based payment transactions

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

9.5.3 Analysis of movements in ESSS rights

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

Executive	Opening Balance	Granted in Year	Stapled Securities Delivered in the Year	Lapsed in the Year	Closing Balance	Securities Delivered in the year - value paid \$
By Value (\$)						
A F O Wilkinson	346,540	103,000	(79,040)	-	370,500	154,575
A J Slade	173,264	51,500	(43,264)	-	181,500	84,613
M J Clarke	60,000	20,000	(20,000)	-	60,000	39,111
D J Shipway	45,000	7,500	(20,000)	-	32,500	39,111
By Number						
A F O Wilkinson	131,975	27,020	(34,878)	-	124,117	
A J Slade	66,355	13,510	(19,092)	-	60,773	
M J Clarke	23,024	5,246	(8,825)	-	19,445	
D J Shipway	17,514	1,968	(8,825)	-	10,657	

9.5.4 Directors' and key management personnel interests in stapled securities and ESSS rights

A summary of directors, key management personnel and their associates holdings in stapled securities and ESSS interests in ALE is shown on pages 5 of the Directors Report.

DIRECTORS' REPORT

For the Year ended 30 June 2017

9.6 Equity based compensation

The value of ESSS disclosed in section 9.5.3 and 9.8 is based on the value of the grant at the award date. The number of Stapled Securities issued annually under the ESSS award will be determined by dividing the value of the grant by the volume weighted average price for the **five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements, and grossing this number up for estimated distributions over the deferred delivery period.** The number of securities granted in the current year will be determined on 16 August 2017.

9.7 Non-executive Directors' Remuneration

9.7.1 Remuneration Policy and Strategy

Non-executive directors' individual fees are determined by the Company Board within the aggregate amount approved by shareholders. The current aggregate amount which has been approved by shareholders at the AGM on 6 November 2014 was \$650,000.

The Board reviews its fees to ensure that ALE non-executive directors are remunerated fairly for their services, recognising the level of skill, expertise and experience required to conduct the role. The Board reviews its fees from time to time to ensure it is remunerating directors at a level that enables ALE to attract and retain the right non-executive directors. Fees and payments to non-executive directors reflect the **demands which are made on, and the responsibilities of the Directors. Non-executive directors' fees and payments were reviewed in the current financial year. The results of this review are shown in the fees listed below. The Chairman's fees are determined independently from** the fees of the other non-executive directors, based on comparative roles in the external market. The Chairman is not present at any discussion relating to the determination of his own remuneration. Non-executive directors do not receive any equity based payments, retirement benefits or other incentive payments.

9.7.2 Remuneration Structure

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

The current remuneration was reviewed in January 2017. This resulted in changes to the fee levels indicated below. The Directors' fees are inclusive of superannuation, where applicable.

	Board		ACRMC		Remuneration Committee	
	Chairman*	Member	Chairman	Member	Chairman	Member
Board and Committee Fees	\$195,000	\$95,000	\$15,000	\$10,000	\$15,000	\$5,000

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

James McNally's remuneration is determined in accordance with the above fees. He received an additional \$5,000 for being a Responsible **Manager of the Company under the Company's AFSL (retired in April 2017)** and **\$10,000 for being a director of ALE Finance Company Pty Limited.**

9.8 Details of remuneration

Amount of remuneration

Details of the remuneration of the key management personnel for the current year and for the comparative year are set out below in tables 1 and 2. The cash bonuses were dependent on the satisfaction of performance conditions as set out in the section 9.4 headed "Executive Incentive Scheme Outcomes". Equity based payments for 2017 are non-market based performance related as set out in section 9.4. All other elements of remuneration were not directly related to performance.

Table 1 Remuneration details 1 July 2016 to 30 June 2017

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2017 are set out in the following table:

Key management personnel		Short term			Post employment benefits			Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of equity based payment as proportion of remuneration	
Name	Role	Salary & Fees \$	STI Cash Bonus \$	Non monetary benefits \$	Total \$	Superannuation benefits \$	Other long term benefits \$	Termination benefits \$	ESSS \$	Total \$	\$	\$
R W Mactier ¹	Non-executive Director	67,013	-	-	67,013	6,366	-	-	-	73,379	-	-
P H Warne ²	Non-executive Director	150,280	-	-	150,280	14,277	-	-	-	164,557	-	-
P J Downes	Non-executive Director	100,457	-	-	100,457	9,543	-	-	-	110,000	-	-
P G Say	Non-executive Director	115,000	-	-	115,000	-	-	-	-	115,000	-	-
N J Milne	Non-executive Director	95,890	-	-	95,890	9,110	-	-	-	105,000	-	-
A F O Wilkinson	Executive Director	442,359	139,965	-	582,324	19,615	2,283	-	139,965	744,187	37.6%	18.8%
J T McNally	Executive Director	103,750	-	-	103,750	-	-	-	-	103,750	-	-
A J Slade	Capital Manager	241,652	75,872	-	317,524	19,615	8,686	-	75,872	421,697	36.0%	18.0%
M J Clarke	Company Secretary and Finance Manager	204,781	20,000	-	224,781	18,509	8,062	-	20,000	271,352	14.7%	7.4%
D J Shipway	Asset Manager	185,200	12,500	-	197,700	17,610	5,582	-	12,500	233,392	10.7%	5.4%
		1,706,382	248,337	-	1,954,719	114,645	24,613	-	248,337	2,342,314		

1. Robert Mactier was appointed a director on 23 November 2016

2. Peter Warne resigned as a director on 23 May 2017

Table 2 Remuneration details 1 July 2015 to 30 June 2016

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2016 are set out in the following table:

Key management personnel		Short term			Post employment benefits			Equity based payment		S300A(1)(e)(i) proportion of remuneration performance based	S300A(1)(e)(vi) Value of equity based payment as proportion of remuneration	
Name	Role	Salary & Fees \$	STI Cash Bonus \$	Non monetary benefits \$	Total \$	Superannuation benefits \$	Other long term benefits \$	Termination benefits \$	ESSS \$	Total \$	\$	\$
P H Warne	Non-executive Director	159,817	-	-	159,817	15,183	-	-	-	175,000	-	-
H I Wright ³	Non-executive Director	31,963	-	-	31,963	3,037	-	-	-	35,000	-	-
P J Downes	Non-executive Director	96,184	-	-	96,184	9,137	-	-	-	105,321	-	-
P G Say	Non-executive Director	108,750	-	-	108,750	-	-	-	-	108,750	-	-
N J Milne	Non-executive Director	91,324	-	-	91,324	8,676	-	-	-	100,000	-	-
B R Howell ⁴	Company Secretary	90,000	-	-	90,000	-	-	-	-	90,000	-	-
A F O Wilkinson	Executive Director	411,512	103,000	-	514,512	35,000	7,310	-	103,000	659,822	31.2%	15.6%
J T McNally	Executive Director	100,000	-	-	100,000	-	-	-	-	100,000	-	-
A J Slade	Capital Manager	222,160	51,500	-	273,660	30,000	3,980	-	51,500	359,140	28.7%	14.3%
M J Clarke ⁴	Company Secretary and Finance Manager	188,465	20,000	-	208,465	17,485	3,088	-	20,000	249,038	16.1%	8.0%
D J Shipway	Asset Manager	178,967	7,500	-	186,467	17,040	3,060	-	7,500	214,067	7.0%	3.5%
		1,679,142	182,000	-	1,861,142	135,558	17,438	-	182,000	2,196,138		

3 Helen Wright resigned as a director on 27 October 2015

4. Brendan Howell resigned as Company Secretary on 30 June 2016 and Michael Clarke was appointed Company Secretary on 30 June 2016

DIRECTORS REPORT

For the Year ended 30 June 2017

10 Stapled securities under option

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

11 Stapled securities issued on the exercise of options

No stapled securities were issued on the exercise of performance rights during the financial year.

12 Insurance of officers

During the financial year, the Company paid a premium of \$53,560 (2016: \$51,535) to insure the directors and officers of the Company. The auditors of the Company are in no way indemnified out of the assets of the Company.

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

13 Non-audit services

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

The Board of Directors has considered the position and in accordance with the advice received from the ACRMC is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. During the current financial years non-audit services were performed by the auditors.

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

	30 June 2017 \$	30 June 2016 \$
Audit services		
KPMG Australian firm:		
Audit and review of the financial reports of the Group and other audit work required under the <i>Corporations Act 2001</i>		
- in relation to current year	180,000	171,500
- in relation to prior year	15,000	12,500
Total remuneration for audit services	195,000	184,000
Other services		
KPMG Australian firm:		
Risk assurance and property development advisory services	152,352	18,259
Total other services	152,352	18,259
Total remuneration	347,352	202,259

14 Environmental regulation

While ALE is not subject to significant environmental regulation in respect of its property activities, the directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance with various licence requirements and regulations. Further, the directors are not aware of any material breaches of these requirements. At four 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.

DIRECTORS REPORT

For the Year ended 30 June 2017

15 Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

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



Robert Mactier
Chairman



Andrew Wilkinson
Managing Director

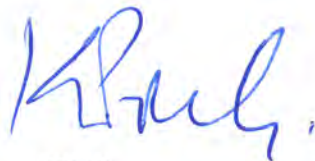
Dated this 8th day of August 2017

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

To the directors of Australian Leisure and Entertainment Property
Management Limited

I declare that, to the best of my knowledge and belief, in relation to the
audit for the financial year ended 30 June 2017 there have been:

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



KPMG



John Teer

Partner

Sydney

8 August 2017

FINANCIAL STATEMENTS

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Page 20	Statement of Changes in Equity
Page 21	Statement of Cash Flows

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			2.2	Other expenses
			2.3	Taxation
			2.4	Earnings per share
			2.5	Remuneration of auditors

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			3.2	Receivables
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			3.4	Payables
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STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 30 June 2017

	Note	2017 \$	2016 \$
Revenue			
Expense reimbursement	2.1	4,460,628	4,108,938
Interest income	2.1	7,077	23,795
Total revenue		4,467,705	4,132,733
Expenses			
Salaries and related costs	2.2	2,727,951	2,479,253
Other expenses	2.2	1,663,604	1,811,685
Total expenses		4,391,555	4,290,938
Profit/(Loss) before income tax		76,150	(158,205)
Income tax expense/(benefit)	2.3	(526)	7,763
Profit/(Loss) after income tax		76,676	(165,968)
Profit/(Loss) attributable to shareholders ALE		76,676	(165,968)
		Cents	Cents
Basic earnings per share	2.4	0.04	(0.08)

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

STATEMENT OF FINANCIAL POSITION

For the Year ended 30 June 2017

	Note	2017 \$	2016 \$
Current assets			
Cash and cash equivalents	3.1	2,439,819	2,278,988
Receivables	3.2	3,020,857	2,957,796
Other		253,109	214,629
Total current assets		5,713,785	5,451,413
Non-current assets			
Plant and equipment		27,573	35,994
Investment in related party	3.3	9,080,010	9,080,010
Deferred tax asset	2.3(b)	57,127	48,901
Total non-current assets		9,164,710	9,164,905
Total assets		14,878,495	14,616,318
Current liabilities			
Payables	3.4	440,355	206,121
Employee benefits	4.1	189,544	169,203
Total current liabilities		629,899	375,324
Total liabilities		629,899	375,324
Net assets		14,248,596	14,240,994
Equity			
Contributed equity	3.5	14,767,075	14,767,075
Reserve		892,837	806,804
Accumulated losses		(1,411,316)	(1,332,885)
Total equity		14,248,596	14,240,994
		\$	\$
Net assets per share		0.07	0.07

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

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2017

	Share Capital \$	Share based payments reserve \$	Retained Earnings \$	Total \$
2017				
Total equity at the beginning of the year	14,767,075	806,804	(1,332,885)	14,240,994
Total comprehensive income for the period				
Profit/(Loss) for the year	-	-	76,676	76,676
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	76,676	76,676
<i>Transactions with Members of ALE recognised directly in Equity:</i>				
Purchase of securities to satisfy units required for Executive Performance Rights Plan	-	(162,304)	(155,107)	(317,411)
Employee share based payments expense	-	248,337	-	248,337
Total equity at the end of the year	14,767,075	892,837	(1,411,316)	14,248,596
2016				
Total equity at the beginning of the year	14,759,025	735,054	(1,030,203)	14,463,876
Total comprehensive income for the period				
Profit/(Loss) for the year	-	-	(165,968)	(165,968)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(165,968)	(165,968)
<i>Transactions with Members of ALE recognised directly in Equity:</i>				
Purchase of securities to satisfy units required for Executive Performance Rights Plan	-	-	-	-
Shares issued - Executive Stapled Security Scheme	8,050	(110,250)	(136,714)	(238,914)
Employee share based payments expense	-	182,000	-	182,000
Total equity at the end of the year	14,767,075	806,804	(1,332,885)	14,240,994

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

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2017

	2017 \$	2016 \$
Cash flows from operating activities		
Management fee received and expense reimbursements	6,047,573	5,986,596
Payments to suppliers and employees	(5,935,895)	(6,273,551)
Interest received - bank deposits and investment arrangements	60,582	80,506
Net cash inflow from operating activities	172,260	(206,449)
Cash flows from investing activities		
Payments for plant and equipment	(11,429)	(34,444)
Net cash outflow from investing activities	(11,429)	(34,444)
Cash flows from financing activities		
Shares issued	-	-
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	160,831	(240,893)
Cash and cash equivalents at the beginning of the year	2,278,988	2,519,881
Cash and cash equivalents at the end of the year	2,439,819	2,278,988

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

	2017 \$	2016 \$
Profit for the year	76,676	(165,968)
<i>Plus/(less):</i>		
Depreciation	19,850	16,032
Non-cash employee benefits expense - share based payments	248,337	182,000
Share based payment securities purchased	(317,411)	-
(Increase)/decrease in receivables	38,343	38,221
(Increase)/decrease in other assets	(38,480)	3,832
(Increase)/decrease in deferred tax asset	(8,226)	(1,028)
(Increase)/decrease in loan from related party	(101,404)	81,303
Increase/(decrease) in provisions	20,341	24,000
Increase/(decrease) in payables	234,234	(384,841)
Net cash inflow from operating activities	172,260	(206,449)

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 30 June 2017

1.

About this report

Reporting Entity

Australian Leisure and Entertainment Property Management Limited (the Company) is domiciled in Australia.

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

The Company is the Responsible Entity of the Trust.

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements also comply with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

The financial statements were authorised for issue by the Board of Directors on 8th August 2017.

Basis of preparation

The Financial Report has been prepared on a historical costs basis, except for the revaluation of investment properties and certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are represented in Australian dollars, unless otherwise noted.

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.

<u>Accounting estimates and judgements</u>	<u>Note</u>
Income taxes	2.3
Employee benefits	4

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Other significant accounting policies are contained in the notes to the financial statements to which they relate to.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 30 June 2017

2.

Business performance

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

2.1 Revenue and income

2.2 Other expenses

2.3 Taxation

2.4 Earnings per share

2.5 Remuneration of auditors

2.1 Revenue and income

	2017	2016
	\$	\$
Revenue		
Expense reimbursement	4,460,628	4,108,938
Interest from cash deposits	7,077	23,795
Total revenue	4,467,705	4,132,733

Recognition and measurement

Revenue

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

Expense reimbursement receipts of \$6,047,573 (2016: \$5,986,596) disclosed in the statement of cash flows is comprised predominantly of expenses paid for by the Company on behalf of the Trust and other ALE group entities and subsequently reimbursed from the entities. The legal obligations for these expenses are the responsibility of the individual ALE group entities and are not expenses of the Company.

Interest income

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

As at 30 June 2017 the weighted average interest rate earned on cash was 2.24% (2016: 2.84%)

2.2 Other expenses

	2017	2016
	\$	\$
Annual Report and Review	75,458	104,500
Audit, accounting, tax and professional fees	233,800	205,750
Depreciation expense	19,850	16,032
Insurance	160,093	167,277
Legal fees	69,701	122,216
Occupancy costs	112,533	115,091
Corporate and property expenses	803,171	846,650
Registry fees	110,364	100,207
Staff training	23,227	31,554
Travel and accommodation	55,407	102,408
Total other expenses	1,663,604	1,811,685
Salaries and related costs	2,727,951	2,479,253
Total expenses	4,391,555	4,290,938

Recognition and measurement

Expenses including operating expenses, are brought to account on an accruals basis.

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Business performance

2.3 Taxation

(a) Reconciliation of income tax expense

The prima facie income tax expense on profit before income tax reconciles to the income tax expense in the financial statements as follows:

	2017 \$	2016 \$
Loss before income tax expense subject to tax	76,150	(158,205)
Tax at the Australian tax rate	22,845	(47,462)
Share based payments	(23,722)	54,600
Other	-	1,306
Under/(over) provision in prior years	351	(681)
Income tax expense/(benefit)	(526)	7,763
Current tax expense/(benefit)	7,700	8,791
Deferred tax expense/(benefit)	(8,226)	(1,028)
Income tax expense/(benefit)	(526)	7,763

(b) Deferred tax assets

	2017 \$	2016 \$
Deferred tax assets	57,127	48,901
The balance is attributable to:		
Employee benefits	57,961	51,008
Accruals	-	-
Other	(834)	(2,107)
Tax losses	-	-
Net deferred tax assets	57,127	48,901
Movements:		
Opening balance	48,901	47,873
Credited/(charged) to the income statement	8,226	1,028
Credited/(charged) to equity	-	-
Closing balance	57,127	48,901
Deferred tax assets to be recovered within 12 months	57,127	48,901
Deferred tax assets to be recovered after more than 12 months	-	-
	57,127	48,901

Recognition and measurement

Current tax

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

Deferred tax

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

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

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

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

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the financial statements (continued)

For the Year ended 30 June 2017

2. Business performance

2.4 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.

	2017	2016
Profit/(Loss) attributable to members of the company	76,676	(165,968)
Weighted average number of share	195,769,080	195,759,597
Basic earnings per share (cents)	0.04	(0.08)

Diluted earnings per stapled security

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares

	2017	2016
Profit/(Loss) attributable to members of the Company	76,676	(165,968)
Weighted average number of shares	195,988,389	195,999,370
Diluted earnings per share (cents)	0.04	(0.08)

2.5 Remuneration of auditors

	2017 \$	2016 \$
Audit services		
<i>KPMG Australian firm:</i>		
Audit and review of the financial reports		
- in relation to current year	180,000	171,500
- in relation to prior year	15,000	12,500
Total remuneration for audit services	195,000	184,000
<i>KPMG Australian firm:</i>		
Other services	152,352	18,259
Total remuneration for all services	347,352	202,259

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 30 June 2017

3.

Assets, liabilities and equity

This section provides information relating to the operating assets and liabilities of the Group.

3.1 Cash and cash equivalents

3.2 Receivables

3.3 Investment in related party

3.4 Payables

3.5 Equity

3.1 Cash and cash equivalents

	2017	2016
	\$	\$
Cash at bank	366,546	205,715
Deposits at call	2,073,273	2,073,273
	<u>2,439,819</u>	<u>2,278,988</u>

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 \$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.

3.2 Receivables

	2017	2016
	\$	\$
Accounts receivable	27,321	59,814
Loan to related party	2,946,612	2,845,208
Other receivable	41,415	46,695
Interest receivable	5,509	6,079
	<u>3,020,857</u>	<u>2,957,796</u>

Recognition and measurement

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

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

3.3 Investment in related party

	2017	2016
	\$	\$
Trust Non-Income Voting Units (NIVUS)	9,080,010	9,080,010

The Company was issued 9,080,010 of non-income voting units (NIVUS) in the Trust fully paid at \$1.00 each in November 2003. The NIVUS are not stapled to shares in the Company, have an issue and withdrawal price of \$1.00, carry no rights to income from the Trust and entitle the holder to no more than \$1.00 per NIVUS upon the winding-up of the Trust. The Company has a voting power of 4.43% in the Trust as a result of the issue of NIVUS. The NIVUS are disclosed in the Company but are not disclosed in the ALE Property Group financial statements as they are eliminated on consolidation.

The NIVUS were issued to ensure the Responsible Entity maintained sufficient Net Tangible Assets to satisfy the requirements of the company's AFSL Licence.

3.4 Payables

	2017	2016
	\$	\$
Trade creditors	223,324	83,474
Creditor accruals	217,031	122,647
	<u>440,355</u>	<u>206,121</u>

Recognition and measurement

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

Notes to the financial statements (continued)

For the Year ended 30 June 2017

3. Assets, liabilities and equity

3.5 Equity

	2017 \$	2016 \$
Balance at the beginning of the period	14,767,075	14,759,025
Securities issued - ESSS	-	8,050
	<u>14,767,075</u>	<u>14,767,075</u>
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	195,702,333
Securities issued - ESSS	-	66,747
Closing balance	<u>195,769,080</u>	<u>195,769,080</u>

Measurement and recognition

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 30 June 2017

4. Employee benefits

This section provides a breakdown of the various programs ALE uses to reward and recognise employees and key executives, including Key Management Personnel (KMP). ALE believes that these programs reinforce the value of ownership and incentives and drive performance both individually and collectively to deliver better returns to securityholders.

4.1 Employee benefits

4.3 Employee share plans

4.2 Key management personnel compensation

4.1 Employee benefits

	2017 \$	2016 \$
Employee benefits provision:		
Current	189,544	169,203

The employee benefits liability represents accrued wages and salaries, leave entitlements and other incentives recognised **in respect of employees' services up to the end of the reporting period**. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers compensation insurance, superannuation and payroll tax.

4.2 Key management personnel compensation

	2017 \$	2016 \$
Short term employee benefits	1,954,719	1,861,142
Post employment benefits	114,645	135,558
Other long term benefits	24,613	17,438
Share based payments	248,337	182,000
Termination benefits	-	-
	2,342,314	2,196,138

Recognition and measurement

Wages and salaries, annual leave and sick leave

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

Bonus and incentive plans

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

Long service leave

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

Retirement benefit obligations

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

4.3 Employee share plans

During 2012, ALE established an Executive Staped Securities Scheme.

Executive Staped Security Scheme (ESSS)

The grant date fair value of ESSS Rights granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the ESSS rights. The amount recognised as an expense is adjusted to reflect the actual number of ESSS Rights that vest.

The fair value at grant date is determined as the value of the ESSS Rights in the year in which they are awarded. The number of ESSS Rights issued annually under the ESSS will be determined by dividing the value of the grant by the volume weighted average price for the five trading days commencing the day following the signing of ALE Property Group's full year statutory financial statements and grossing this number up for the future value of the estimated distributions over the three year deferred delivery period. Upon the exercise of ESSS rights, the balance of the share based payments reserve relating to those rights is transferred to Contributed Equity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 30 June 2017

5. Other

This section provides details on other required disclosures relating to the Company to comply with the accounting standards and other pronouncements including the Company's capital and financial risk management disclosure.

5.1 New accounting standards

5.2 Segment reporting

5.3 Events occurring after balance date

5.4 Contingent liabilities and contingent assets

5.5 Commitments

5.6 Related party transactions

5.7 Financial risk management

5.1 New accounting standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has assessed the potential impact on its financial statement resulting from the application of IFRS 9 and as the Company has no financial instruments the impact will be immaterial.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Company has assessed the potential impact on its financial statements resulting from the application of IFRS 15 to be immaterial.

IFRS 16 Leasing

IFRS 16 establishes a comprehensive framework the accounting policies and disclosures applicable to leases, both for lessees and lessors. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

The Company has assessed the potential impact on its financial statements resulting from the application of IFRS 17 to be immaterial.

5.2 Segment reporting

Business segment

ALE has one reportable segment, as described below, which is ALE's strategic business unit. The strategic business unit is based upon internal management reports that are reviewed by the Managing Director on at least a quarterly basis. The strategic business unit covers the operations of the responsible entity for the ALE Property Group.

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

5.3 Events occurring after balance date

There has not arisen in the interval between the end of the financial year and the date of this report, any transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

5.4 Contingent liabilities and contingent assets

Bank guarantee

ALE has entered into a bank guarantee of \$73,273 in respect of the office tenancy at Level 10, 6 O'Connell Street, Sydney.

Notes to the financial statements (continued)

For the Year ended 30 June 2017

5. Other

5.5 Commitments

Capital commitments

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

Lease commitments

The Company has entered into a non-cancellable operating lease for new office premises at Level 10, 6 O'Connell Street, Sydney starting November 2015. The Company has also entered into a non-cancellable operating lease for office equipment. The minimum net lease commitments under these leases are:

	2017 \$	2016 \$
Less than one year	110,610	106,137
Later than one year but not later than five years	283,266	393,877
Later than five years	-	-
	<u>393,876</u>	<u>500,014</u>

5.6 Related party transactions

Parent entity, subsidiaries, joint ventures and

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

Key management personnel

Key management personnel and their compensation is set out in the Remuneration Report.

Transaction with related parties

For the year ended 30 June 2017 the Company had charged the Trust \$4,460,628 in expense reimbursement (2016: \$4,108,938).

Peter Warne is Chairman of Macquarie Group Limited (Macquarie). Macquarie has provided investment banking services to ALE in the past and may continue to do so in the future. Mr Warne did not take part in any decisions to appoint Macquarie in relation to any of the above matters. Mr Warne resigned on 23 May 2017.

Robert Mactier is a consultant to UBS AG. UBS AG has provided investment banking services to ALE in the past and may continue to do so in the future. Mr Mactier does not take part in any decisions to appoint UBS AG in relation to corporate advice provided by UBS AG to ALE.

Terms and conditions

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

5.7 Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

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

Credit risk

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

Notes to the financial statements (continued)

For the Year ended 30 June 2017

5. Other

5.7 Financial risk management (continued)

Trade and other receivables

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

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

Exposure to credit risk

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

	2017	2016
	\$	\$
Receivables	74,245	112,588
Cash and cash equivalents	2,439,819	2,278,988
	2,514,064	2,391,576

Impairment losses

	2017	2017
	\$	\$
	Gross	Impairment
Not past due	71,245	-
Past due 0-30 days	-	-
Past due 31-120 days	-	-
Past due 120-365 days	-	-
More than one year	-	-
	71,245	-

	2016	2016
	\$	\$
	Gross	Impairment
Not past due	97,785	-
Past due 0-30 days	-	-
Past due 31-120 days	5,196	-
Past due 120-365 days	9,607	-
More than one year	-	-
	112,588	-

Liquidity risk

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

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

Exposure to liquidity risk

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

Market risk

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

Interest rate risk

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

DIRECTORS' DECLARATION

For the Year ended 30 June 2017

In the Directors' opinion:

- (a) the financial statements and notes that are set out on pages 18 to 31 and the remuneration report contained in **Section 9 of the Directors' report, are in accordance with the *Corporations Act 2001***, including
 - (i) **giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;** and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) There are reasonable grounds to believe that ALE will be able to pay its debts as and when they become due and payable.
- (c) The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director, Finance Manager, and Company Secretary as required for the financial year ended 30 June 2017.
- (d) The directors draw attention to Note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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



Robert Mactier
Chairman



Andrew Wilkinson
Managing Director

Dated this 8th Day of August 2017



Independent Auditor's Report

To the members of Australian Leisure and Entertainment Property Management Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Australian Leisure and Entertainment Property Management Limited (the Company).

In our opinion, the accompanying Company Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Company's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Company comprises:

- Statement of financial position as at 30 June 2017
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Australian Leisure and Entertainment Property Management Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of the Company are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon with the exception of the Remuneration Report and our related assurance opinions.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of the Australian Leisure and Entertainment Property Management Limited are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Leisure and Entertainment Property Management Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Australian Leisure and Entertainment Property Management Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

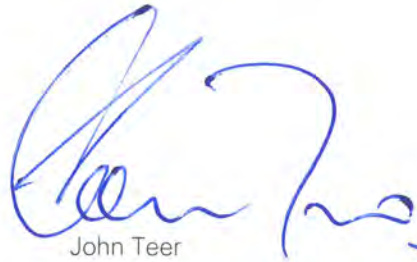
Our responsibilities

We have audited the Remuneration Report included in section 9 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



John Teer

Partner

Sydney

8 August 2017

INVESTOR INFORMATION

For the Year ended 30 June 2017

Securityholders

The securityholder information as set out below was applicable as at 12 July 2017.

A. DISTRIBUTION OF EQUITY SECURITIES

Range	Total	Holders	Number of Securities	% of Issued Capital
1 - 1,000		707	226,083	0.12
1,001 - 5,000		1,324	4,094,136	2.09
5,001 - 10,000		958	7,331,166	3.74
10,001 - 100,000		1,646	42,941,109	21.93
100,001 - 200,000,000		112	141,176,586	72.12
Total		4,747	195,769,080	100.00

The stapled securities are listed on the ASX and each stapled security comprises one share in Australian Leisure and Entertainment Property Management Limited (Company) and one unit in Australian Leisure and Entertainment Property Trust (Trust). The number of securityholders holding less than a marketable parcel of stapled securities is 315.

B. TOP 20 EQUITY SECURITYHOLDERS

The names of the 20 largest security holders of stapled securities are listed below

Rank	Name	Number of Securities	% of Issued Capital
1	UBS Nominees Pty Ltd	32,198,197	16.45
2	HSBC Custody Nominees (Australia) Limited	20,439,513	10.44
3	Woolworths Limited	17,076,936	8.72
4	Citicorp Nominees Pty Limited	11,796,447	6.03
5	National Nominees Limited [Db Account]	7,170,700	3.66
6	National Nominees Limited	6,153,869	3.14
7	Manderrah Pty Ltd [GJJ Family Account]	5,192,733	2.65
8	HSBC Custody Nominees (Australia) Limited - Account 2	4,291,467	2.19
9	J P Morgan Nominees Australia Limited	3,254,235	1.66
10	Mr Edward Furnival Griffin + Mr Alastair Charles Griffin [Est Jean Falconer Griffin Ac]	2,795,751	1.43
11	HSBC Custody Nominees (Australia) Limited-Gsco Eca	2,771,863	1.42
12	CS Third Nominees Pty Limited [HSBC Customer Nominees AU Ltd 13 Account]	2,500,001	1.28
13	C J H Holdings Pty Ltd [CJH Family Account]	1,419,465	0.73
14	Mr David Calogero Loggia	1,058,398	0.54
15	Merlor Holdings Pty Ltd [Basserabie Family Settlement Account]	845,741	0.43
16	BNP Paribas Nominees Pty Limited [IB AU Nominees Retail Client DRP]	754,982	0.39
17	BT Portfolio Services Limited [Caergwrle Invest P/L Account]	745,787	0.38
18	Bond Street Custodians Limited [Caergwrle Investments Pty Limited Account]	700,000	0.36
19	Mr Nicholas Anthony Dyer	675,000	0.34
20	C J H Holdings Pty Ltd [Superannuation Fund Account]	660,953	0.34
Totals: Top 20 Holders of Stapled Securities		122,502,038	62.57
Totals: Remaining Holders Balance		73,267,042	37.43

C. SUBSTANTIAL HOLDERS

Substantial holders of ALE (as per notices received as at 12 July 2017) are set out below:

Stapled Security Name	Number of Securities	% of Issued Capital
Caledonia (Private) Investments Pty Ltd	60,101,799	30.70
Woolworths Limited	17,076,936	8.72
Allan Gray Australia	13,868,884	7.08

INVESTOR INFORMATION

For the Year ended 30 June 2017

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Stapled securities

On a show of hands every stapled securityholder present at a meeting in person or by proxy shall be entitled to have one vote and upon a poll each stapled security will have one vote.

(b) NIVUS

Each NIVUS entitles the Company to one vote at a meeting of the Trust. 9,080,010 NIVUS have been issued by the Trust to the Company and 195,769,080 units have been issued by the Trust to stapled securityholders. The NIVUS therefore represent 4.43% of the voting rights of the Trust.

E. EQUITY RESEARCH COVERAGE OF ALE

The following equity research analysts currently cover ALE's stapled securities:

Rob Freeman and Stuart McLean – Macquarie Securities

Richard Jones – JP Morgan Securities

Andrew Legget – Intelligent Investor

Johannes Faul – Morningstar

F. ASX ANNOUNCEMENTS

The information is provided as a short summary of investor information.

Please view our website at www.alegroup.com.au for all investor information.

2017		2016	
31 Oct	Annual General Meeting	06 Dec	Property valuation increased by 10%
05 Sep	2nd half distribution payment	06 Dec	Half year distribution of 10.15 cents declared
08 Aug	Full Year Results, Annual Review / Report and Property Compendium released	28 Nov	Appointment of Robert Mactier as Director
09 Jun	Property valuations increased by 9.1%	16 Nov	Caledonia increases substantial holding to 29.66%
09 Jun	Half Year distribution of 10.25 cents declared	25 Oct	Annual General Meeting
09 Jun	Full Year distribution of 20.40 cents announced	08 Sep	Caledonia increases substantial holding to 28.50%
23 May	Succession of Chairman	05 Sep	2nd half distribution payment
23 May	ALE Redeems maturing AMTN	31 Aug	Taxation Components of Distribution
14 Mar	Caledonia increases substantial holding to 30.70%	04 Aug	Full Year Results, Annual Review / Report and Property Compendium released
08 Mar	ALE completes AMTN refinancing	14 Jun	Property valuation increased by 10% for the full year
06 Mar	1st half distribution payment	10 Jun	Half Year distribution of 10.00 cents declared
02 Mar	Taxation Components of Distribution	10 Jun	Full Year distribution of 20.00 cents announced
23 Feb	Half Year results released	08 Mar	Change in substantial holding from WOW
		07 Mar	1st half distribution payment
		29 Feb	Taxation Components of Distribution
		16 Feb	Half Year results released
		11 Feb	Caledonia increases substantial holding to 27.05%
		04 Feb	Hedging Extended At Low Interest Rates

INVESTOR INFORMATION

For the Year ended 30 June 2017

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.

SecurityHolder Enquiries

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

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Allens Linklaters
Level 28, Deutsche Bank Place
Sydney NSW 2000

Custodian (of Australian Leisure and Entertainment Property Trust)

The Trust Company Limited
Level 13, 123 Pitt Street
Sydney NSW 2000

Trustee (of ALE Direct Property Trust)

The Trust Company (Australia) Limited
Level 13, 123 Pitt Street
Sydney NSW 2000

Registry

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VISIT OUR 2017 ANNUAL REVIEW
WEBSITE FOR MORE INFORMATION
aleproperty2017.reportonline.com.au

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