

# ING Real Estate Entertainment Fund Half Year Review

31 December 2005



ING Real Estate Entertainment Fund is a listed property trust which invests in the freehold of hotels, clubs and entertainment venues throughout Australia. The Fund has a diverse portfolio of 18<sup>#</sup> hotels in New South Wales and Queensland with total assets of over \$230 million.

In 2006 Management will focus on **creating value** through active management of the existing portfolio and further acquisition of hotels with the goal of providing stable and growing income to investors.

## Contents:

	Page
> Key financial data	2
> Six months of value	3
> Manager's report	4
> Portfolio value	6
> Investor value	9
> Financial information	11
> Investment products	13
> Directory	14

## Key financial data

Six months ending	31 Dec 2005	31 Dec 2004
ASX closing price	\$1.17	\$1.16
Distributions (cents per unit)	4.75	4.675
Tax deferred component (estimated)	45%	45%
Annualised yield on closing price	8.1%	8.0%
Six month total ASX return for the Fund <sup>#</sup>	11.0%	20.7%
Net tangible assets per unit	\$1.01	\$0.98
Market capitalisation	\$111m	\$58m
Total assets	\$205m	\$112m
Gearing ratio (debt to total assets)	51%	54%
Management expense ratio	0.10%	0.10%
Units on issue	94,766,270	50,187,986
Number of unitholders	2,314	1,950

<sup>#</sup> Source: IRESS

## Six months of value

### PERFORMED

- > Net profit of \$3.9 million for the six month period.
- > Distributions increased from 4.675 cents per unit (cpu) in the previous corresponding period to 4.75 cpu.
- > Total return of 11% for the six month period.
- > Total assets increased by 34% from \$153\* million to \$205 million at 31 December 2005 with net tangible assets of \$1.01 per unit.

### MANAGED

- > The successful refurbishment of the Dolphin Hotel in Surry Hills was completed in November 2005. The hotel reopened at the beginning of November in time for the Christmas trading period.
- > The first stage of the refurbishment work commenced at the Sydney Aussie Rules Social Club premises and is due to be completed in August 2006.

### ACQUIRED

- > In the first half of the 2006 financial year, the Fund acquired three NSW hotels worth \$38 million:
  - Ambarvale Tavern, Ambarvale \$13.0 million
  - Pritchard Hotel, Mt. Pritchard \$15.5 million
  - General Gordon Hotel, Sydenham \$ 9.6 million
- > In addition, the Fund has exchanged contracts to acquire four hotels worth \$31 million which are due to settle early in 2006.

### RAISED

- > New equity totalling \$24 million from a combined rights issue and public offer in October 2005 to reduce Fund debt.
- > Market capitalisation increased by 38.6% to \$111 million.

\* Adjusted to reflect the settlement of Uncle Bucks Hotel on 4 July 2005.

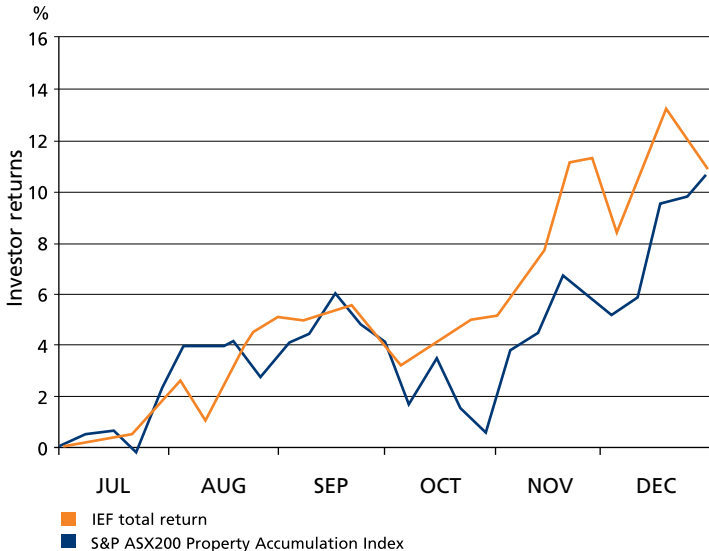
## Manager's report

The ING Real Estate Entertainment Fund ("IEF" or "the Fund") has continued to deliver solid investment performance over the first six months of the 2006 financial year.

Fund earnings increased during the period as a result of the expansion of IEF's hotel portfolio and this enabled distributions to be increased from the original forecast of 4.70 cents per unit (cpu) to 4.75 cpu for the period.

The Fund's performance matched the property trust sector, delivering a total return of 11% for the six month period, including price movement and accumulated distribution.

The graph below illustrates the Fund's total return performance over the six months to 31 December 2005 compared with the S&P ASX200 Property Accumulation Index:



Management has continued the expansion of the Fund through acquisitions and active property management. The refurbishment of the Dolphin Hotel was completed in November 2005 and the hotel has enjoyed great success since reopening. Similarly, work has commenced on the refurbishment of the Aussie Rules Club as part of its association with the Sydney Swans and is due to be completed in August 2006.

During the six month period Management finalised the acquisition of three hotels in NSW: the Ambarvale Tavern, Pritchard Hotel and General Gordon Hotel. These hotels have a combined value of \$38 million, increasing IEF's portfolio to 14 hotels, with total assets reaching \$205 million. The acquisition of the Pritchard Hotel also introduced the Taverner Hotel Group to the Fund's tenant base, further diversifying the Fund's income.

The past year has seen a high level of activity in the hotel industry, including several significant leasehold transactions which confirm the value of hotel businesses. Within the Fund's portfolio, the leasehold interests in the GPO and Exchange Hotels were sold in October 2005 for \$6 million. This transaction reflected an increase of \$1 million over the initial value of the leasehold interests when the hotels were acquired in July 2004.

Management remains focused on delivering ongoing growth and investment performance to unitholders and the outlook for the Fund in the second half of 2006 remains highly positive.

Management has commenced 2006 by securing four new hotels with a combined value of \$31 million. In NSW the Fund is acquiring the Terrey Hills Tavern, the Club Hotel in Bidwill and the Empire Hotel in Annandale and in Queensland, the Shamrock Hotel in Toowoomba. Once completed these acquisitions will expand the Fund's portfolio to 18 hotels, the tenant base to eight operators and increase total assets to over \$230 million.

On behalf of the Directors and Management of ING Management Limited we thank you for your continued support and look forward to another successful year ahead.



Daniel Hargraves

Chief Executive Officer

ING Real Estate Entertainment Fund

## Portfolio value

### ACQUISITION SUMMARY

The Fund's portfolio has expanded to 18 hotels following the acquisition of properties outlined in the table below.

The acquisitions completed in 2005 contributed to the Fund's solid performance over the period and have expanded IEF's operator base to include Taverner Hotel Group. In addition, the acquisitions strengthen Icon's operations and their value as a tenant to the Fund.

In 2006 Management has acquired four hotels which will be finalised in the first quarter of the year, ensuring the Fund's growth continues.

Property	Purchase price \$m	Acquisition yield	Settlement date
<b>2005 Acquisitions</b>			
Ambarvale Tavern, Ambarvale NSW	13.0	9.15%	Sep 05
General Gordon Hotel, Sydenham NSW	9.6	8.88%	Nov 05
Pritchard Hotel, Mt. Pritchard NSW	15.5	8.06%	Sep 05
<b>2006 Acquisitions</b>			
Terrey Hills Tavern, Terrey Hills NSW	11.5	8.00%	Jan 06
Bidwill Club Hotel, Bidwill NSW	6.7	8.25%	Feb 06
Shamrock Hotel, Toowoomba Qld	7.2	8.9%	Feb 06
Empire Hotel, Annandale NSW	5.5	8.2%	Mar 06

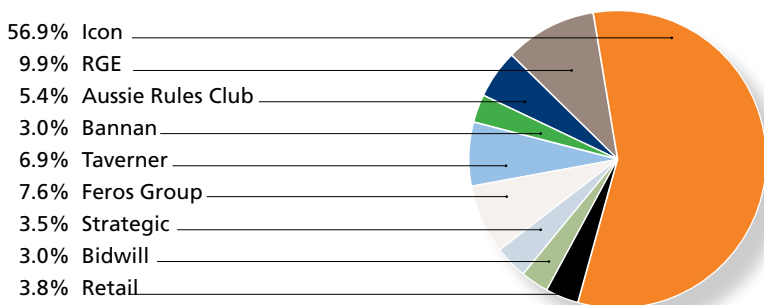
## Portfolio value

### TENANT SUMMARY

Due to the Fund's acquisition activity there have been several changes to the tenant base.

- > In October 2005 MC No.2 Pty Ltd sold its leasehold interests in the GPO Hotel in Fortitude Valley and the Exchange Hotel in Brisbane to RGE Pty Ltd.
- > The Fund has increased income diversification through the introduction of four new tenants:
  - Taverner Hotel Group – Pritchard Hotel
  - Feros Hotel Group – Terrey Hills Tavern and Empire Hotel
  - Strategic Hospitality – Shamrock Hotel
  - Bidwill Investment – Bidwill Hotel

As a result of these changes, the Fund's tenant profile now consists of eight operators as outlined in the chart below:



## CAPITAL MANAGEMENT

### **Borrowings**

At 31 December the Fund's borrowings were \$104 million, or 51% of the Fund's total assets. Consistent with the Fund's hedging policy, 75.6% of the debt is hedged to reduce IEF's exposure to potential interest rate rises in the future.

The Fund's hedging has an average term of three years, and the average interest rate is 6.4%, including margin and line fees.

### **Capital raisings**

In October 2005, the Fund completed a joint rights issue and public offer which raised \$24 million in new equity at \$1.11 per unit. The new equity was used to reduce the Fund's debt levels.

## Investor value

### **Stock exchange listing**

The ING Real Estate Entertainment Fund is listed on the Australian Stock Exchange (ASX). The ASX code for the Fund is IEF. Units in the Fund trade on the ASX in the same manner as shares in a listed company. Unitholders wishing to trade their unitholding will need to use the services of a stockbroker or online broking facility to be able to trade their IEF units.

### **Distribution payments**

Distributions are paid at the end of each half year, in February and August.

Unitholders can receive their distributions by direct credit into their nominated bank, building society or credit union account. Direct credit payments are deposited into accounts as cleared funds on the payment date.

### **Annual General Meeting**

The Fund's Annual General Meeting (AGM) was held in Sydney on 19 October 2005 at The Westin Hotel, Sydney, and both of the resolutions proposed were passed by the required majority of unitholders.

The resolutions related to the proposed public offer of up to 9,504,505 units at an issue price of \$1.11 per unit, and the proposed placement of up to 20,000,000 new units on the terms set out in the Notice of Meeting dated 20 September 2005.

### **Website**

Information relating to the ING Real Estate Entertainment Fund can be found at [www.ingrealestate.com.au/investment](http://www.ingrealestate.com.au/investment).

The website is a useful source of information about the Fund's property portfolio, general information and investor relations. The site allows unitholders to access their investment details and check the latest price of units. Copies of the most recent annual and half year reports may be downloaded from the site, including the most recent ASX announcements which are posted to the site upon confirmation of release to the market.

## Enquiries

Enquiries about ING Real Estate Entertainment Fund can be directed to the ING Real Estate Enquiry Line on **1300 653 497**. This service is available from 8.30am to 5.30pm (Sydney time) on all business days.

ING Management Limited is a member of an independent dispute resolution scheme, the Financial Industry Complaints Service (“FICS”). Any unitholder wishing to register a complaint should direct it to Investors Relations at the Responsible Entity’s address listed in the Directory.

ING Management Limited is committed to ensuring the confidentiality and security of your personal information. The ING Privacy Policy details how ING Management Limited handles personal information and can be found at [www.ingrealestate.com.au/investment](http://www.ingrealestate.com.au/investment).

## 2006 Unitholder calendar

Distribution paid for the half year ended 30 June 2006	mid August 2006
Tax statement for 2005/2006 financial year	mid August 2006
2006 Annual Report published	mid September 2006
Annual General Meeting	mid October 2006

## Financial information

### Income & distribution statement

For the six months ended 31 December 2005

	31 Dec 2005	31 Dec 2004
	\$'000	\$'000
Rental income	8,484	4,716
Other property income	-	102
Property expenses	(154)	(101)
<b>Net property income</b>	<b>8,330</b>	<b>4,717</b>
Interest income	338	264
Borrowing costs	(3,223)	(1,663)
Other expenses	(91)	(57)
<b>Net operating income</b>	<b>5,354</b>	<b>3,261</b>
Net loss from investment property revaluations	(1,647)	(1,085)
Net gain on revaluation of financial derivatives	229	-
<b>Net profit attributable to equity holders</b>	<b>3,936</b>	<b>2,176</b>

### Statement of distribution

For the six months ended 31 December 2005

Net profit	3,936	2,176
Straight lining of rental income	(1,647)	(1,085)
Unrealised (gain)/loss on investment property	1,647	1,085
Unrealised (gain)/loss on revaluation of derivatives	(229)	-
<b>Distributable income</b>	<b>3,707</b>	<b>2,176</b>
Transfer to distributable income	620	257
Undistributed income brought forward	184	-
Distributions paid or payable	(4,501)	(2,346)
<b>Undistributed income at period end</b>	<b>10</b>	<b>87</b>
Basic earnings per unit (cents)	4.82	4.87
Distribution paid per unit (cents)	4.75	4.675

## Balance sheet

As at 31 December 2005

	31 Dec 2005 \$'000	30 Jun 2005 \$'000	31 Dec 2004 \$'000
<b>Current assets</b>			
Cash	1,694	20,095	1,607
Receivables	2,435	3,344	193
Other	2,408	593	637
Derivatives	92	-	-
	<b>6,629</b>	<b>24,032</b>	<b>2,437</b>
<b>Non-current assets</b>			
Property investments	195,179	143,813	105,707
Loan – secured	3,000	3,000	4,000
Other	188	106	181
	198,367	146,919	109,888
<b>Total assets</b>	<b>204,996</b>	<b>170,951</b>	<b>112,325</b>
<b>Current liabilities</b>			
Payables	5,142	21,360	2,937
Derivatives	150	-	-
	5,292	21,360	2,937
<b>Non-current liabilities</b>			
Interest bearing liabilities	104,356	76,556	60,206
<b>Total liabilities</b>	<b>109,648</b>	<b>97,916</b>	<b>63,143</b>
<b>Net assets</b>	<b>95,348</b>	<b>73,035</b>	<b>49,182</b>
<b>Unitholders equity</b>			
Issued units	95,396	72,851	49,095
Undistributed reserves	(48)	184	87
<b>Total unitholders equity</b>	<b>95,348</b>	<b>73,035</b>	<b>49,182</b>

## Investment products

ING Real Estate Investment Management Australia is one of the leading property fund managers in Australia. In addition to the ING Real Estate Entertainment Fund we manage both listed and unlisted funds across a variety of other sectors including: industrial, office and seniors and student housing.

To obtain further information on our funds please contact us on 02 9033 1035 or visit our website, [www.ingrealestate.com.au/investment](http://www.ingrealestate.com.au/investment).

	<b>ING Industrial Fund 31 Dec 2005</b>	<b>ING Office Fund 31 Dec 2005</b>
Total assets	\$2.4 billion	\$2.3 billion
No. of properties	64	23
Portfolio occupancy rate	99.5%	98%
ASX Code	IIF	IOF

---

	<b>ING Real Estate Community Living Fund 31 Dec 2005</b>	<b>ING Real Estate Direct Office Fund 31 Dec 2005</b>
Total assets	\$310 million	\$28 million
No. of properties	50	1
Portfolio occupancy rate	96%	100%
ASX Code	ILF	Unlisted fund

# Directory

## Responsible Entity

ING Management Limited  
ACN 006 065 032  
AFSL 237534  
Level 6, 345 George Street  
Sydney NSW 2000  
T: +61 2 9033 1035  
F: +61 2 9033 1060  
E: [realestate@ingrealestate.com.au](mailto:realestate@ingrealestate.com.au)  
I: [www.ingrealestate.com.au/investment](http://www.ingrealestate.com.au/investment)

## Directors

R J Colless AM (Chairman)  
D P Blight  
P F Scully  
M B Easson AM  
H S Thomson  
(alternate for D P Blight)

## Auditor

Pitcher Partners  
Level 3, 60 Castlereagh Street  
Sydney NSW 2000

## Secretaries

S S Rouvray  
H S Thomson  
A A Crawford

## Unit registry

Link Market Services Limited  
Level 12  
680 George Street  
Sydney NSW 2000

Locked bag A14  
Sydney South NSW 1235  
Toll free 1300 653 497  
T: +61 2 8280 7057  
F: +61 2 9287 0303  
E: [ingrealestate@linkmarketservices.com.au](mailto:ingrealestate@linkmarketservices.com.au)

ING REAL ESTATE GLOBAL NETWORK

AUSTRALIA

BELGIUM

CHINA

CZECH REPUBLIC

FRANCE

GERMANY

HUNGARY

ITALY

JAPAN

KOREA

POLAND

SINGAPORE

SPAIN

THE NETHERLANDS

UK

USA

ING Real Estate Investment Management Australia  
Level 6, 345 George Street  
Sydney NSW 2000  
T: +61 2 9033 1035 F: +61 2 9033 1060

[www.ingrealestate.com.au/investment](http://www.ingrealestate.com.au/investment)

**ING**   
**REAL ESTATE**