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### 1 December 2010

Sir David Tweedie Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Dear Sir

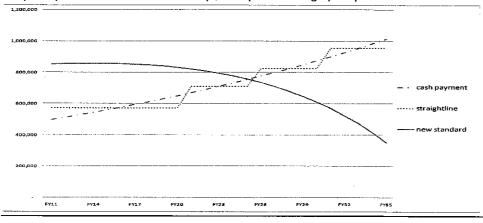
## Re- Exposure Draft - Leases

We are pleased to submit this letter on the International Accounting Standards Board's (IASB) Exposure Drafts: Leases. Ardent Leisure Group is an ASX 200 listed stapled entity which owns and operates leisure assets in Australia, New Zealand and the US. We have significant concerns about the impact of the above exposure draft on our Group. Main areas of concern are:

## 1) Lessee cost pattern is front ended

For the majority of our businesses we would expect revenue and profits to increase over time and currently most of our rental agreements include either a fixed rental or CPI increase each year and so match this increase. Under the proposed new standard, the P&L impact will not reflect the outflows of the business and will front load expenses. This does not fairly match the revenue generated by the business over the lease with the lease expense.

To illustrate this impact, the graph below shows the cash payments and the accounting treatment of the current and proposed standard on a typical operating property lease of the business. This lease is a 10 year lease with 3 five year options with the rent is initially \$500k pa increasing by 3% per annum:



Ardent Leisure Group

Comprising

Ardent Leisure Trust ARSN 093 193 438

(Manager: Ardent Leisure Management Limited ABN 36 079 630 676, AFS Licence No. 247010) and

Ardent Leisure Limited ABN 22 104 529 106

The majority of our investors focus on the EBITDA of our businesses as this is a good proxy for the cash generated by the businesses. From the graph above, it can clearly be seen that the new accounting standard will add significant confusion to investors with profits bearing very little resemblance to underlying business performance.

# 2) Inclusion of lease options in the lease liability and asset calculated

Under the proposed exposure draft, options to renew leases should be included if they are considered more likely than not. Given that the lessee controls the obligating event, being the exercise of the lease option, under current definitions of a liability we do not believe that the options meet the definition of a liability until the obligating event has occurred. Therefore lease options should not be included until they have been exercised

#### 3) Inclusion of contingent rents in the calculation of the lease liability

We do not agree that contingent rents should be included in the calculation of the lease liability for lessees of lessors. The majority of contingent rents in our business are based on turnover or EBITDA of the business. It is not possible to reliably estimate this information to the end of the lease which in some cases may be 40 years. This will lead to considerable volatility in assets and liabilities.

In addition, as profits tend to grow over time, contingent rents will likely increase over time. The nature of this proposal will mean that the longer the lease is, the more front end loaded a lease will become leading to even larger distortions between the cash paid under the lease and the accounting treatment under the new exposure draft.

In our particular case, the Trust which owns all of the leisure assets in the Group will lease the assets to the operating company stapled to it. The lease charged is based on the EBITDA arising from each asset. This will mean that under the current standards and from a cash perspective, the operating company will be profitable. Both the operating company and the Trust are required to prepare financial statements. The adoption of this standard would mean that the operating company would be required to forecast profits over the remaining 20 years of the lease which are expected to grow over time.

The recognition of this asset and liability is expected to quadruple the assets of the operating company. In addition, the lease expense and amortisation of the lease asset is expected to be approximately to be nearly 50% higher than the actual lease payment in year 1. This discrepancy will have a material impact on the net assets of the Group potentially putting the company in a net liability position even though the very nature of the lease guarantees the business is cashflow positive. This is very concerning and will be very confusing to investors and readers of the Annual Report.

Given that the obligating event ie the future sales/profitability of the business has not occurred, we do not believe that under the accounting standards a lease liability exists under the contingent rent has occurred as it is at the discretion of the lessee.

#### Summary

The proposed, changes to the leasing standard will significant distort the results of most companies, further increasing the gap between cash profits and statutory profits. The majority of our investors and other users of our financial statements are far more focussed on the underlying earnings of the group. This is moving to such an extent that stakeholders in the Group are increasing finding financial statements prepared under IFRS meaningless and are increasingly relying on management results presentations focussing on underlying earnings.

Information with regard to lease commitments are already included in the notes to the accounts and those stakeholders interested in the leases already take this into account when assessing the financial risk/operating leverage in the Group.

We are under the impression that the mandate of the IASB is to make accounts more understandable and useful to the investor/user but we fail to see how this achieves this desired outcome.

Yours sincerely

Richard Johnson

Chief Financial Officer Ardent Leisure Group Rob Procter

Group Finance Manager Ardent Leisure Group