

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2010

Directory**Entity:**

Abacus Funds Management Limited
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**Directors of Responsible Entity and
Abacus Hospitality Limited:**

John Thame, Chairman
Frank Wolf, Managing Director
William Bartlett
David Bastian
Malcolm Irving

Company Secretary:

Ellis Varejes

Custodian:

Perpetual Trustee Company Limited
Level 12 Angel Place
123 Pitt Street
SYDNEY NSW 2000

Auditor:

Ernst & Young
Ernst & Young Centre
680 George Street
SYDNEY NSW 2000

Compliance Plan Auditor:

Ernst & Young
Ernst & Young Centre
680 George Street
SYDNEY NSW 2000

Share Registry:

Registries Limited
Level 7, 207 Kent Street
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It is recommended that this Half-Year Financial Report should be read in conjunction with the Annual Financial Report of Abacus Hospitality Fund and Abacus Hospitality Trust as at 30 June 2010. It is also recommended that the report be considered together with any public announcements made by the Abacus Hospitality Fund in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

DIRECTORS' REPORT

31 DECEMBER 2010

The Directors of Abacus Funds Management Limited ("AFML"), the responsible entity of the Abacus Hospitality Trust ("AHT" or the "Trust") and Abacus Hospitality Limited ("AHL" or the "Company") collectively known as the Abacus Hospitality Fund ("AHF" or the "Fund") submit their report together with the financial reports for AHF and AHT for the half-year ended 31 December 2010 with the independent review report thereon.

The consolidated financial reports of AHF for the half-year ended 31 December 2010 comprise the consolidated financial reports of AHL and its controlled entities and AHT.

DIRECTORS

The Directors of AHL and AFML in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

John Thame	Chairman (Non-executive)
Frank Wolf	Managing Director
William Bartlett	Non-executive Director
David Bastian	Non-executive Director
Dennis Bluth	Non-executive Director (retired 12 November 2010)
Malcolm Irving	Non-executive Director
Len Lloyd	Executive Director (retired 12 November 2010)

PRINCIPAL ACTIVITIES

The principal activity of the Fund and the Trust during the period ended 31 December 2010 was the ownership and operation of hotels in Australia and New Zealand.

FUND STRUCTURE

The Fund represents the consolidation of AHL and its controlled entities and AHT and its controlled entities. Units in AHT and shares in AHL have been stapled together so that neither can be dealt without the other. An AHF security consists of one unit in AHT and one share in AHL. A transfer, issue or reorganisation of a unit or share in any of the component parts is accompanied by a transfer, issue or reorganisation of a unit or share in each of the other component parts.

AHL is a company incorporated and domiciled in Australia. AHT is an Australian registered managed investment scheme. Abacus Funds Management Limited (AFML), the Responsible Entity of AHT, is incorporated and domiciled in Australia and is a wholly owned subsidiary of Abacus Group Holdings Limited (AGHL) which is the parent of the Abacus Property Group (Abacus or APG).

The registered office and principal place of business of AGHL and of AFML is located at Level 34 Australia Square, 264-278 George Street, Sydney NSW 2000.

DIRECTORS' REPORT

31 DECEMBER 2010

REVIEW AND RESULTS OF OPERATIONS

The hospitality industry, particularly in northern Queensland, has been affected by the downturn in inbound tourism following the global financial crisis. The increase in value of the Australian dollar, the reduced domestic tourism demand and the curtailment of conference activities by many companies during this period have caused hotel revenues to fall. Prior period results for the six months ended 31 December 2009 included the trading of the Townsville, Gladstone and Swissotel hotels which were sold prior to the commencement of the current period, 1 July 2010. The expectation that the Australian dollar will remain strong for some time will further delay the expected recovery in hotel revenues. The trading operations of the hotels in the Abacus Hospitality Fund which are managed by Abacus Funds Management Limited are subject to these market conditions.

We nevertheless believe that the current operating income and the capitalisation value adjustments will change favourably in the medium term as the carrying value of these hotel assets is significantly below replacement cost and there is little new supply in hotel assets expected.

On 4 September 2010, a natural disaster affected the New Zealand south island. The Chateau on the Park in Christchurch did not suffer any extensive damage as a result of the earthquake and this was confirmed by an independent structural engineer assessment.

The Fund reported a net profit after tax attributable to security holders of \$11.3 million for the half-year ended 31 December 2010 (December 2009: \$4.8 million loss). The Trust reported a net profit after tax attributable to unit holders of \$9.1 million for the same period (December 2009: \$0.5 million loss).

The improvement in the Fund's performance was mainly caused by \$11 million debt being forgiven by Abacus Property Group in December 2010 and a \$1.8 million improvement in the market to market value of the Fund's interest rate hedging swap book.

As at the date of this report, the Fund holds a portfolio of 5 hotels comprising 1106 rooms (December 2009: 6 hotels comprising 1465 rooms)

The net losses on revaluations (properties and investments) were \$2.3m with \$0.3m in the Profit and Loss statement and \$2.0m in Asset Revaluation Reserve as compared with \$5.8m in the corresponding prior period . The weighted average cap rate was 8.88%.

The Fund's gearing was reduced during the period to 41.2% (June 2010: 41.7%). The impact of both fair value adjustments and the Fund's performance on its financial condition were as follows:

	31-Dec-10	30-Jun-10
Total assets (\$ '000)	173,417	177,335
Gearing (%)¹	41.2	41.7
Net assets/(deficiency) (\$ '000)	(3,511)	(9,848)
Net tangible assets (\$ '000)²	81,863	85,085
Securities on issue ('000)	49,039	49,039

¹ Abacus working capital is excluded in calculating net debt gearing ratio

² Excluding the Abacus working capital facility and interest rate swap from liabilities and deferred tax assets

DIRECTORS' REPORT

31 DECEMBER 2010

SIGNIFICANT EVENTS AFTER BALANCE SHEET

On 4 February 2011, a cyclone struck northern Queensland. Neither the Tradewinds nor the Esplanade hotels located in Cairns suffered any significant damage in the cyclone.

On 22nd February 2011, there was a major earthquake in Christchurch, New Zealand. The Chateau on the Park Hotel suffered damage, but the hotel is functioning and since mid March 2011 most rooms are being occupied by Earthquake Commission staff and members of the police force. The Chateau on the Park is one of the few hotels operating in the city.

There is damage in various parts of the building, ranging from a separation in the lift landing area from the rest of the building in one part of the hotel, to the Camelot Room (function room) having the floor damaged. The swimming pool and moat are both damaged. The hotel is functional, but further repair and rectification work will be required.

A team of insurance brokers, structural engineers and other professionals are preparing the hotel's insurance claim.

On 12 May 2011 a credit approved term sheet for a new 3 year loan facility was entered into with the CBA. The facility is being documented and will be in place on or about June 2011. The new facility for AUD51.24m and NZD35m can be drawn up to a 45% Loan to Value Ratio (LVR) ratio initially. This can increase to 50% LVR provided AHF achieves two consecutive quarters of a 1.75 times Interest Cover Ratio (ICR) or better and related trading performance measures. Key covenants over the term of the facility are a LVR ratio not greater than 55% and an ICR ratio of not less than 1.5 times.

Other than as disclosed already in this report, there has been no matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may affect, the Fund and Trust's operations in future financial periods, the results of those operations or the Fund and Trust's state of affairs in future financial periods.

ROUNDING

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the group under ASIC Class Order 98/100. The Fund and the Trust are entities to which the Class Order applies.

AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, Ernst & Young, and such declaration is shown on page 5.

Sign in accordance with a resolution of the directors.



John Thame
Chairman



Frank Wolf
Managing Director

Sydney, 12th May 2011

Auditor's Independence Declaration to the Directors of Abacus Hospitality Limited and Abacus Funds Management Limited, the Responsible Entity of Abacus Hospitality Trust

In relation to our review of the financial report of the stapled securities Abacus Hospitality Limited and Abacus Hospitality Trust, collectively known as Abacus Hospitality Fund ('the Fund') for the half-year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



K. Zdrilic
Partner
12 May 2011

ABACUS HOSPITALITY FUND

CONSOLIDATED INCOME STATEMENT

HALF-YEAR ENDED 31 DECEMBER 2010

	Notes	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF* Consolidated 31 Dec 2009 \$'000	AHT* Consolidated 31 Dec 2009 \$'000
REVENUE					
Gross hotel revenue		29,762	-	46,174	-
Rental income		639	6,636	593	12,037
Finance income		187	83	146	64
Net change in fair value of investment properties derecognised		-	(14)	-	871
Net gain/(loss) on disposal of property, plant and equipment		(14)	-	905	-
Net change in fair value of financial instruments derecognised		422	422	-	-
Net change in fair value of financial instruments held at balance date		1,863	1,863	4,023	4,023
Other income	3	11,003	11,001	-	-
Total Revenue and Other Income		43,862	19,991	51,841	16,995
Cost of Sales		(4,489)	-	(5,936)	-
Property expenses & outgoings		(471)	(221)	(542)	(214)
Employee benefits expense		(10,674)	-	(16,277)	-
Other hotel expenses		(7,533)	-	(12,795)	-
Depreciation and amortisation expense		(2,258)	-	(4,287)	-
Impairment loss on hotel property, plant and equipment		(1,802)	-	(3,936)	-
Net change in fair value of hotel investment property		1,498	(3,920)	(1,908)	(5,921)
Finance costs	4	(6,079)	(6,079)	(9,867)	(9,867)
Administrative expenses		(709)	(699)	(1,494)	(1,521)
PROFIT / (LOSS) BEFORE TAX		11,345	9,072	(5,201)	(528)
Income tax (expense) / benefit		(68)	-	355	-
NET PROFIT / (LOSS) AFTER TAX		11,277	9,072	(4,846)	(528)
less: net (profit) / loss attributable to non-controlling interests					
AHT members		(11,098)	-	3,257	-
NET PROFIT / (LOSS) ATTRIBUTABLE TO MEMBERS OF THE FUND/TRUST		179	9,072	(1,589)	(528)
Net profit / (loss) attributable to members of the Fund analysed by amounts attributable to:					
AHL members		179	-	(1,589)	-
AHT members		11,098	9,072	(3,257)	(528)
NET PROFIT / (LOSS) AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE FUND/TRUST		11,277	9,072	(4,846)	(528)

* Prior period results for the six months ended 31 December 2009 included the trading of the Townsville, Gladstone and Swissotel hotels which were sold prior to the commencement of the current period, 1 July 2010.

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

HALF-YEAR ENDED 31 DECEMBER 2010

Notes	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 31 Dec 2009 \$'000	AHT Consolidated 31 Dec 2009 \$'000
NET PROFIT / (LOSS) AFTER TAX	11,277	9,072	(4,846)	(528)
OTHER COMPREHENSIVE INCOME				
Revaluation of assets, net of tax	(2,026)	-	2,729	-
Foreign exchange translation adjustments, net of tax	120	21	(25)	(23)
Total Other Comprehensive (loss) / income	(1,906)	21	2,704	(23)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	9,371	9,093	(2,142)	(551)
Total comprehensive income / (loss) attributable to members of the Fund:				
Equity holders of the parent entity	179	-	(1,589)	-
Equity holders of AHT	-	9,093	-	(551)
Non-Controlling interest - Abacus Hospitality Trust	9,192	-	(553)	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	9,371	9,093	(2,142)	(551)

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF DISTRIBUTION

HALF-YEAR ENDED 31 DECEMBER 2010

		AHF	AHT	AHF	AHT
		Consolidated	Consolidated	Consolidated	Consolidated
		31 Dec 2010	31 Dec 2010	31 Dec 2009	31 Dec 2009
	Notes	\$'000	\$'000	\$'000	\$'000
STATEMENT OF DISTRIBUTION					
Net profit/(loss) attributable to stapled security holders		9,371	9,093	(2,142)	(551)
Transfer from / (to) retained earnings		(6,337)	(6,059)	5,942	4,351
Distributions paid and payable	5	3,034	3,034	3,800	3,800
Distribution per stapled security (cents per security)	5	8.25	8.25	8.25	8.25
Weighted average number of securities ('000)		49,039	49,039	49,039	49,039

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HALF-YEAR ENDED 31 DECEMBER 2010

		AHF	AHT	AHF	AHT
		Consolidated	Consolidated	Consolidated	Consolidated
		31 Dec 2010	31 Dec 2010	30 Jun 2010	30 Jun 2010
	Notes	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS					
Cash and cash equivalents		10,736	4,715	9,737	4,319
Trade and other receivables		3,372	5,097	3,717	4,679
Other		1,385	316	916	144
TOTAL CURRENT ASSETS		15,493	10,128	14,370	9,142
NON-CURRENT ASSETS					
Property, plant and equipment	6	142,729	-	149,199	-
Investment properties	7	12,500	149,298	11,000	154,150
Related party receivables		-	8,800	-	9,651
Deferred tax assets		2,695	-	2,766	-
TOTAL NON-CURRENT ASSETS		157,924	158,098	162,965	163,801
TOTAL ASSETS		173,417	168,226	177,335	172,943
CURRENT LIABILITIES					
Trade and other payables		8,518	958	8,375	1,252
Interest-bearing loans and borrowings	8	69,174	69,174	73,536	73,536
Provisions		1,930	1,011	852	-
TOTAL CURRENT LIABILITIES		79,622	71,143	82,763	74,788
NON-CURRENT LIABILITIES					
Interest-bearing loans and borrowings	8	92,295	92,295	94,719	94,719
Derivatives at fair value		4,414	4,414	9,121	9,121
Provisions		597	-	580	-
TOTAL NON-CURRENT LIABILITIES		97,306	96,709	104,420	103,840
TOTAL LIABILITIES		176,928	167,852	187,183	178,628
NET ASSETS / (LIABILITIES)		(3,511)	374	(9,848)	(5,685)
TOTAL EQUITY		(3,511)	374	(9,848)	(5,685)

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

HALF-YEAR ENDED 31 DECEMBER 2010

Notes	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 30 Jun 2010 \$'000	AHT Consolidated 30 Jun 2010 \$'000
Equity attributable to members of AHL:				
Contributed equity	2,459	-	2,459	-
Reserves	62	-	(38)	-
Accumulated losses	(6,406)	-	(6,584)	-
Total equity attributable to members of AHL:	(3,885)	-	(4,163)	-
Equity attributable to unitholders of AHT:				
Contributed equity	43,152	43,152	43,152	43,152
Reserves	916	41	2,922	20
Accumulated losses	(43,694)	(42,819)	(51,759)	(48,857)
Total equity attributable to unitholders of AHT:	374	374	(5,685)	(5,685)
TOTAL EQUITY	(3,511)	374	(9,848)	(5,685)
EQUITY				
Contributed equity	9	45,611	43,152	45,611
Reserves		978	41	2,884
Accumulated losses		(50,100)	(42,819)	(58,343)
TOTAL EQUITY		(3,511)	374	(9,848)

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

HALF-YEAR ENDED 31 DECEMBER 2010

Consolidated AHF - 2010	Attributable to the stapled security holder				
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
CONSOLIDATED					
At 1 July 2010	45,611	2,901	(17)	(58,343)	(9,848)
Other comprehensive income / (loss)	-	(2,026)	120	-	(1,906)
Net profit for the period	-	-	-	11,277	11,277
Total comprehensive income for the period	-	(2,026)	120	11,277	9,371
Transaction costs on securities issued	-	-	-	-	-
Distribution to security holders	-	-	-	(3,034)	(3,034)
At 31 December 2010	45,611	875	103	(50,100)	(3,511)

Consolidated AHT - 2010	Attributable to the unit holder			
	Issued capital \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
CONSOLIDATED				
At 1 July 2010	43,152	20	(48,857)	(5,685)
Other comprehensive income	-	21	-	21
Net profit for the period	-	-	9,072	9,072
Total comprehensive income for the period	-	21	9,072	9,093
Transaction costs on securities issued	-	-	-	-
Distribution to unitholders	-	-	(3,034)	(3,034)
At 31 December 2010	43,152	41	(42,819)	374

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

HALF-YEAR ENDED 31 DECEMBER 2010

Consolidated AHF - 2009	Attributable to the stapled security holder				
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
CONSOLIDATED					
At 1 July 2009	45,621	4,358	40	(49,741)	278
Other comprehensive income / (loss)	-	2,729	(25)	-	2,704
Net loss for the period	-	-	-	(4,846)	(4,846)
Total comprehensive income / expense for the period	-	2,729	(25)	(4,846)	(2,142)
Transaction costs on securities issued	(7)	-	-	-	(7)
Distribution to security holders	-	-	-	(3,800)	(3,800)
At 31 December 2009	45,614	7,087	15	(58,387)	(5,671)

Consolidated AHT - 2009	Attributable to the unit holder			
	Issued capital \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
CONSOLIDATED				
At 1 July 2009	43,162	69	(42,212)	1,019
Other comprehensive income / (loss)	-	(23)	-	(23)
Net loss for the period	-	-	(528)	(528)
Total comprehensive income / expense for the period	-	(23)	(528)	(551)
Transaction costs on securities issued	(7)	-	-	(7)
Distribution to unitholders	-	-	(3,800)	(3,800)
At 31 December 2009	43,155	46	(46,540)	(3,339)

ABACUS HOSPITALITY FUND

CONSOLIDATED STATEMENT OF CASH FLOW

HALF-YEAR ENDED 31 DECEMBER 2010

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 31 Dec 2009 \$'000	AHT Consolidated 31 Dec 2009 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Income receipts	26,348	5,866	42,627	10,917
Interest received	187	83	146	63
Borrowing costs paid	(2,552)	(2,552)	(7,185)	(7,185)
Operating payments	(19,750)	(1,108)	(32,112)	(2,419)
NET CASH FLOWS FROM OPERATING ACTIVITIES	4,233	2,289	3,476	1,376
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and settlement of investments and funds repaid	-	706	-	2,072
Purchase of property, plant and equipment	(1,117)	(500)	(794)	(103)
Proceeds from sale of property, plant and equipment	3	-	34,162	30,477
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES	(1,114)	206	33,368	32,446
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of issue costs	-	-	(7)	(7)
Repayment of borrowings	-	-	(38,448)	(38,448)
Proceeds from borrowings	2,422	2,422	10,619	10,619
Payment for termination of financial instrument	(2,422)	(2,422)	(3,119)	(3,119)
Distributions paid	(2,023)	(2,023)	(2,789)	(2,789)
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES	(2,023)	(2,023)	(33,744)	(33,744)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,096	472	3,100	78
Net foreign exchange differences	(97)	(76)	13	11
Cash and cash equivalents at beginning of period	9,737	4,319	7,857	2,172
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,736	4,715	10,970	2,261

NOTES TO THE FINANCIAL STATEMENTS**31 DECEMBER 2010****1. FUND INFORMATION**

The financial reports of the Abacus Hospitality Fund (the "Fund" or "AHF") and Abacus Hospitality Trust (the "Trust" or "AHT") for the half-year ended 31 December 2010 are authorised for issue in accordance with a resolution of the Directors of Abacus Hospitality Limited ("the Company") and Abacus Funds Management Limited on 3 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Abacus Hospitality Fund and Abacus Hospitality Trust for the year ended 30 June 2010. It is also recommended that the half-year financial report be considered together with any public announcements made by the Abacus Hospitality Fund during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Preparation

The half-year financial report has been prepared in accordance with the requirements of the Corporations Act 2001, AASB 134 "Interim Financial Reporting" and other mandatory professional requirements. Except as otherwise disclosed, the same accounting policies have been applied as in the last annual financial report.

For the purposes of statutory reporting the parent entity is AHL. The consolidated balance sheet and consolidated income statement comprises the financial position and performance of AHL and its controlled entities and AHT and its controlled entities, collectively known as AHF.

The half-year financial report has been prepared on a historical cost basis, except for investment properties, property and derivative financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are covered by interest rate swap arrangements, are adjusted to record changes in the fair values attributable to the risks that are being covered by derivative financial instruments.

The half year financial report has been prepared in accordance with ASIC Class Order 05/642 which allows issuers of stapled securities to include their financial statements and the consolidated or combined financial statements of the stapled group in adjacent columns in one financial report.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Fund under ASIC Class Order 98/100. The Fund is an entity to which the class order applies.

(b) Changes in accounting policy

From 1 July 2010, the Fund has adopted the following Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2010. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Fund.

AASB 2009 - 5 Amendments to Australian Accounting Standards arising from the annual improvements project

The amendments are to AASB 117, AASB 101, AASB 107, AASB 118, AASB 136 and AASB 139 and had no major impact on the application or wording of the Fund's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 2010 – 3 Amendments to Australian Accounting Standards arising from the annual improvements project

The amendment is to AASB 3 and had no major impact of the Fund's accounting policies.

The Fund has not elected to early adopt any new standards or amendments.

Net asset deficiency/Net current liability

At 31 December 2010, AHF and AHT have a net current asset deficiency of \$64.1m and \$61.0m respectively and AHF has a net asset deficiency of \$3.5m. AHF and AHT have obtained a letter from Abacus Property Group ("APG") that APG intends not to request repayment of its loan for a period of 12 months from the date of this financial report and to the extent necessary APG intends to provide financial support to enable AHF to pay its debts as and when they fall due.

The Fund and Trust have total bank borrowings of \$77.8m of which \$22.1m of drawn facilities expire in April 2011, \$26.6m expire in May 2011 and \$20.5m expire in June 2011. The fund has accepted the offer from CBA to refinance the existing loan facility.

On 12 May 2011 a credit approved term sheet for a new 3 year loan facility was entered into with the CBA. The facility is being documented and will be in place on or about June 2011. The new facility for AUD51.24m and NZD35m can be drawn up to a 45% Loan to Value Ratio (LVR) ratio initially. This can increase to 50% LVR provided AHF achieves two consecutive quarters of a 1.75 times Interest Cover Ratio (ICR) or better and related trading performance measures. Key covenants over the term of the facility are a LVR ratio not greater than 55% and an ICR ratio of not less than 1.5 times.

On 21 December 10, APG forgave \$11m of its Abacus Working Capital Facility loan to AHF. As at 31 December 2010, \$77.5m principal has been drawn from Abacus Working Capital Facility. The facility expires on 1 March 2016 with a rate of interest which is equivalent to the lower of 8% and the Fund distribution rate to securityholders, currently 8% per annum. Interest on this loan may be accrued and paid at the expiry of the loan. The loan principal will not be repayable before 1 March 2016 unless Abacus Funds Management Limited is removed as Responsible Entity of the Fund. These loans rank equally with other securityholders upon liquidation of AHF to the extent of a deficit/shortfall to issue price.

ABACUS HOSPITALITY FUND

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

3. REVENUE

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 31 Dec 2009 \$'000	AHT Consolidated 31 Dec 2009 \$'000
Other income				
Debt Forgiveness on the Abacus Working Capital Facility*	11,000	11,000	-	-
Other income	3	1	-	-
Total other income	11,003	11,001	-	-

* Abacus Finance agreed to waive \$11m of the Abacus Working Capital Facility and this is no longer payable by the Fund.

4. EXPENSES

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 31 Dec 2009 \$'000	AHT Consolidated 31 Dec 2009 \$'000
Finance costs				
Interest on loans	2,382	2,382	5,941	5,941
Interest on Abacus Working Capital Facility	3,655	3,655	3,820	3,820
Amortisation of finance costs	42	42	106	106
Total finance costs	6,079	6,079	9,867	9,867

5. DISTRIBUTIONS PAID AND PAYABLE

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 31 Dec 2009 \$'000	AHT Consolidated 31 Dec 2009 \$'000
(a) Distributions paid during the period				
Jun 2010 quarter: 2.0625 cents per security (2009: 3.625 cents)	1,011	1,011	1,778	1,778
Sept 2010 quarter: 2.0625 cents per security (2009: 2.0625 cents)	1,011	1,011	1,011	1,011
	2,022	2,022	2,789	2,789
(b) Distributions proposed and recognised as a liability				
Dec 2010 quarter: 2.0625 cents per security (2009: 2.0625 cents)	1,012	1,012	1,011	1,011
Total distributions paid and proposed 31 Dec 2010	3,034	3,034	3,800	3,800

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

6. HOTEL PROPERTY, PLANT AND EQUIPMENT

	AHF Consolidated 31 December 2010 \$'000	AHF Consolidated 30 Jun 2010 \$'000
Property		
Australian Hotels	121,450	126,450
NZ Hotel	21,279	22,749
	142,729	149,199

Average market capitalisation rate	8.88%	8.93%
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Reconciliation

A reconciliation of the carrying amount of the hotel property, plant and equipment at the beginning and end of the half-year is as follows:

	AHF Consolidated 31 Dec 2010 \$'000	AHF Consolidated 30 Jun 2010 \$'000
Land and buildings		
At 1 July, net of accumulated depreciation	132,498	245,444
Additions	97	107
Disposals	-	(111,956)
Revaluations	(3,828)	3,186
Effect of movements in foreign exchange	(1,353)	210
Depreciation charge for the period	(1,018)	(4,493)
At 31 December, net of accumulated depreciation	126,396	132,498
Cost or fair value	136,688	141,772
Accumulated depreciation	(10,292)	(9,274)
Net carrying amount at end of period	126,396	132,498

Plant and equipment

At 1 July, net of accumulated depreciation	16,701	30,406
Additions	1,004	1,422
Disposals	(3)	(11,417)
Revaluations	-	(169)
Effect of movements in foreign exchange	(129)	17
Depreciation charge for the period	(1,240)	(3,558)
At 31 December, net of accumulated depreciation	16,333	16,701
Cost or fair value	29,364	28,492
Accumulated depreciation	(13,031)	(11,791)
Net carrying amount at end of period	16,333	16,701

Total net carrying amount of Property, Plant & Equipment	142,729	149,199
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NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

6. HOTEL PROPERTY, PLANT AND EQUIPMENT (continued)

If property, plant and equipment was carried under the cost model (i.e. no depreciation), the carrying amount would be \$146.5m.

The hotel property, plant and equipment are carried at the directors' determination of fair value. The determination of fair value includes reference to the original acquisition cost together with capital expenditure since acquisition and either the latest full independent valuation, latest independent update or directors' valuation. Total acquisition costs include incidental costs of acquisition such as property taxes on acquisition, legal and professional fees and other acquisition related costs.

At 31 December 2010, 75% of the property portfolio was subject to external valuation, the remaining 25% was subject to internal valuation (having already been independently valued at 30 June 2010).

Independent valuations of the hotel property, plant and equipment are conducted either in December or June of each year. The key underlying assumptions, on a portfolio basis, contained within the independent and director valuations above are as follows:

- A weighted average capitalisation rate for the hotel properties is 8.88% (June 2010: 8.93%)
- The current weighted average occupancy rate for the hotel properties is 73.0% (June 2010: 72.6%).

The independent and director valuations are based on common valuation methodologies including capitalisation and discounted cash flow approaches, which have regard to recent market sales evidence. Accordingly, the directors' valuations at 31 December 2010 have regards to market sales evidence in adopting a market valuation for each property including the key assumptions outlined.

The hotel property, plant and equipment are used as security for secured bank debt.

7. HOTEL INVESTMENT PROPERTIES

Reconciliation

A reconciliation of the carrying amount of the hotel investment properties at the beginning and end of the period is as follows:

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 30 June 2010 \$'000	AHT Consolidated 30 June 2010 \$'000
Carrying amount at beginning of the financial period	11,000	154,150	12,700	269,621
Straight lining rental asset	2	2	217	-
Additions and capital expenditure	-	484	-	328
Disposals	-	-	-	(111,960)
Fair value adjustments for properties held at balance date	1,498	(3,920)	(1,917)	(14,962)
Fair value adjustments for properties derecognised at balance date	-	-	-	10,905
Effect of movements in foreign exchange	-	(1,418)	-	218
Carrying amount at end of the financial period	12,500	149,298	11,000	154,150
Average market capitalisation rate	9.50%	8.93%	9.25%	8.94%

At 31 December 2010, the Fund property was subject to external valuation. The Trust property portfolio was subject to external valuation to the extent of 80%, with the remaining 20% subject to internal valuation.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

7. HOTEL INVESTMENT PROPERTIES (continued)

The investment properties are carried at the directors' determination of fair value. The determination of fair value includes reference to the original acquisition cost together with capital expenditure since acquisition and either the latest full independent valuation, latest independent update or directors' valuation. Total acquisition costs include incidental costs of acquisition such as property taxes on acquisition, legal and professional fees and other acquisition related costs.

Independent valuations of the investment properties are conducted annually. The key underlying assumptions contained within the independent and director valuations above are as follows:

- A weighted average capitalisation rate for the AHT investment properties is 8.93% (30 June 2010: 8.94%)
- A rent review of 4% annually (30 June 2010: 4%) for AHF only
- The current occupancy rate for the AHT hotel investment properties is 73.0% (30 June 2010: 72.6%)

The independent and director valuations are based on common valuation methodologies including capitalisation and discounted cash flow approaches, which have regard to recent market sales evidence. Accordingly, the directors' valuations at 31 December 2010 have regards to market sales evidence in adopting a market valuation for each property including the key assumptions outlined.

The investment properties are used as security for secured bank debt.

8. INTEREST BEARING LOANS AND BORROWINGS

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 30 Jun 2010 \$'000	AHT Consolidated 30 Jun 2010 \$'000
(a) Current				
Bank loans - A\$ ^{(1) (3)}	42,600	42,600	42,600	42,600
Bank loans - A\$ value of NZ\$ denominated loan ^{(2) (3)}	26,574	26,574	28,437	28,437
Loan from related parties ⁽⁴⁾	-	-	2,499	2,499
	69,174	69,174	73,536	73,536
(b) Non-current				
Bank loans - A\$ ^{(1) (3)}	8,640	8,640	8,640	8,640
Loan from related parties ⁽⁴⁾	83,655	83,655	86,079	86,079
	92,295	92,295	94,719	94,719
(c) Maturity profile of current and non-current interest bearing loans				
Due within one year	69,174	69,174	73,536	73,536
Due within two to five years	8,640	8,640	8,640	8,640
Due after five years	83,655	83,655	86,079	86,079
	161,469	161,469	168,255	168,255

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

8. INTEREST BEARING LOANS AND BORROWINGS (continued)

The Fund maintains a range of interest-bearing loans and borrowings. The sources of funding are spread over a number of counterparties and the terms of the instruments are negotiated to achieve a balance between capital availability and cost of debt.

(1) Bank loans – A\$ are provided by a major bank at floating interest rates. The loans are denominated in Australian dollars and the term to maturity varies from April 2011 to October 2012 (\$22.1m matures at April 2011, \$20.5m at Jun 2011 and \$8.6m at Oct 2012). The interest on floating rate borrowings is paid quarterly based on existing swap and yield rates quoted on the rate reset date. The bank loans are secured by a charge over the investment properties and certain property, plant and equipment as detailed in note 6 and note 7.

(2) Bank loan – NZ\$ is provided by a major bank at floating interest rate. The loan is denominated in New Zealand dollars and is secured by a charge over the hotel property plant and equipment in note 6. The interest on floating rate borrowings is paid quarterly based on existing swap and yield rates quoted on the rate reset date. The loan matures in May 2011 and has a term to maturity of 0.4 years.

(3) The effective fixed interest rate of borrowings which are covered by fixed rate swaps (including bank margins and fees) on the drawn amounts was 6.16% at 31 December 2010 (June 2010: 8.38%). Approximately 60.1% (June 2010: 100%) of available bank debt facilities were subject to fixed rate arrangements with a weighted average term to maturity of 0.54 years (June 2010: 1.04 years).

(4) Loans from related parties relates to fixed rate loans provided by Abacus Finance Pty Ltd to assist in funding the acquisition of hotels and provide working capital ahead of equity capital raising from the public. The interest rate on the borrowings was 8% p.a for the year. The loans mature in March 2016 and have remaining terms to maturity of 5.2 years. These loans rank equally with other unitholders upon liquidation of AHF to the extent of a deficit/shortfall to issue price.

(d) Financing facilities available

	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2010 \$'000	AHF Consolidated 30 Jun 2010 \$'000	AHT Consolidated 30 Jun 2010 \$'000
Total facilities - bank loans	77,814	77,814	79,677	79,677
Facilities used at reporting date - bank loans	(77,814)	(77,814)	(79,677)	(79,677)
Facilities unused at reporting date - bank loans	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

9. CONTRIBUTED EQUITY

	AHF	AHT	AHF	AHT
	Consolidated	Consolidated	Consolidated	Consolidated
	31 Dec 2010	31 Dec 2010	30 Jun 2010	30 Jun 2010
	\$'000	\$'000	\$'000	\$'000
(a) Issued stapled securities				
Stapled securities	45,611	43,152	45,611	43,152
Total contributed equity	45,611	43,152	45,611	43,152

(b) Movement in stapled securities on issue

	Consolidated AHF		Consolidated AHT	
	Stapled securities		Issued units	
	Number	Value	Number	Value
	'000	\$'000	'000	\$'000
At 30 June 2010	49,039	45,611	49,039	43,152
- less transaction costs	-	-	-	-
Securities on issue at 31 December 2010	49,039	45,611	49,039	43,152

TERMS AND CONDITIONS OF STAPLED SECURITIES

Each security confers upon the security holder an equal interest in the Fund, and is of equal value. A security does not confer any interest in any particular asset or investment of the scheme. security holders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- Receive income distributions;
- Attend and vote at meetings of security holders;
- Participate in the termination and winding up of the scheme;

The Abacus working capital loan ranks equally with other securityholders upon liquidation of AHF to the extent of a deficit/shortfall to issue price.

CAPITAL MANAGEMENT

The Fund and Trust seek to manage its capital requirements through a mix of debt and equity funding. It also ensures that Fund and Trust entities comply with capital and distribution requirements of their constitutions and/or Fund deeds, the capital requirements of relevant regulatory authorities and continue to operate as going concerns. The Fund and Trust also protect their equity in assets by taking out insurance.

The Fund and Trust assess the adequacy of its capital requirements, cost of capital and gearing (i.e. debt/equity mix) as part of its broader strategic plan. In addition to tracking actual against budgeted performance, the Fund and Trust continuously review their capital structure to ensure sufficient funds and financing facilities, on a cost effective basis are available to implement the Fund and Trust's strategy that adequate financing facilities are maintained and distributions to members are made within the stated distribution guidance (i.e. distributions are paid out of operating cashflows and to the extent where necessary, Abacus Finance Pty Limited will defer the payment of interest on its Working Capital Facility and/or management fees to support the distribution).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

CAPITAL MANAGEMENT (continued)

The Fund and Trust actively manage their capital via the following strategies: issuing new stapled securities, activating its distribution reinvestment plan, electing to have the dividend reinvestment plan underwritten, adjusting the amount of distributions paid to members, activating a security buyback program, divesting assets, active management of the Fund's fixed rate swaps or (where practical) recalibrating the timing of transactions and capital expenditure so as to avoid a concentration of net cash outflows.

A summary of the AHF's key banking covenants is set out below. It is recognised that falling property prices could place pressure on compliance with the LVR. With financial support from APG to the extent necessary, AHF anticipates managing its covenant compliance by effecting the strategies set out above.

Covenant	Measure	Key details
Nature of facilities	Secured, non recourse	The Fund has no unsecured facilities
LVR	60%	Drawn Loan / Bank accepted valuations
ICR	1.5	Underlying EBITDA (ex fair value P&L)/ Interest expense (including fixed rate swaps and excluding Abacus working capital interest)

AHF has term loans maturing in the twelve months ending 31 December 2011. AHF may either rollover this facility or repay it through the working capital facility or asset sales.

Details of AHF's banking facilities at 31 December 2010 are as follows:

	Total Facility Limit	Amount Drawn	Amount Undrawn
	\$'000	\$'000	\$'000
Due within one year	69,174	69,174	-
Due within two years	8,640	8,640	-
Due within three years	-	-	-

At 31 December 2010, 60.1% of AHF's total bank debt facilities were covered by interest rate swap arrangements at an average fixed interest rate (including bank margin) of 6.16% with average term to maturity of 0.54 years.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

10. COMMITMENTS AND CONTINGENCIES

There are no contingent liabilities referable to AHF at 31 December 2010.

Information required to be disclosed concerning relationships, transactions and balances with related parties of the Fund is set out in this note unless disclosed elsewhere in this financial report.

The Company forms part of AHF and the related party disclosures for the Fund has the same applicability to it. As such while the related party disclosures make reference to the Fund, they also relate to the Company.

11. EVENTS AFTER THE BALANCE SHEET DATE

On 4 February 2011, a cyclone struck northern Queensland. Neither the Tradewinds nor the Esplanade hotels located in Cairns suffered any significant damage in the cyclone.

On 22nd February 2011, there was a major earthquake in Christchurch, New Zealand. The Chateau on the Park Hotel suffered damage, but the hotel is functioning and since mid March 2011 most rooms are being occupied by Earthquake Commission staff and members of the police force. The Chateau on the Park is one of the few hotels operating in the city.

There is damage in various parts of the building, ranging from a separation in the lift landing area from the rest of the building in one part of the hotel, to the Camelot Room (function room) having the floor damaged. The swimming pool and moat are both damaged. The hotel is functional, but further repair and rectification work will be required.

A team of insurance brokers, structural engineers and other professionals are preparing the hotel's insurance claim.

On 12 May 2011 a credit approved term sheet for a new 3 year loan facility was entered into with the CBA. The facility is being documented and will be in place on or about June 2011. The new facility for AUD51.24m and NZD35m can be drawn up to a 45% Loan to Value Ratio (LVR) ratio initially. This can increase to 50% LVR provided AHF achieves two consecutive quarters of a 1.75 times Interest Cover Ratio (ICR) or better and related trading performance measures. Key covenants over the term of the facility are a LVR ratio not greater than 55% and an ICR ratio of not less than 1.5 times.

Other than as disclosed already in this report, there has been no matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may affect, the Fund and Trust's operations in future financial periods, the results of those operations or the Fund and Trust's state of affairs in future financial periods.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Abacus Hospitality Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the Fund's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Thame
Chairman



Frank Wolf
Managing Director

Sydney, 12th May 2011

To the stapled security holders of Abacus Hospitality Limited and Abacus Hospitality Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report which has been prepared in accordance with ASIC Class Order 05/0642 and comprises:

- the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated stapled entity (the "Fund" or "Abacus Hospitality Fund"), comprising both Abacus Hospitality Limited (the "company") and the entities it controlled, and Abacus Hospitality Trust (the "Trust") and the entities it controlled at the period end or from time to time during the half-year.
- the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of Abacus Hospitality Trust, comprising both Abacus Hospitality Trust and the entities it controlled at the period end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company and the directors of Abacus Funds Management Limited, as Responsible Entity of the Trust, are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the financial position of the Fund and the Trust as at 31 December 2010 and their performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund and the Trust and the entities they controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company and the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

Conclusion

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

- i) giving a true and fair view of the financial position of Abacus Hospitality Fund and Abacus Hospitality Trust as at 31 December 2010 and of their performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'K. Zdrilic'.

K. Zdrilic
Partner
Sydney

12 May 2011