

**HALF YEAR FINANCIAL REPORT**

31 December 2011

**Directory****Entity:**

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264-278 George Street  
SYDNEY NSW 2000  
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Fax: (02) 9253 8616  
Website: www.abacusproperty.com.au

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

John Thame, Chairman  
Frank Wolf, Managing Director  
William Bartlett  
David Bastian  
Malcolm Irving  
Len Lloyd  
Myra Salkinder

**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:**

Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney, NSW 2000  
Tel: 1300 737 760  
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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 2011. 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 2011

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 2011 with the independent review report thereon.

The consolidated financial reports of AHF for the half-year ended 31 December 2011 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
Malcolm Irving	Non-executive Director
Len Lloyd	Non-executive Director
Myra Salkinder	Non-executive Director

### PRINCIPAL ACTIVITIES

The principal activity of the Fund and the Trust during the period ended 31 December 2011 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. 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.

### REVIEW AND RESULTS OF OPERATIONS

The Fund incurred a net loss of \$6.7 million for the half-year ended 31 December 2011 (December 2010: \$11.3 million profit). The major cause of the loss was the adverse fair value movements of \$6.5 million in the interest rate swap book which is used to fix the cost of borrowings and align these borrowings with the net revenue earned by the Fund's hotel portfolio.

The hospitality industry, particularly in Queensland, has been affected by the high value of the Australian dollar, reduced domestic and inbound tourism demand and reduced business expenditure on hotel services.

**DIRECTORS' REPORT**

31 December 2011

**REVIEW AND RESULTS OF OPERATIONS (continued)**

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.

The hotel in Christchurch was damaged by recent earthquakes. The cost of repair is covered by insurance.

As at the date of this report, the Fund holds a portfolio of 5 hotels comprising 1106 rooms (December 2010: 5 hotels comprising 1106 rooms). The net gain on revaluations (properties and investments) was \$2.4m with \$0.9m in the Income Statement and \$1.5m in Asset Revaluation Reserve as compared with net losses of \$2.3m in the corresponding prior period. The weighted average cap rate was 8.95%.

The Fund's gearing was reduced during the period to 39.1% (June 2011: 40.7%). The impact of both fair value adjustments and the Fund's performance on its financial condition were as follows:

	31-Dec-11	30-Jun-11
<b>Total assets (\$ '000)</b>	176,423	173,069
<b>Gearing (%)<sup>1</sup></b>	39.1	40.7
<b>Net assets/(deficiency) (\$ '000)</b>	(12,909)	(5,660)
<b>Securities on issue ('000)</b>	49,039	49,039

<sup>1</sup> Abacus working capital is excluded in calculating net debt gearing ratio

**DISTRIBUTIONS**

The December quarterly distribution of 1.125 cents per stapled security was paid on 7 February 2012. Distributions are paid on a quarterly basis.

**SIGNIFICANT EVENTS AFTER BALANCE DATE**

Earthquake tremors continue in the Christchurch area of New Zealand which has caused further damage to the Fund's hotel. Repair works covered by insurance will be undertaken when prospects for further earthquake tremors subside.

**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 4.

Signed in accordance with a resolution of the directors.



John Thame  
Chairman

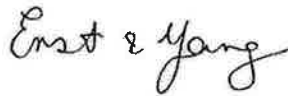


Frank Wolf  
Managing Director

Sydney, 29 February 2012

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

In relation to our review of the financial report of Abacus Hospitality Fund comprising Abacus Hospitality Limited and the entities it controlled and Abacus Hospitality Trust and the entities it controlled for the half-year ended 31 December 2011, 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.

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  
29 February 2012

**CONSOLIDATED INCOME STATEMENT**  
**HALF-YEAR ENDED 31 DECEMBER 2011**

		AHF	AHF	AHT	AHT
	Notes	Consolidated 31 Dec 2011 \$'000	Consolidated 31 Dec 2010 \$'000	Consolidated 31 Dec 2011 \$'000	Consolidated 31 Dec 2010 \$'000
<b>REVENUE</b>					
Gross hotel revenue		31,124	29,762	-	-
Rental income		663	639	6,143	6,636
Finance income		184	187	86	83
<b>Total Revenue</b>		<b>31,971</b>	<b>30,588</b>	<b>6,229</b>	<b>6,719</b>
Net change in fair value of investment properties derecognised		-	-	-	(14)
Net (loss) on disposal of property, plant and equipment		-	(14)	-	-
Net change in fair value of financial instruments derecognised		-	422	-	422
Other income	3	-	11,003	-	11,001
<b>Total Revenue and Other Income</b>		<b>31,971</b>	<b>41,999</b>	<b>6,229</b>	<b>18,128</b>
Cost of Sales		(4,532)	(4,489)	-	-
Property expenses & outgoings		(421)	(471)	(171)	(221)
Employee benefits expense		(11,156)	(10,674)	-	-
Other hotel expenses		(7,449)	(7,533)	-	-
Depreciation and amortisation expense		(1,996)	(2,258)	-	-
Net change in fair value of hotel property, plant and equipment		141	(1,802)	-	-
Net change in fair value of hotel investment property		761	1,498	933	(3,920)
Net change in fair value of financial instruments held at balance date		(6,464)	1,863	(6,464)	1,863
Finance costs	4	(6,841)	(6,079)	(6,841)	(6,079)
Administrative expenses		(533)	(709)	(531)	(699)
<b>PROFIT / (LOSS) BEFORE TAX</b>		<b>(6,519)</b>	<b>11,345</b>	<b>(6,845)</b>	<b>9,072</b>
Income tax (expense)		(223)	(68)	-	-
<b>NET PROFIT / (LOSS) AFTER TAX</b>		<b>(6,742)</b>	<b>11,277</b>	<b>(6,845)</b>	<b>9,072</b>
<b>less: net (profit) / loss attributable to non-controlling interests</b>					
AHT members		8,342	(11,098)	6,845	(9,072)
<b>NET PROFIT ATTRIBUTABLE TO MEMBERS OF AHL</b>		<b>1,600</b>	<b>179</b>	<b>-</b>	<b>-</b>
<b>Net profit / (loss) attributable to members of the Fund analysed by amounts attributable to:</b>					
AHL members		1,600	179	-	-
AHT members		(8,342)	11,098	(6,845)	9,072
<b>NET PROFIT / (LOSS) AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE FUND</b>		<b>(6,742)</b>	<b>11,277</b>	<b>(6,845)</b>	<b>9,072</b>

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**HALF-YEAR ENDED 31 DECEMBER 2011**

	Notes	AHF	AHF	AHT	AHT
		Consolidated 31 Dec 2011 \$'000	Consolidated 31 Dec 2010 \$'000	Consolidated 31 Dec 2011 \$'000	Consolidated 31 Dec 2010 \$'000
<b>NET PROFIT / (LOSS) AFTER TAX</b>		(6,742)	11,277	(6,845)	9,072
<b>OTHER COMPREHENSIVE INCOME</b>					
Revaluation of assets, net of tax		1,497	(2,026)	-	-
Foreign exchange translation adjustments, net of tax		(351)	120	(328)	21
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>		<b>(5,596)</b>	<b>9,371</b>	<b>(7,173)</b>	<b>9,093</b>
<b>Total comprehensive income attributable to: members of the Fund</b>					
Equity holders of the parent entity (AHL)		1,600	179	-	-
<b>members of other stapled entities</b>					
Non-Controlling interest - Abacus Hospitality Trust		(7,196)	9,192	(7,173)	9,093
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>		<b>(5,596)</b>	<b>9,371</b>	<b>(7,173)</b>	<b>9,093</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2011**

		AHF	AHF	AHT	AHT
	Notes	Consolidated 31 Dec 2011 \$'000	Consolidated 30 Jun 2011 \$'000	Consolidated 31 Dec 2011 \$'000	Consolidated 30 Jun 2011 \$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		10,976	9,407	5,103	5,407
Trade and other receivables		4,053	3,192	4,371	5,081
Other		1,901	1,386	761	611
<b>TOTAL CURRENT ASSETS</b>		<b>16,930</b>	<b>13,985</b>	<b>10,235</b>	<b>11,099</b>
<b>NON-CURRENT ASSETS</b>					
Hotel property, plant and equipment	6	142,971	143,087	-	-
Hotel investment properties	7	13,250	12,500	150,408	149,608
Related party receivables		-	-	10,836	9,840
Deferred tax assets		3,272	3,497	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>159,493</b>	<b>159,084</b>	<b>161,244</b>	<b>159,448</b>
<b>TOTAL ASSETS</b>		<b>176,423</b>	<b>173,069</b>	<b>171,479</b>	<b>170,547</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables		8,530	7,628	1,580	1,533
Interest-bearing loans and borrowings	8 (a)	8,239	5,255	8,239	5,255
Distribution payable	5 (b)	551	-	551	-
Provisions		525	926	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>17,845</b>	<b>13,809</b>	<b>10,370</b>	<b>6,788</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing loans and borrowings	8 (b)	158,007	158,296	158,007	158,296
Derivatives at fair value		12,489	6,024	12,489	6,024
Provisions		991	600	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>171,487</b>	<b>164,920</b>	<b>170,496</b>	<b>164,320</b>
<b>TOTAL LIABILITIES</b>		<b>189,332</b>	<b>178,729</b>	<b>180,866</b>	<b>171,108</b>
<b>NET (LIABILITIES)</b>		<b>(12,909)</b>	<b>(5,660)</b>	<b>(9,387)</b>	<b>(561)</b>
<b>TOTAL EQUITY</b>		<b>(12,909)</b>	<b>(5,660)</b>	<b>(9,387)</b>	<b>(561)</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**  
**AS AT 31 DECEMBER 2011**

		AHF	AHF	AHT	AHT
	Notes	Consolidated 31 Dec 2011 \$'000	Consolidated 30 Jun 2011 \$'000	Consolidated 31 Dec 2011 \$'000	Consolidated 30 Jun 2011 \$'000
<b>Equity attributable to members of AHL:</b>					
Contributed equity		2,459	2,459	-	-
Reserves		31	54	-	-
Accumulated losses		(6,012)	(7,612)	-	-
<b>Total equity attributable to members of AHL:</b>		<b>(3,522)</b>	<b>(5,099)</b>	-	-
<b>Equity attributable to unitholders of AHT:</b>					
Contributed equity		43,152	43,152	43,152	43,152
Reserves		2,693	1,524	(86)	241
Accumulated losses		(55,232)	(45,237)	(52,453)	(43,954)
<b>Total equity attributable to unitholders of AHT:</b>		<b>(9,387)</b>	<b>(561)</b>	<b>(9,387)</b>	<b>(561)</b>
<b>TOTAL EQUITY</b>		<b>(12,909)</b>	<b>(5,660)</b>	<b>(9,387)</b>	<b>(561)</b>
<b>EQUITY</b>					
Contributed equity	9	45,611	45,611	43,152	43,152
Reserves		2,724	1,578	(86)	241
Accumulated losses		(61,244)	(52,849)	(52,453)	(43,954)
<b>TOTAL EQUITY</b>		<b>(12,909)</b>	<b>(5,660)</b>	<b>(9,387)</b>	<b>(561)</b>



# ABACUS HOSPITALITY FUND

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY HALF-YEAR ENDED 31 DECEMBER 2011

Consolidated AHF - 2011	Attributable to the stapled security holder				
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
<b>CONSOLIDATED</b>					
At 1 July 2011	45,611	1,281	297	(52,849)	(5,660)
Other comprehensive income / (loss)	-	1,497	(351)	-	1,146
Net loss for the period	-	-	-	(6,742)	(6,742)
<b>Total comprehensive income/(loss) for the period</b>	-	<b>1,497</b>	<b>(351)</b>	<b>(6,742)</b>	<b>(5,596)</b>
Distribution to security holders	-	-	-	(1,653)	(1,653)
<b>At 31 December 2011</b>	<b>45,611</b>	<b>2,778</b>	<b>(54)</b>	<b>(61,244)</b>	<b>(12,909)</b>

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
<b>CONSOLIDATED</b>					
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
<b>Total comprehensive income/(loss) for the period</b>	-	<b>(2,026)</b>	<b>120</b>	<b>11,277</b>	<b>9,371</b>
Distribution to security holders	-	-	-	(3,034)	(3,034)
<b>At 31 December 2010</b>	<b>45,611</b>	<b>875</b>	<b>103</b>	<b>(50,100)</b>	<b>(3,511)</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**  
**HALF-YEAR ENDED 31 DECEMBER 2011**

Consolidated AHT - 2011	Attributable to the unit holder				
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
At 1 July 2010	43,152	(1,620)	241	(42,334)	(561)
Other comprehensive (loss)	-	-	(328)	-	(328)
Net loss for the period	-	-	-	(6,845)	(6,845)
<b>Total comprehensive (loss) for the period</b>	-	-	<b>(328)</b>	<b>(6,845)</b>	<b>(7,173)</b>
Distribution to unitholders	-	-	-	(1,653)	(1,653)
<b>At 31 December 2011</b>	<b>43,152</b>	<b>(1,620)</b>	<b>(87)</b>	<b>(50,832)</b>	<b>(9,387)</b>

Consolidated AHT - 2010	Attributable to the unit holder				
	Issued capital \$'000	Asset revaluation reserve \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
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
<b>Total comprehensive income for the period</b>	-	-	<b>21</b>	<b>9,072</b>	<b>9,093</b>
Distribution to unitholders	-	-	-	(3,034)	(3,034)
<b>At 31 December 2010</b>	<b>43,152</b>	-	<b>41</b>	<b>(42,819)</b>	<b>374</b>

**CONSOLIDATED STATEMENT OF CASH FLOW**  
**HALF-YEAR ENDED 31 DECEMBER 2011**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 31 Dec 2010 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income receipts	27,963	26,348	8,489	5,866
Interest received	184	187	86	83
Borrowing costs paid	(2,551)	(2,552)	(2,551)	(2,552)
Operating payments	(22,302)	(19,750)	(3,955)	(1,108)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>3,294</b>	<b>4,233</b>	<b>2,069</b>	<b>2,289</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale and settlement of investments and funds repaid	-	-	-	706
Purchase of property, plant and equipment	(551)	(1,117)	(180)	(500)
Proceeds from sale of property, plant and equipment	-	3	-	-
Disposal of property, plant and equipment	(2)	-	-	-
Funds advanced to related party	-	-	(1,028)	-
<b>NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>	<b>(553)</b>	<b>(1,114)</b>	<b>(1,208)</b>	<b>206</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	-	2,422	-	2,422
Payment of financial costs	-	(2,422)	-	(2,422)
Distributions paid	(1,102)	(2,023)	(1,102)	(2,023)
<b>NET CASH FLOWS (USED IN) FINANCING ACTIVITIES</b>	<b>(1,102)</b>	<b>(2,023)</b>	<b>(1,102)</b>	<b>(2,023)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,639</b>	<b>1,096</b>	<b>(241)</b>	<b>472</b>
Net foreign exchange differences	(70)	(97)	(63)	(76)
Cash and cash equivalents at beginning of period	9,407	9,737	5,407	4,319
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>10,976</b>	<b>10,736</b>	<b>5,103</b>	<b>4,715</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2011

### 1. FUND INFORMATION

AHF is comprised of Abacus Hospitality Limited and its controlled entities (AHL) and Abacus Hospitality Trust and its controlled entities (AHT).

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 2011 are authorised for issue in accordance with a resolution of the Directors of Abacus Hospitality Limited ("the Company") and Abacus Funds Management Limited on 29 February 2012.

The nature of the operations and principal activities of the AHF and AHT are described in the Directors' Report.

### 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 2011. 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 2011 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 and the Trust under ASIC Class Order 98/100. The Fund and the Trust are entities to which the class order applies.

#### ***Net asset deficiency/Net current liability***

At 31 December 2011, AHF and AHT have a net current asset deficiency of \$0.9m and \$0.1m respectively and a net asset deficiency of \$12.9 m and \$9.4m respectively. AHF and AHT have obtained a letter from Abacus Property Group ("APG") that APG does not intend 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 and AHT to pay its debts as and when they fall due within the next 12 months.

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Changes in accounting policy**

The following amending Standards have been adopted from 1 July 2011. Adoption of these Standards did not have any effect on the financial position or performance of the Fund:

**AASB 124 Related Party Disclosure:** the revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.

The Fund has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

**3. REVENUE**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 31 Dec 2010 \$'000
<b>Other income</b>				
Debt Forgiveness on the Abacus Working Capital Facility*	-	11,000	-	11,000
Other income	-	3	-	1
<b>Total other income</b>	<b>-</b>	<b>11,003</b>	<b>-</b>	<b>11,001</b>

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

**4. EXPENSES**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 31 Dec 2010 \$'000
<b>Finance costs</b>				
Interest on loans	2,872	2,382	2,872	2,382
Interest on Abacus Working Capital Facility	3,851	3,655	3,851	3,655
Amortisation of finance costs	118	42	118	42
<b>Total finance costs</b>	<b>6,841</b>	<b>6,079</b>	<b>6,841</b>	<b>6,079</b>

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**5. DISTRIBUTIONS PAID AND PAYABLE**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 31 Dec 2010 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 31 Dec 2010 \$'000
<b>(a) Distributions paid during the period</b>				
Jun 2011 quarter: 1.125 cents per security (2010: 2.0625 cents)	552	1,011	552	1,011
Sept 2011 quarter: 1.125 cents per security (2010: 2.0625 cents)	550	1,011	550	1,011
	<b>1,102</b>	<b>2,022</b>	<b>1,102</b>	<b>2,022</b>
<b>(b) Distributions proposed and recognised as a liability</b>				
Dec 2011 quarter: 1.125 cents per security (2010: 2.0625 cents)	551	1,012	551	1,012
<b>Total distributions paid and proposed 31 Dec 2011</b>	<b>1,653</b>	<b>3,034</b>	<b>1,653</b>	<b>3,034</b>

**6. HOTEL PROPERTY, PLANT AND EQUIPMENT**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000
<b>Property</b>		
Australian Hotels	121,650	121,450
NZ Hotel	21,321	21,637
	<b>142,971</b>	<b>143,087</b>
Average market capitalisation rate	8.90%	8.90%

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**6. HOTEL PROPERTY, PLANT AND EQUIPMENT (continued)**

**Reconciliation**

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

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000
<b>Land and buildings</b>		
At 1 July, net of accumulated depreciation	127,243	132,498
Additions	149	561
Revaluations	1,638	(2,794)
Effect of movements in foreign exchange	(304)	(1,027)
Depreciation charge for the period	(944)	(1,996)
<b>At 31 December, net of accumulated depreciation</b>	<b>127,782</b>	<b>127,243</b>
Fair value	139,963	138,481
Accumulated depreciation	(12,181)	(11,238)
<b>Net carrying amount at end of period</b>	<b>127,782</b>	<b>127,243</b>
<b>Plant and equipment</b>		
At 1 July, net of accumulated depreciation	15,844	16,701
Additions	403	1,734
Effect of movements in foreign exchange	(8)	(104)
Depreciation charge for the period	(1,050)	(2,487)
<b>At 30 June, net of accumulated depreciation</b>	<b>15,189</b>	<b>15,844</b>
Fair value	30,376	30,027
Accumulated depreciation	(15,187)	(14,183)
<b>Net carrying amount at end of period</b>	<b>15,189</b>	<b>15,844</b>
<b>Total net carrying amount of Property, Plant &amp; Equipment</b>	<b>142,971</b>	<b>143,087</b>

If property, plant and equipment was carried under the cost model, the carrying amount would be \$143.9m.

**NOTES TO THE FINANCIAL STATEMENTS****31 DECEMBER 2011****6. HOTEL PROPERTY, PLANT AND EQUIPMENT(continued)**

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 2011, 50% of the property portfolio was subject to external valuation, the remaining 50% was subject to internal valuation.

During the half-year the Directors approved a revised valuation policy for the Fund whereby all assets must be independently valued at least every two years (previously annually). 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 8.90% (June 2011: 8.90%).
- The current weighted average occupancy rate for the hotel properties is 75.4% (June 2011: 71.3%).

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 2011 have regard 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.



**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**7. HOTEL INVESTMENT PROPERTY**

**Reconciliation**

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

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 30 Jun 2011 \$'000
Carrying amount at beginning of the financial period	12,500	11,000	149,608	154,150
Straight lining rental asset	(11)	(9)	(11)	(9)
Additions and capital expenditure	-	-	179	953
Fair value adjustments for properties held at balance date	761	1,509	934	(4,408)
Effect of movements in foreign exchange	-	-	(302)	(1,078)
<b>Carrying amount at end of the financial period</b>	<b>13,250</b>	<b>12,500</b>	<b>150,408</b>	<b>149,608</b>

Average market capitalisation rate	9.50%	8.90%	8.95%	8.95%
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At 31 December 2011, all Fund property was subject to external valuation. 60% of the Trust property portfolio was subject to external valuation, with the remaining 40% subject to internal valuation.

The investment property is 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.

An independent valuation of the investment property is 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 property is 8.95% (June 2011: 8.95%)
- A rent review of 4% annually (June 2011:4%) for AHF only
- The current occupancy rate for the AHT hotel investment property is 76.4% (June 2011: 71.5%).

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 2011 have regard to market sales evidence in adopting a market valuation for each property including the key assumptions outlined.

The investment property is used as security for secured bank debt.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2011

8. INTEREST BEARING LOANS AND BORROWINGS

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 30 Jun 2011 \$'000
<b>(a) Current</b>				
Loans from related parties <sup>(4)(5)</sup>	8,239	5,255	8,239	5,255
	<b>8,239</b>	<b>5,255</b>	<b>8,239</b>	<b>5,255</b>
<b>(b) Non-current</b>				
Bank loans - A\$ <sup>(1) (3)</sup>	49,240	49,240	49,240	49,240
Bank loan - A\$ value of NZ\$ denominated loan <sup>(2) (3)</sup>	19,450	19,739	19,450	19,739
Loans from related parties <sup>(4)(5)</sup>	89,317	89,317	89,317	89,317
	<b>158,007</b>	<b>158,296</b>	<b>158,007</b>	<b>158,296</b>
<b>(c) Maturity profile of current and non-current interest bearing loans</b>				
Due within one year	8,239	5,255	8,239	5,255
Due within two to five years	158,007	75,979	158,007	75,979
Due after five years	-	82,317	-	82,317
	<b>166,246</b>	<b>163,551</b>	<b>166,246</b>	<b>163,551</b>

The Fund and the Trust maintain 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 loan matures on 30 June 2014. 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 on 30 June 2014 and has a term to maturity of 2.5 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 8.31% as at 31 December 2011 (June 2011: 8.21%). Approximately 68.1% (June 2011: 67.9%) of drawn bank debt facilities were subject to fixed rate arrangements with a weighted average term to maturity of 5.1 years (June 2011: 5.6 years).

(4) Loans from related parties relate to fixed rate loans provided by Abacus Finance Pty Ltd to assist in funding the acquisition of hotels and provide working capital. The interest rate on the borrowings is 8%. The loan matures in March 2016 and has remaining term to maturity of 4.2 years. This loan ranks equally with other unitholders upon liquidation of AHF to the extent of a deficit/shortfall to issue price.

(5) Loans from related parties also include a further AUD \$10 million facility which was established with Abacus Finance Pty Ltd. The loan matures in July 2014 and has a term to maturity of 2.6 years. The interest rate on the borrowing was BBSY+3.25% p.a for the year.

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**8. INTEREST BEARING LOANS AND BORROWINGS (continued)**

**(d) Financing facilities available**

At reporting date, the following financing facilities had been negotiated and were available:

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 30 Jun 2011 \$'000
Total facilities - bank loans	77,866	78,261	77,866	78,261
Facilities used at reporting date - bank loans	(68,690)	(68,979)	(68,690)	(68,979)
<b>Facilities unused at reporting date - bank loans</b>	<b>9,176</b>	<b>9,282</b>	<b>9,176</b>	<b>9,282</b>

**(e) Assets pledged as security**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 30 Jun 2011 \$'000
Non-current				
<i>First mortgage</i>				
Investment properties and Property, plant and equipment	156,221	155,587	150,408	149,608
<b>Total assets pledged as security</b>	<b>156,221</b>	<b>155,587</b>	<b>150,408</b>	<b>149,608</b>

**(f) Defaults and breaches**

During the current and prior periods, there were no defaults or breaches on any of the loans.

**9. CONTRIBUTED EQUITY**

	AHF Consolidated 31 Dec 2011 \$'000	AHF Consolidated 30 Jun 2011 \$'000	AHT Consolidated 31 Dec 2011 \$'000	AHT Consolidated 30 Jun 2011 \$'000
<b>(a) Issued stapled securities</b>				
Stapled securities	45,611	45,611	43,152	43,152
<b>Total contributed equity</b>	<b>45,611</b>	<b>45,611</b>	<b>43,152</b>	<b>43,152</b>

**(b) Movement in stapled securities on issue**

	AHF Stapled securities		AHT Issued units	
	Number '000	Value \$'000	Number '000	Value \$'000
At 30 June 2011	49,039	45,611	49,039	43,152
<b>Securities on issue at 31 December 2011</b>	<b>49,039</b>	<b>45,611</b>	<b>49,039</b>	<b>43,152</b>

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**9. CONTRIBUTED EQUITY (continued)****TERMS AND CONDITIONS OF STAPLED SECURITIES**

Each security confers upon the security holder an equal interest in the Fund and the Trust, 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 and AHT to the extent of a deficit/shortfall to issue price.

**10. CAPITAL MANAGEMENT**

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

AHF assesses the adequacy of its capital requirements, cost of capital and gearing (i.e. debt / equity mix) as a part of its broader strategic plan. In addition to tracking actual against budgeted performance, AHF routinely reviews its capital structure to ensure sufficient funds and financing facilities, on a cost effective basis are available to implement its 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 Ltd will defer the payment of interest on its Working Capital Facility and/or management fees to support the distribution.)

AHF actively manages its capital via the following strategies: issuing new stapled securities, activating its distribution reinvestment plan, adjusting the amount of distributions paid to members, activating a security buyback program, divesting assets, active management of its 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 AHF's key banking covenants is set out below. With financial support from APG to the extent necessary, AHF anticipates managing its covenant compliance by effecting the strategies set out above.

AHF manages the cash flow effect of interest rate risk by entering into interest rate swap agreements that are used to convert floating interest rate borrowings to fixed interest rates. Such interest rate swaps are entered into with the objective of hedging the risk of interest rate fluctuations in respect of underlying borrowings. Under the interest rate swaps, AHF agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Interest rate swap contracts have been recorded on the Statement of Financial Position at their fair value in accordance with AASB 139 Financial Instruments: Recognition and Measurement. The AIFRS documentation, designation and effectiveness requirements cannot be met in all circumstances, as a result derivatives do not qualify for hedge accounting and are recorded at fair value through the Statement of Income.

The change in fair value on the derivatives this period has been a result of falling interest rates and volatility in interest rate curves.

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2011

**10. CAPITAL MANAGEMENT (continued)**

Details of AHF's and AHT's banking facilities at 31 December 2011 are as follows:

<b>Covenant</b>	<b>Measure</b>	<b>Key details</b>
<b>Nature of facilities</b>	Secured, non recourse	The Fund has no unsecured facilities
<b>LVR</b>	55%	Drawn Loan less cash secured / Bank accepted valuations
<b>ICR</b>	1.5	Underlying EBITDA (ex fair value P&L)/ Interest expense (on secured first mortgage loans)

Details of AHF's banking facilities at 31 December 2011 are as follows:

	<b>Total Facility Limit</b>	<b>Amount Drawn</b>	<b>Amount Undrawn</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Due within three years	77,866	68,690	9,176

At 31 December 2011, 68.1% of AHF's total bank debt facilities were covered by interest rate swap arrangements at an average fixed interest rate (including bank margin) of 8.77% with average term to maturity of 5.1 years.

**11. COMMITMENTS AND CONTINGENCIES**

There are no contingent liabilities referable to AHF and AHT at 31 December 2011.

**12. EVENTS AFTER BALANCE SHEET DATE**

Earthquake tremors continue in the Christchurch area of New Zealand which has caused further damage to the Fund's hotel. Repair works covered by insurance will be undertaken when prospects for further earthquake tremors subside.

**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Abacus Hospitality Limited and Abacus Funds Management 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 financial position as at 31 December 2011 and the performance for the half-year ended on that date for the Fund; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* 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

Sydney, 29 February 2012



Frank Wolf  
Managing Director

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

Abacus Hospitality Fund (the "Fund") comprises Abacus Hospitality Limited and the entities it controlled at the half-year's end or from time to time during the financial period (the "Company") and Abacus Hospitality Trust and the entities it controlled at the half-year's end or from time to time during the financial period (the "Trust").

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Abacus Hospitality Fund, which comprises the consolidated statements of financial position as at 31 December 2011, the consolidated income statements, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund.

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

### Auditor's Responsibility

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 2011 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.

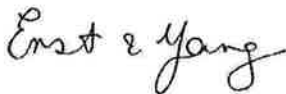
### Independence

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 is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the financial positions of the Fund and Trust as at 31 December 2011 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

29 February 2012