Abacus Hospitality Fund

DISCLOSURE OF INFORMATION

The Australian Securities and Investments Commission (ASIC) has developed six benchmarks and eight disclosure principles for unlisted property trusts to assist retail investors to understand risks in a scheme, assess the rewards being offered and decide whether an investment is suitable for them. The benchmarks and disclosures are to be applied to both new funds and existing funds.

The benchmarks are intended to highlight features of an unlisted scheme that ASIC believes are desirable. Where a benchmark is not met by the scheme the responsible entity should identify why it has not been met and how that particular risk has been mitigated. The disclosure principles are intended to measure specific attributes of a scheme so that schemes can be more readily compared.

The following information on the Abacus Hospitality Fund (the **Fund**) is based on the 30 June 2012 full year financial report which is available through the Fund page on the Abacus Property Group website at www.abacusproperty.com.au.

1. Gearing

Benchmark 1 – gearing policy

Benchmark requirement	
The Fund maintains and complies with a written policy that governs the level of gearing at an individual credit facility level	The Fund meets this requirement

The Fund's gearing policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

Disclosure principle 1 – gearing ratio

The gearing ratio indicates the extent to which a scheme's assets are funded by interest bearing liabilities. A higher gearing ratio means a higher reliance on external borrowings to fund assets and this potentially exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely on in times of financial stress and implies a greater level of risk.

Gearing enhances the potential for capital gain if the Fund's properties increase in value. However, it may also increase any capital loss in the event that the value of the properties fall compared to an investment which has no borrowings.

	ACTUAL AS AT 30 JUNE 2012	PRO FORMA AS AT 30 JUNE 2012
Gearing ratio	0.93	0.43

The actual gearing ratio at 30 June 2012 includes the bank debt borrowed by the Fund, a loan from Abacus Finance (AFPL Loan) and the Abacus Working Capital Facility (Facility). The Facility was originally bridging finance provided by Abacus Property Group to the Fund while it was raising equity[1]. The pro forma gearing ratio assumes that the equity is fully subscribed and the Facility is repaid. The Facility had an outstanding balance of $91.2m as at 30 June 2012.

The pro forma calculation is more relevant to investors because the Facility has the same priority of repayment as equity, there are no loan to value or other covenants and there are only limited circumstances when the loan must be repaid - for example, if Abacus Funds Management Limited ceases to be the responsible entity of Abacus Hospitality Trust.

Only the bank borrowings of the Fund are subject to gearing (or loan to valuation ratio) limits, details of which are provided in section 3.

[1] There is no open offer document but the Facility remains available.

2. Interest cover

Benchmark 2 – interest cover policy

Benchmark requirement	
The Fund maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.	The Fund meets this requirement

The Fund's interest cover policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

Disclosure principle 2 – interest cover ratio

Interest cover for a Fund is a key indicator of its financial health because it measures the ability of the scheme to service interest on debt from earnings. The lower the interest cover, the higher the risk that the Fund will not be able to meet its interest obligations. A Fund with a low interest cover needs only a small reduction in earnings (or a small increase in interest expense) to be unable to meet its interest cost. An interest cover of 1.0 indicates the scheme's cash earnings just cover its interest obligations.

	ACTUAL AS AT 30 JUNE 2012	PRO FORMA AS AT 30 JUNE 2012
Interest cover	1.08	1.92

The difference between the actual interest cover as at 30 June 2012 and the pro forma interest cover is the assumption in the pro forma that the Facility is fully replaced by securityholder equity.

The pro forma calculation is more relevant to investors because the Facility may be repaid only from proceeds of subscriptions by investors[1] and the interest rate charged on the Facility is the same as the distributions on issued securities. If necessary, Abacus may defer the payment of interest on the Facility to support the forecast cash distribution.

The Fund's bank does not include the interest on the Facility in the calculation of Interest Cover for lending purposes. Only the bank borrowings of the Fund are subject to interest cover limits, details of which are provided in section 3.

Benchmark 3 – interest capitalisation

Interest capitalisation is where interest payments are not paid until an agreed point in time. It generally applies in the context of a development because the asset may not generate income during the development to meet interest obligations. If a development property cannot be sold for more than the credit facility plus capitalised interest then the investor's returns may be reduced.

Benchmark requirement	
The interest expense on borrowings is not capitalised	The Fund does not meet this requirement

Interest expense on borrowings provided by Abacus Property Group is generally not capitalised. However, a small component of interest expense on borrowings provided by Abacus Property Group may be capitalised, that is, added to the loan principal where there is a temporary shortfall in cash available for distribution to meet securityholder distributions.

3. Scheme borrowing

Relatively short-term borrowings and credit facilities with short expiry dates are a risk factor if they are used to fund assets intended to be held long term. If the Fund has a significant proportion of its borrowings that mature within a short timeframe, it will need to refinance. There is a risk that the refinancing will be on less favourable terms or not available at all. If the scheme cannot refinance, it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss.

Breach of a loan covenant may result in penalties being applied or the loan becoming repayable immediately. The scheme may need to refinance on less favourable terms or sell assets. Termination of critical financing could also mean the scheme is no longer viable.

Borrowing maturity and credit facility expiry profiles indicate when a scheme will have to renew borrowing or credit facilities.

A lender has no obligation to roll over a loan at the end of the loan term. There is no guarantee that future loan funds will be secured, or be secured at competitive interest rates at the time that the Fund's debt facilities are to be refinanced.

If the Fund were to be wound up, amounts owing to external lenders and other creditors of a scheme rank before an investor's interest in the scheme, while any amount owing on the Facility would rank proportionately with securityholders on any return of capital.

Disclosure principle 3 – scheme borrowing

Details of the Fund's credit facilities at 30 June 2012 are set out in the table below:

$000	**Bank loan**	**Abacus Working Capital Facility**	**Abacus Loan Facility**
Facility limit ($000)	78,646	150,000	10,000
Drawn amount ($000)	69,260	91,158	7,019
Undrawn amount ($000)	9,386	58,842	2,981
Value of secured assets ($000)	161,706	Nil	Nil
Maximum LVR permitted	55.0%	Not applicable	Not applicable
Actual LVR	42.8%	Not applicable	Not applicable
Movement in secured assets to breach LVR	22%	Not applicable	Not applicable
Minimum ICR	1.5 times	Not applicable	Not applicable
Actual ICR	2.15 times	Not applicable	Not applicable
Movement in EBITDA to breach ICR	30%	Not applicable	Not applicable
Facility maturity	June 2014	March 2016	July 2014
Interest rate	2.65% line/ margin	Same rate as distributions to unitholders	3.25% above base rate
Fixed interest hedging	62% at 6.33%	Nil	Nil

Loan covenants in respect of the bank loan were compliant at 30 June 2012. The terms of the bank facility contain extensive undertakings (common for this type of facility) that, if breached, may cause the loans to be repayable.

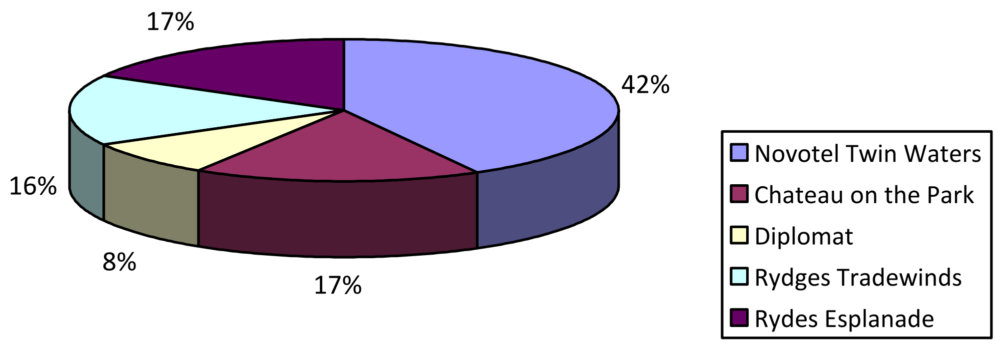
4. Portfolio diversification

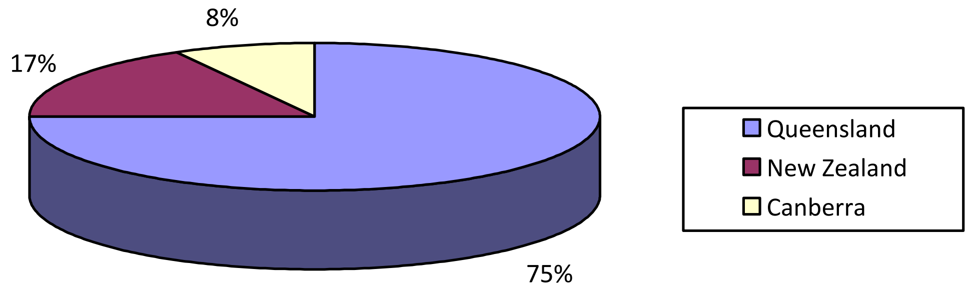
Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk. A concentration of development assets in a scheme exposes investors to increased risks involved in the development of property assets.

Disclosure principle 4 – portfolio diversification

The Fund's investment strategy is to hold hotel properties in Australia and New Zealand as described on page 8 of the offer document dated 27 March 2008. The Fund does not invest in any unlisted property schemes.

As at 30 June 2012, the Fund owned five hotel properties recorded in the accounts at $161.7m.





The Fund operates four of the properties, with day-to-day management undertaken at three of them by specialist hotel operating companies. Chateau on the Park is managed internally. The Diplomat Hotel in Canberra, which is leased to Bonsor Holding Pty Limited, contributed approximately 10% of the portfolio EBITDA in the year ended 30 June 2012. Subsequent to 30 June 2012 the Diplomat Hotel was sold by the Fund.

The Chateau on the Park in Christchurch was damaged by the earthquakes in 2011 and 2012. The hotel is undergoing repair works that are expected to be completed by early 2013.

5. Valuation policy

Investing in a property scheme exposes investors to movements in the value of the scheme's assets. Investors therefore need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale is likely to result in a shortfall compared to the valuation unless the valuation has been made on a forced sale basis.

Benchmark 4 – valuation policy

Benchmark requirement	
The Fund maintains and complies with a written valuation policy	The Fund meets this requirement

The Fund's valuation policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

All properties owned by the Fund are to be valued (whether by internal or external valuation) at least once every 12 months. The Fund obtains independent valuations of each property at least every 24 months, staggered over that period with the aim of valuing approximately a quarter of the property portfolio every 6 months. An internal valuation must be completed for each property not more than 12 months after the external valuation.

All external property valuations must satisfy the following requirements:

- Be undertaken by a valuer licensed under the law of the state or territory in which the property is located to practise as a valuer who has at least five years of continuous experience in valuation and who has no pecuniary interest that could conflict with their valuation.
- Follow the principles set out in the guidelines established by The Australian Property Institute and when appropriate include a discounted cashflow analysis for income producing properties. All relevant methodologies and analysis of comparable sales should be included.
- If the relevant valuation is not required to satisfy the requirements of any of Abacus' financiers (in which case the valuer must be acceptable to the financier) the valuer must be a member of The Australian Property Institute.

This valuation policy does not limit the requirements of the Fund's financiers for valuations. Where external valuations are required more frequently by the Fund's financiers additional valuations are not required under the valuation policy.

Details of the valuations of the Fund's properties are set out in the table below.

PROPERTY	INDEPENDENT VALUATION	DATE OF VALUATION	CAPITALISATION RATE
Novotel Twin Waters Resort Sunshine Coast, QLD	$66.7 million	December 2011	8.75%
Rydges Tradewinds Cairns, QLD	$26.5 million	December 2011	9.25%
Rydges Esplanade Cairns, QLD	$27.8 million	June 2012	9.17%
Diplomat Hotel, Canberra ACT	$13.3 million	December 2011	9.50%
Chateau on the Park, Christchurch NZ	NZ$38.5 million	February 2012	11.0%

6. Related party transactions

A conflict of interest may arise when property schemes invest in, or make loans or provide guarantees to, related parties.

Benchmark 5 – related party transactions

Benchmark requirement	
The Fund maintains and complies with a written policy on related party transactions	The Fund meets this requirement

The Fund's related party transaction policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

Disclosure principle 5 – related party transactions

Abacus Property Group's policy on related party transactions is that transactions are required to be on arm's length terms as envisaged by the Corporations Act or the financial benefit must be approved by securityholders.

Appropriate disclosure to securityholders is an essential element of Abacus Property Group's arrangements to manage conflicts of interest. This disclosure may be made through the scheme's offer document, annual report and/or the explanatory memorandum of any meeting of securityholders held to approve related party transactions. The Abacus Property Group compliance framework requires appropriate review at least annually of all controls applying to a fund.

The Fund's working capital facility is a loan provided by Abacus Finance Pty Limited. The terms of the loan are set out in Section 10.1.2 of the offer document dated 27 March 2008. Interest rates on these loans are set out in section 3.

The Fund pays management and other fees to Abacus Funds Management Limited. The Fund paid a management fee of $1,629,000 to Abacus Property Group in the year ended 30 June 2012. Details of all fees are set out in Section 8 of the offer document dated 27 March 2008 and note 19 of the June 2012 financial statements of the Fund.

7. Distribution practices

Some property schemes make distributions partly or wholly from unrealised revaluation gains, capital, borrowings, or support facilities arranged by the responsible entity, rather than solely from cash from operations available for distribution. This may not be commercially sustainable over the longer term, particularly when property values are not increasing.

Benchmark 6 – Distribution practices

Benchmark requirement	
The Fund will only pay distributions from its cash from operations available from distribution	The Fund does not meet this requirement

Disclosure principle 7 – Distribution practices

The Fund pays quarterly distributions to securityholders. The distribution for the year ended 30 June 2012 was 4.5 cents per security.

The Fund estimates cash available for distribution for the year ahead and sets the distributions to be paid to securityholders accordingly. However, if there is a temporary shortfall in actual cash available for distribution compared to the estimate (for example due to under budget performance or seasonal drops in cash flow) then a proportion of the distribution may be achieved by deferring the interest on the Abacus working capital facility.

8. Withdrawal arrangements

Unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit.

Disclosure principle 7 – withdrawal arrangements

The Fund offers a limited liquidity facility pursuant to which Abacus or its nominee will acquire up to $500,000 of securities from securityholders each quarter. The liquidity facility price is 95% of the offer price of Fund securities under the offer document current at the time. If there is no current offer document, the liquidity facility price will be set by Abacus and will be no less than 95% of the net asset value of the Fund securities.

Abacus has suspended the liquidity facility, in accordance with its terms, as if Abacus were to acquire additional securities that would result in Abacus having voting power of more than 19.999% in the Fund.

Full details of the liquidity facility are set out in Section 10.3 of the offer document dated 27 March 2008.

9. Net tangible assets

The net tangible asset (NTA) backing of a scheme gives investors information about the value of the tangible or physical assets of the scheme. The initial and ongoing NTA backing may be affected by various factors, including fees and charges paid up-front for the purchase of properties, costs associated with capital raising or fees paid to the responsible entity or other parties.

Disclosure principle 8 – net tangible assets

The NTA per security in the Fund at 30 June 2012 was $0.54 on the basis that the Abacus working capital facility is treated as converted to equity.

$000	**Accounts at 30 June 2012**	**Facility treated as equity**	**Adjusted**
Net liabilities/ assets	(12,869)	90,507	77,638
Less deferred tax assets	(3,734)	-	(3,734)
Net tangible assets	(16,603)	90,507	73,904
Units on issue	49,039	87,871	136,910
NTA per unit			**$0.54**

The Fund's unit pricing policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

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1 November 2012

Prepared by Abacus Funds Management Limited ACN 007 415 590 AFSL 227819

Abacus intends to update these disclosures on a six-monthly basis through the Fund page on the Abacus Property Group website.

Investors are entitled to a hard copy of this information on request. Please call 1800 253 860 or email enquiries@abacusproperty.com.au.