

24 February 2006

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

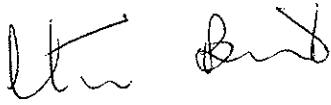
Dear Sir or Madam:

**Australian Hotel Fund (ASX Code AHO)
Half-Year Results**

Hotel Capital Partners Limited the responsible entity of the Australian Hotel Fund is pleased to lodge on behalf of the Trust the following documents in relation to the results for the half-year ended 31 December 2005:

- ASX announcement on AHO's half-year results
- Appendix 4D information
- Financial statements including independent review report

Yours sincerely



Stephen Burt
Director – Hotel Capital Partners

AUSTRALIAN HOTEL FUND RESULTS FOR ANNOUNCEMENT TO THE MARKET

Responsible Entity Report

Results

A summary of the trading result including accommodation statistics is provided below:

	Six Months 31 Dec 2005	Six Months 31 Dec 2004
Portfolio size	3 hotels	3 hotels
Number of Room Nights Available	60,904	60,904
Average Room Rate	\$191.10	\$191.00
Room Occupancy	54.80%	58.30%
Total Hotel Gross Revenue	\$13,569,497	\$14,698,287
Hotel Net Rental Income (\$)	\$2,362,658	\$2,933,251
Hotel Net Rental Income (%)	17.4%	20.0%
Rates, Taxes, Ground Rental & Property Insurance's	\$221,462	\$231,410
Net Hotel Return	\$2,141,196	\$2,701,841
Repairs & Maintenance by Trust	234,692	310,136
Trust Expenses	353,917	339,135
Depreciation & Amortisation expenses	645,146	789,081
Interest (net)	893,114	967,850
Net Profit from operations before finance costs attributable to unitholders	\$14,327	\$295,639

Hotel Trading Results

The six month trading was impacted by a downturn in mid week conferencing business at Peppers Fairmont Resort. The Trust's other two resorts, Peppers Anchorage and Peppers Manor House collectively traded in excess of the profit achieved in the comparable period last year.

Trading in January and February 2006 together with forward bookings indicate a recovery in the conferencing segment across all three resorts compared to the first half.

Portfolio Rationalisation

On 2 November 2005 the responsible entity announced the appointment of Jones Lang LaSalle Hotels to undertake the sale of Peppers Fairmont Resort. Expressions of Interest were called closing 15 December 2005. Negotiations are continuing with short listed parties.

The decision to sell Fairmont was purely a strategy to enhance unitholder value on the back of strong investor demand for hotel assets and the hotel will only be sold if a price is secured that reflects the resort's unique characteristics.

Property Valuation

The book value of the portfolio is \$69.2 million an increase of \$0.68m from the 30 June 2005 book value. Net tangible asset backing is 82.3 cents per unit (2004: 79.4 cents per unit).

Distributions to Unitholders

An interim distribution of 1.0 cent per unit has been declared from the half-year profit, payable 10 March 2006.

Debt Management

The Trust's gearing ratio is 41.9% (2004: 43.5%) based on bank debt of \$29,000,000 and a book value for the hotel assets of \$69,204,249. The Trust is protected from any major negative impact of interest rate rises through interest rate hedges that are in place until September 2010.

AUSTRALIAN HOTEL FUND RESULTS FOR ANNOUNCEMENT TO THE MARKET

Responsible Entity Report (continued)

Transition to AIFRS

The Trust's accounts for the six months to 31 December 2005 have been prepared to comply with the Australian equivalents to International Financial Reporting Standards (AIFRS). This is the first period in which the Trust has applied AIFRS. The Trust's financial statements have previously been prepared in accordance with Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. The comparative figures above have been restated to reflect AIFRS adjustments.

The major changes for the Trust under AIFRS are firstly, property depreciation will now be recorded as an expense in the Income Statement. Secondly, due to the finite life clause in the Trust's constitution, the units in the Trust have been classified as debt in the financial statements in accordance with AASB 132. As a consequence, distributions payable by the Trust are now recognised as finance cost in the income statement and as a liability in the balance sheet, on an accrual basis. Please refer to Note 14 and Note 15 of the Trust's interim financial report for further details.

For further information contact:

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APPENDIX 4D

Half-year report: six months ended 31 December 2005

Name of entity:	Australian Hotel Fund
ARSN:	092 971 518

Highlight of Results	31 Dec 05	31 Dec 04	Change	Change
	\$	\$	\$	%
Revenue from ordinary activities	2,384,025	2,944,335	-560,312	-19.0
Profit from ordinary activities after tax attributable to unitholders	-	295,639	-295,639	N/A
Net profit attributable to unitholders	-	295,639	-295,639	N/A
Distributions to unitholders	501,022	Nil	501,022	N/A
Distributions per unit for the period ending:				
31 December (interim)	1.00 cents	Nil	1.00 cents	N/A
Franked amount per unit:				
Interim	N/A	N/A		
Final	N/A	N/A		
Record date for determining entitlements to distributions:				
Interim	30 December 2005	31 December 2004		
Date distributions paid or payable:				
Interim	10 March 2006	N/A		
Net tangible assets per unit	82.3¢	79.4¢	2.9¢	+3.7
Basic earnings per unit	N/A	0.59¢	N/A	N/A

Australian Hotel Fund

ARSN 092 971 518

Interim financial report for the half-year ended 31 December 2005

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made about Australian Hotel Fund during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Australian Hotel Fund

Directors' report

The directors of Hotel Capital Partners Limited (as the responsible entity for Australian Hotel Fund) present their report on Australian Hotel Fund (the Trust) for the half-year ended 31 December 2005, and the review report thereon.

Directors

The following persons were directors during the whole of the half-year and up to the date of this report:

Paul J Biancardi	Non-Executive Director	Appointed 27 January 2005
Nicholas R Collishaw	Executive Director	Appointed 30 April 2002
Adrian J Harrington	Executive Director	Appointed 27 January 2005
James A C MacKenzie (Chairman)	Non-Executive Director	Appointed 27 January 2005
Gregory J Paramor	Executive Director	Appointed 30 April 2002
Tony R Pitt	Executive Director	Appointed 27 January 2005
Robert T Summerton	Non-Executive Director	Appointed 30 April 2002
Richard W Turner	Non-Executive Director	Appointed 27 January 2005

Principal activities

The principal activity of the Trust is the investment in hotel related property. No significant change in the nature of this activity occurred during the financial period.

Review and results of operations

The key financial results of the Trust for the half-year ended 31 December 2005 are as follows:

	Half-year	
	31 Dec 2005	31 Dec 2004
ASX closing price at 31 December	\$0.72	\$0.51
Net tangible assets per unit	82.3 cents	79.4 cents
Market capitalisation	\$36,073,568	\$25,552,111
Net tangible assets	\$41,250,450	\$39,760,181
Net income from operations before finance costs attributable to unitholders	\$14,327	\$295,639
Total distribution per unit from half-year profit	1.00 cent	Nil
Total assets	\$71,241,067	\$69,104,941
Gearing ratio (total debt to total property assets)	41.9%	43.5%
Units on issue	50,102,178	50,102,178
Number of Unitholders	722	1,094

Impact of applying Australian Equivalents to International Financial Reporting Standards (AIFRS) for financial reporting

Unitholders' funds. During the period, the Trust applied AIFRS for financial reporting purposes. Due to the finite life clause contained in the Trust's constitution, and in accordance with AASB 132, the units are classified as debt for accounting purposes. Consequently, the Trust has recognised distributions as a finance cost in the income statement.

Significant changes in the state of affairs

There are no significant changes in the state of affairs of the Trust.

Australian Hotel Fund

Directors' report (continued)

Rounding of amounts to nearest thousand dollars

Pursuant to Class Order 98/100 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report, amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise indicated.

Lead Auditors' independence declaration

A copy of the Lead auditors' independence declaration as required by section 307C of the Corporations Act 2001 is set out on page 4 and forms part of the directors' report.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Adrian J Harrington', with a stylized flourish at the end.

Adrian J Harrington
Director

Sydney
23 February 2006

Australian Hotel Fund

**Lead auditors' independence declaration under Section 307C of the
Corporations Act 2001**

To: The directors of Hotel Capital Partners Limited, the Responsible Entity for Australian
Hotel Fund.

I declare that, to the best of my knowledge and belief, in relation to the review for the half-
year ended 31 December 2005, there have been:

- i. no contraventions of the auditor independence requirements as set out in the
Corporations Act 2001 in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the
review.

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, appearing to read 'S Gatt'.

S Gatt

Partner

Sydney

23 February 2006

Australian Hotel Fund

Income statement

For the half-year ended 31 December 2005

	Notes	Half-year 31 Dec 2005 \$	31 Dec 2004 \$
Rental income		1,197,526	1,149,868
Interest received from financial institutions		21,366	11,086
Total revenue		1,218,892	1,160,954
Property outgoings		(200,555)	(309,042)
Responsible entity fee		(84,523)	(84,430)
Legal expenses		(15,294)	(12,888)
Custodian fee		(2,771)	(2,608)
Depreciation expense		(342,149)	(358,325)
Amortisation expense		(14,785)	(14,785)
Other operating expenses		(89,486)	(84,320)
Operating profit before financing costs from continuing operations		469,329	294,556
Profit from discontinued operation	2	459,476	980,019
Finance costs to financial institutions		(914,478)	(978,936)
Net income from operations before finance costs attributable to unitholders		14,327	295,639
Finance costs attributable to unitholders - distribution	6	(501,022)	-
Change in net assets attributable to unitholders	7	(486,695)	-
Net profit		-	295,639
		Cents	Cents
Basic & diluted earnings per unit	11	-	0.59

The above income statement should be read in conjunction with the accompanying notes.

Australian Hotel Fund

Balance sheet

As at 31 December 2005

	Notes	31 Dec 2005 \$	30 June 2005 \$
Current assets			
Cash and cash equivalents		614,846	2,156,871
Receivables		745,025	940,417
Asset classified as held for sale	2	45,278,032	-
Other assets	3	661,947	192,712
TOTAL CURRENT ASSETS		47,299,850	3,290,000
Non-current assets			
Other assets	3	15,000	15,000
Property, plant & equipment	4	23,926,217	68,526,217
TOTAL NON-CURRENT ASSETS		23,941,217	68,541,217
TOTAL ASSETS		71,241,067	71,831,217
Current liabilities			
Payables	5	856,243	311,951
Provision for distribution	6	-	1,202,452
TOTAL CURRENT LIABILITIES		856,243	1,514,403
Non-current liabilities			
Interest-bearing liabilities		29,000,000	29,000,000
Derivative financial instruments		134,374	-
TOTAL NON-CURRENT LIABILITIES		29,134,374	29,000,000
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		29,990,617	30,514,403
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	7	41,250,450	41,316,814
Unitholders' funds			
Issued units	10	-	42,409,579
Asset Revaluation Reserve		-	3,495,012
Accumulated losses		-	(4,587,777)
TOTAL UNITHOLDERS FUNDS		-	41,316,814

The above balance sheet should be read in conjunction with the accompanying notes.

Australian Hotel Fund

Statement of changes in equity

For the half-year ended 31 December 2005

	Issued Capital \$'000	Asset Revaluation Reserve \$'000	Accumulated Losses \$'000	Equity Total \$'000
1 July 2004	42,410	-	(3,734)	38,676
Profit for the reporting period	-	-	295	295
Revaluation Increment	-	789	-	789
31 December 2004	<u>42,410</u>	<u>789</u>	<u>(3,439)</u>	<u>39,760</u>
1 July 2005	42,410	3,495	(4,588)	41,317
Change in accounting policy on adoption of AASB 132 and AASB 139 (Note 15)	(42,410)	(3,495)	4,588	(41,317)
31 December 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Australian Hotel Fund**Cash flow statement**

For the half-year ended 31 December 2005

	Half-year	
	31 Dec 2005	31 Dec 2004
	\$	\$
Cash flows from operating activities		
Cash receipts in the course of operations	2,124,478	3,158,097
Cash payments in the course of operations	(913,922)	(1,267,819)
Interest received	27,244	10,012
Borrowing costs paid	(1,438,255)	(991,467)
Net cash flow from operating activities	<u>(200,455)</u>	<u>908,823</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(139,118)	(389,536)
Net cash flow from investing activities	<u>(139,118)</u>	<u>(389,536)</u>
Cash flows from financing activities		
Distributions paid	(1,202,452)	-
Payments for lease liabilities	-	(8,466)
Net cash inflow from financing activities	<u>(1,202,452)</u>	<u>(8,466)</u>
Net increase/(decrease) in cash and cash equivalents held	(1,542,025)	510,821
Cash and cash equivalents at the beginning of the reporting period	2,156,871	650,908
Cash and cash equivalents at the end of the reporting period	<u>614,846</u>	<u>1,161,729</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2005 however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made about Australian Hotel Fund during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The interim financial report was authorised for issuance on 23 February 2006.

a. Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with the Trust's Constitution, Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of the interim financial report in conformity with AASB 134: "Interim Financial Reporting" requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(i) Application of AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"

This interim financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). AASB 1: "First Time Adoption of Australian Equivalents to International Financial Reporting Standards" has been applied in preparing these financial statements.

The financial statements of Australian Hotel Fund until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Australian Hotel Fund interim financial report for the half-year ended 31 December 2005, management has amended certain accounting policies applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement", relating to financial instruments, the accounting policies have been consistently applied to all periods presented and the comparative figures were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Trust equity and its net income are given in note 14.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies (continued)

a. Basis of preparation (continued)

The Trust will be taking advantage of the exemption available under AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", to apply AASB 139: "Financial Instruments: Recognition and Measurement" and AASB 132: "Financial Instruments: Disclosure and Presentation" only from 1 July 2005.

(ii) Statement of Compliance

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

b. Revenue recognition

(i) Rental income

Rental income is brought to account on an accruals basis and, if not received at balance date, is reflected in the Balance Sheet as a receivable or if paid in advance, as rent paid in advance. Rent is determined in accordance with the lease agreement, comprising of a fixed rent component and a variable rent component. The variable rent component is calculated based on the performance of the lessee.

(ii) Interest

Interest is brought to account when earned using the effective interest method and, if not received at balance date, is reflected in the Balance Sheet as a receivable.

c. Expenses

(i) Property expenses

Property expenses including rates, taxes and other property outgoings are brought to account on an accruals basis.

(ii) Responsible Entity's fees

Fees payable to the responsible entity are recognised as expenses as the services are received. Fees relating to specific events or transactions are charged upon completion or occurrence of the relevant service or event.

d. Taxation

Under current income tax legislation, the Trust is not liable for income tax, provided that the taxable income and taxable realised gains are fully distributed to unitholders each year. Tax allowances for building and plant and equipment depreciation are distributed to unitholders in the form of a tax deferred component of the distribution.

e. Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held with financial institutions.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies (continued)

f. Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Receivables are due for settlement no more than 30 days from the date of recognition. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

g. Property, Plant & Equipment

Land, buildings and integral plant are shown at fair value, based on periodic valuations less subsequent depreciation for buildings and integral plant. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Land is not depreciated. Depreciation on the building is calculated using the straight line method and depreciation on the integral plant is calculated using the diminishing value method to allocate cost, net of residual value, over the estimated useful lives, as follows:

- Buildings and integral plant 4 - 40 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(n)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement on a net basis when the risks and rewards pass to the purchaser.

The Trust recognises in the carrying amount on an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Trust and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(i) Revaluations

Increases in carrying amounts arising on revaluation of the land and building are credited to an asset revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit and loss. Decreases that reverse previous increases of the same asset are first charged against the asset revaluation reserve to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

The Directors of the Responsible Entity are required to assess the fair value of property, plant and equipment at each reporting period.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies (continued)

(i) Revaluations (continued)

The valuation is based on the price at which a property might reasonably be expected to be sold at the date of valuation, assuming:

- (a) a willing, but not anxious, buyer and seller;
- (b) a reasonable period in which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind;
- (c) that the property will be reasonably exposed to that market;
- (d) that no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued; and
- (e) only takes into account instructions given by the responsible entity and is based on all the information that the valuer needs for the purposes of the valuation being made available by or on behalf of the responsible entity.

As the valuation does not assign separate values to the building and integral plant the directors of the responsible entity of the Trust allocate the valuation increment, after deducting the carrying value of the integral plant from the building based on their written down value prior to the valuation.

h. Payables

These amounts represent liabilities for goods and services provided to the Trust prior to the end of the reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

i. Interest bearing liabilities

Interest bearing liabilities are initially measured at cost, being the fair value of the consideration received net of issue and other transaction costs associated with the borrowings.

After initial recognition, interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

j. Derivatives

(i) Current period policy

Derivatives are initially recognised at cost on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Trust has taken the view that the derivatives held do not qualify for hedge accounting. Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(ii) Comparative period policy

The Trust is exposed to changes in interest rates from its activities. The Trust uses interest rate swaps to hedge these risks. In the comparative period the fair value of interest rate swaps is not recognised on the balance sheet. The quantitative effect of the change in accounting policy is set out in Note 15.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies (continued)

k. Finance costs

Finance costs include:

- interest on short term and long term borrowings,
- amortisation of discounts or premiums relating to borrowings, and
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings, and
- interest receipts and payments under interest rate swap agreements, and
- changes in the fair value of ineffective interest rate swaps, and
- distributions to unitholders (from 1 July 2005 distributions are classified as a liability, see Note 15 and Note o(i)), and
- changes in net assets attributable to unitholders.

l. Distributions payable

Provision is made for the amount of any distribution declared, determined or publicly recommended by the directors on or before the end of the reporting period but not distributed at balance date.

m. Earnings per unit

(i) Basic earnings per unit is determined by dividing the net profit attributable to unitholders of the Trust by the weighted average number of ordinary units outstanding during the reporting period.

(ii) Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit by taking into account amounts unpaid on ordinary units and any reduction in earnings per unit that will probably arise from the exercise of options outstanding during the reporting period.

n. Impairment

The carrying amounts of the Trust's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Trust's other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies (continued)

n. Impairment (continued)

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

o. Issued units

(i) Current period policy

The Trust has a fixed termination date creating a contractual obligation to unitholders. The Trust Constitution also contains a contractual obligation to distribute income for any income period. In accordance with AASB 132: "Financial Instruments: Disclosure and Presentation" the issued units have been classified as a liability.

Consequently, the Trust has recognised distributions as a finance cost in the income statement and a liability in the balance sheet, on an accruals basis.

(ii) Comparative period policy

The Trust has elected to apply the exemption available under AASB 1: "First –Time Adoption of Australian Equivalents to International Financial Reporting Standards" to apply AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" only from 1 July 2005. The Trust has applied AGAAP to the comparative information and therefore all issued units are classified as equity and distributions have been treated as equity.

Adjustments on the transition date of 1 July 2005 to comply with AASB 132 and AASB 139 are set out in Note 15.

p. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 1 Summary of significant accounting policies (continued)

q. Non-current assets held for sale

Immediately before classification as held for sale, the measurement of the assets is brought up to date in accordance with applicable AIFRSs. Then, on initial classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Trust's business that represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

r. Rounding of amounts

The Trust is a registered scheme of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar, unless otherwise indicated.

Note 2 Non-current asset classified as held for sale

Discontinued operation

In November 2005, the Responsible Entity announced that the Peppers Fairmont Resort, Leura would be offered for sale. The Responsible Entity is committed to sell this hotel and an active program to locate a buyer and complete the sale had been initiated by period end.

Analysis of profit and loss of the discontinued operation

	Half-year	
	31 Dec 2005	31 Dec 2004
	\$	\$
Rental income	1,165,133	1,783,383
Total revenue	1,165,133	1,783,383
Property outgoings	(255,599)	(232,505)
Responsible entity fee	(157,383)	(150,619)
Custodian fee	(4,460)	(4,268)
Depreciation expense	(288,214)	(415,972)
Operating profit	459,477	980,019

Asset classified as held for sale – Property, plant & equipment	31 Dec 2005
	\$
Peppers Fairmont Resort, Leura	
Land – carrying amount	10,600,000
Buildings and integral plant – carrying amount	34,678,031
Total assets classified as held for sale	45,278,032

Notes to the financial statements

For the half-year ended 31 December 2005

Note 3 Other assets

	31 Dec 2005 \$	30 Jun 2005 \$
Current:		
Prepayments	639,137	191,200
Borrowing costs capitalised	22,810	1,512
	<u>661,947</u>	<u>192,712</u>
Non-Current:		
Deposit	15,000	15,000
	<u>15,000</u>	<u>15,000</u>

Note 4 Property, plant & equipment

	31 Dec 2005 \$	30 Jun 2005 \$
Land – At fair value		
Peppers Fairmont Resort, Leura - Freehold	-	10,600,000
Peppers Manor House, Mt Broughton – Freehold	1,900,000	1,900,000
Land – At cost		
Peppers Anchorage, Port Stephens - Leasehold	2,100,000	2,100,000
	<u>4,000,000</u>	<u>14,600,000</u>
Building and integral plant – at fair value		
Peppers Fairmont Resort, Leura - Freehold	-	34,000,000
Peppers Manor House, Mt Broughton – Freehold	4,026,217	4,026,217
Peppers Anchorage, Port Stephens - Leasehold	16,163,956	16,119,843
	<u>20,190,173</u>	<u>54,146,060</u>
Less: Accumulated Depreciation and Amortisation		
Peppers Fairmont Resort, Leura - Freehold	-	-
Peppers Manor House, Mt Broughton – Freehold	-	-
Peppers Anchorage, Port Stephens - Leasehold	(263,956)	(219,843)
	<u>(263,956)</u>	<u>(219,843)</u>
Total Property, Plant & Equipment – Non-Current		
Peppers Fairmont Resort, Leura - Freehold	-	44,600,000
Peppers Manor House, Mt Broughton – Freehold	5,926,217	5,926,217
Peppers Anchorage, Port Stephens - Leasehold	18,000,000	18,000,000
	<u>23,926,217</u>	<u>68,526,217</u>

The site lease relating to Peppers Anchorage, Port Stephens is due to expire on 22 July 2068.

As at 2 November 2005 the Peppers Fairmont Resort, Leura has been classified as an asset held for sale. Refer to Note 2.

An independent valuation of the Trust's interest in the Peppers Fairmont Resort, Leura was carried out by Expotel Pty Limited as at 9 June 2005 on the basis of current market value. The Trust's interest in the land, buildings and integral plant and equipment, was valued at \$44.6 million.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 4 Property, plant & equipment (continued)

An independent valuation of the Trust's interest in the Peppers Manor House, Mt Broughton was carried out by Expotel Pty Limited as at 30 June 2004 on the basis of current market value. The Trust's interest in the land, buildings and integral plant and equipment, was valued at \$5.9 million.

An independent valuation of the Trust's interest in the Peppers Anchorage, Port Stephens was carried out by Expotel Pty Limited as at 9 June 2005 on the basis of current market value. The Trust's interest in the land, buildings and integral plant and equipment, was valued at \$18.0 million.

During the six months ended 31 December 2005 the Trust acquired assets with a cost of \$139,118 (six months to 31 December 2004: \$389,536). As at balance date the Trust does not have any capital commitments.

Note 5 Payables

	31 Dec 2005 \$	30 Jun 2005 \$
Trade creditors and accruals	355,221	311,951
Accrued distributions to unitholders (Note 15(ii))	501,022	-
	<u>856,243</u>	<u>311,951</u>

Note 6 Distributions

	31 Dec 2005 \$	31 Dec 2005 CPU	31 Dec 2004 \$	31 Dec 2004 CPU
Distribution paid				
- 06 September 2005	1,202,452	2.40	-	-
Distribution payable *				
- 10 March 2006	501,022	1.00	-	-
	<u>1,703,474</u>	<u>3.40</u>	<u>-</u>	<u>-</u>

* The proposed distribution declared on 22 December 2005 and payable on 10 March 2006, is accounted for as an accrued distribution, relating to issued units classified as a liability. (Refer to Note 5) of \$501,022.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 7 Net assets attributable to unitholders classified as liability

		31 Dec 2005 \$
1 July 2005	Balance at the beginning of the financial period	-
1 July 2005	Change in accounting policy	
	- Reclassification of units on issue to liabilities under AASB 132	42,409,579
	- Reclassification of accumulated losses to liabilities under AASB 132	(4,587,777)
	- Reclassification of asset revaluation reserve to liabilities under AASB 132	3,495,012
1 July 2005	Effect of change in accounting policy for change in fair value of hedging instruments under AIFRS	
	- Unrealised fair value of interest rate swap	(224,815)
31 December 2005	Change in net assets for the half year attributable to unitholders before distribution to unitholders	(486,695)
31 December 2005	Revaluation of property, plant & equipment	645,146
31 December 2005	Balance at the end of the financial period	<u>41,250,450</u>

Note 8 Contingent liabilities

The Trust had no contingent liabilities at 31 December 2005.

Note 9 Segment Information

The Trust operates in one business segment, that of property ownership and rental in the tourism and leisure industry, and in one geographical segment, Australia.

Note 10 Issued units classified as debt/equity

	31 Dec 2005 \$	30 Jun 2005 \$
50,102,178 (June 2005: 50,102,178) ordinary units, fully paid	42,409,579	42,409,579

There has been no movement in unit capital since the beginning of the previous year.

Holders of ordinary units are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at unitholders' meetings.

(i) Transition to AIFRS

The Trust has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. For further information refer to Note 1(o) and Note 15(ii).

Notes to the financial statements

For the half-year ended 31 December 2005

Note 11 Earnings per unit

	31 Dec 2005	31 Dec 2004
Basic earnings per unit	-	0.59 cents
Weighted average number of ordinary units on issue used in the calculation of basic earnings per unit	-	50,102,178

Diluted earnings per unit is not materially different from basic earnings per unit.

Earnings per unit (EPU) information is not disclosed for the half-year ended 31 December 2005, as there is no profit for the period. Refer to Note 1(o) and Note 15(ii).

Note 12 Related parties

(i) Transactions with key management personnel

There has been no material change in transactions with key management personnel disclosed in the most recent annual financial report.

(ii) Other related party transactions

During the six months ended 31 December 2005, the Responsible Entity received management fees from the Trust to the amount of \$241,906 (31 December 2004: \$235,048).

Note 13 Subsequent events

There have been no events subsequent to balance sheet date requiring disclosure in the interim financial statements.

Note 14 Explanation of the transition to Australian equivalents to IFRSs

As stated in note 1(a), these are the Trust's first interim financial statements for part of the period covered by the first AIFRS annual financial statements prepared in accordance with Australian Accounting Standards – AIFRSs.

Unless otherwise indicated, the accounting policies in note 1 have been applied in preparing the interim financial statements for the six months ended 31 December 2005, the comparative information for six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004.

In preparing its opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the Trust has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRSs has affected the Trust's financial position, financial performance and cash flows as set out in the following tables and notes that accompany the tables.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 14 Explanation of the transition to Australian equivalents to IFRSs (continued)

Reconciliation of total equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to total equity under AIFRS

		Year Ended 30 June 2005 \$'000	Half Year Ended 31 Dec 2004 \$'000	1 July 2004 \$'000
	Notes			
Total equity under AGAAP		41,343	39,786	38,701
AIFRS adjustments to equity:				
Depreciation & amortisation	(i)	(1,578)	(789)	-
Reversal of AGAAP revaluation increment	(i)	(1,917)	-	-
Revaluation of property, plant and equipment		3,495	789	
Restating property, plant & equipment to fair value	(i)	(26)	(26)	(26)
Total equity under AIFRS		41,317	39,760	38,675

Reconciliation of net profit under previous AGAAP to net profit under AIFRS

		Year ended 30 June 2005 \$'000	Half-year ended 31 Dec 2004 \$'000
	Notes		
Net profit under previous AGAAP		3,844	1,084
AIFRS adjustments to net profit:			
Depreciation and amortisation expense	(i)	(1,578)	(789)
Reversal of AGAAP revaluation increment	(i)	(1,917)	-
Net profit under AIFRS		349	295

Reconciliation of cash flow statement for half-year ended 31 December 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

Notes to the reconciliations

(i) Change in classification of investment property

Under AGAAP, the Peppers Fairmont Resort, Peppers Manor House and Peppers Anchorage were classified as Investment Property and carried at fair value. The Investment Properties were not depreciated. Due to differences in the classification criteria, specifically the significant exposure of the Trust to the cash flows generated by the underlying operations of the hotels via the rent formula, the hotels do not meet the AIFRS definition of an investment property as defined in AASB 140: "Investment Property". As a result:

1. The land, buildings and integral plant have been classified as part of property, plant and equipment under AIFRS.
2. The Trust has elected to use the revaluation model to value land, buildings and integral plant in accordance with AASB 116: "Property, Plant and Equipment" from transition date.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 14 Explanation of the transition to Australian equivalents to IFRSs (continued)

Notes to the reconciliations (continued)

(i) Change in classification of investment property (continued)

3. After initial recognition, the Trust will carry the land, buildings and integral plant at fair value less any accumulated depreciation and any accumulated impairment losses, in accordance with AASB 116: "Property, plant and equipment".
4. The buildings are depreciated in accordance with AASB 116: "Property, Plant and Equipment".
5. The leasehold land (Peppers Anchorage) is carried at cost less accumulated amortisation, from the date the leasehold was acquired.

The effect of the above is:

At the date of transition to AIFRS: 1 July 2004

Investment property decreased by \$66,609,420 and Property, Plant & Equipment increased by \$66,583,095. Accumulated losses increased by \$26,325.

At the end of the last half year reporting period: 31 December 2004

Investment property decreased by \$66,635,638 and Property, Plant & Equipment increased by \$66,609,312. Accumulated losses increased by \$26,325. Asset revaluation reserve increased by \$789,082.

Depreciation and amortisation expense increased by \$789,082.

At the end of the last annual reporting period: 30 June 2005

Investment property decreased by \$68,552,542 and Property, Plant & Equipment increased by \$68,526,217. Accumulated losses increased by \$26,325. Asset revaluation reserve increased by \$3,495,012.

Depreciation and amortisation expense increased by \$1,578,107 and the revaluation increment recovering amounts previously written off decreased by \$1,916,904.

Note 15 Change in Accounting Policy

(i) Financial Instruments

The Trust will be taking advantage of the exemption available under AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", to apply AASB 139: "Financial Instruments: Recognition and Measurement" and AASB 132: "Financial Instruments: Disclosure and Presentation" only from 1 July 2005. This allows the Trust to apply previous Australian General Accepted Accounting Principles (AGAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report. As such no financial impact has been reported.

Notes to the financial statements

For the half-year ended 31 December 2005

Note 15 Change in Accounting Policy (continued)

(i) Financial Instruments (continued)

Under AIFRS financial instruments will generally be recognised at fair value in the balance sheet. Derivatives taken out to reduce exposure to fluctuations in floating interest rates may be accounted for as hedges provided that the hedges designation documentation and effectiveness tests can be met. If these tests are satisfied the derivative is measured at fair value and gains and losses are reflected directly in equity until the hedged transaction occurs, when they are released to the income statement. To the extent that the hedges do not satisfy the above tests, then a corresponding portion of the gain or loss is reflected in the income statement as incurred.

This adjustment was recorded as a \$224,815 increase against opening accumulated losses at 1 July 2005 and as a \$224,815 increase to non-current liabilities.

(ii) Issued units

The adoption of AASB 132 and AASB 139 has resulted in a change in the classification of issued units as explained in Note 1(o).

The impact on the balance sheet in the comparative period is an adjustment to the balance sheet at 1 July 2005 as follows:

- Unitholders' funds (previously classified as equity under Australian GAAP) are classified as a financial liability.
- The distribution would be reclassified from equity to accrued distributions of \$1,202,452.

The impact on the income statement in the comparative period would have been to increase finance costs and decrease profit for the period to Nil.

For the period 1 July 2005 to 31 December 2005 finance costs attributable to unitholders decreased by \$486,695 representing the change in net assets attributable to unitholders for the period 1 July 2005 to 31 December 2005.

Australian Hotel Fund

Directors' declaration

The directors declare that the financial statements and the notes set out on pages 5 to 22:

- (a) comply with Australian Accounting Standard AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) give a true and fair view of the financial position of the Trust as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Adrian J Harrington

Director

Sydney

23 February 2006

Independent review report to the unitholders of Australian Hotel Fund

Scope

The financial report and directors' responsibility

The financial report comprises the of income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes 1 to 15 to the financial statements, and the directors' declaration for Australian Hotel Fund ("the Trust"), for the half-year ended 31 December 2005.

The directors of the Responsible Entity of the Trust, Hotel Capital Partners Limited, are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 First-Time Adoption of Australian equivalents to International Financial Reporting Standards.

Review approach

We conducted an independent review in order for the Responsible Entity to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Trust's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of Responsible Entity's personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Australian Hotel Fund is not in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Trust's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.



KPMG



S Gatt
Partner

Sydney

23 February 2006