

# HALF YEAR FINANCIAL REPORT

31 December 2013

## Directory

### Entity:

Abacus Funds Management Limited  
 ABN 66 007 415 590  
 Level 34, Australia Square  
 264-278 George Street  
 SYDNEY NSW 2000  
 Tel: (02) 9253 8600  
 Fax: (02) 9253 8616  
 Website: www.abacusproperty.com.au

### Custodian:

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

### Auditor (Financial and Compliance Plan):

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

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

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

### Share Registry:

Boardroom Pty Limited  
 Level 7, 207 Kent Street  
 Sydney, NSW 2000  
 Tel: 1300 737 760  
 Fax: 1300 653 459

### Company Secretary:

Ellis Varejes

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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 2013. 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 2013

The Directors of Abacus Funds Management Limited ("AFML"), the responsible entity of the Abacus Hospitality Trust ("AHT" or the "Trust") and the Directors of 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 2013 with the independent review report thereon.

The consolidated financial reports of AHF for the half-year ended 31 December 2013 comprise the consolidated financial reports of AHL and its controlled entities and AHT and its controlled entities.

### 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
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 2013 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 with 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 \$1.0 million for the half-year ended 31 December 2013 (December 2012: \$5.7 million loss).

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

During the period the damage to the Christchurch hotel caused by the 2011 earthquake was under repair.

**DIRECTORS' REPORT**

31 December 2013

**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.

As at the date of this report, the Fund holds a portfolio of 4 hotels comprising 1054 rooms (December 2012: 4 hotels comprising 1054 rooms). The net loss on revaluations (properties and investments) was \$1.1m with \$1.0m in the Income Statement and \$0.1m in Asset Revaluation Reserve as compared with net loss of \$5.0m in the corresponding prior period. The weighted average cap rate was 9.73%.

The Fund's gearing was reduced during the period to 36.8% (June 2013: 37.0%). The financial condition which was impacted by both fair value adjustments and the Fund's performance is as follows:

	31-Dec-13	30-Jun-13
<b>Total assets (\$ '000)</b>	168,710	164,230
<b>Gearing (%)<sup>1</sup></b>	36.8	37.0
<b>Net assets/(deficiency) (\$ '000)</b>	(22,678)	(21,358)
<b>Securities on issue ('000)</b>	49,039	49,039

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

**DISTRIBUTIONS**

The December quarterly distribution of 0.5 cents per stapled security was paid on 7 February 2014. Distributions are paid on a quarterly basis.

**SIGNIFICANT EVENTS AFTER BALANCE DATE**

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

**ROUNDING**

The amounts contained in this report and in the half year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Fund and the Trust 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, 26 February 2014



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## 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 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Kathy Parsons  
Partner  
26 February 2014

**CONSOLIDATED INCOME STATEMENT**  
**HALF-YEAR ENDED 31 DECEMBER 2013**

		AHF	AHF	AHT	AHT
	Notes	Consolidated 31 Dec 2013 \$'000	Consolidated 31 Dec 2012 \$'000	Consolidated 31 Dec 2013 \$'000	Consolidated 31 Dec 2012 \$'000
<b>REVENUE</b>					
Rental income		-	315	5,229	5,400
Hotel income	3	27,410	25,688	-	-
Finance income		109	139	48	62
<b>Total Revenue</b>		<b>27,519</b>	<b>26,142</b>	<b>5,277</b>	<b>5,462</b>
Other income		2,503	241	2,504	244
<b>Total Revenue and Other Income</b>		<b>30,022</b>	<b>26,383</b>	<b>7,781</b>	<b>5,706</b>
Property expenses & outgoings		(263)	(292)	(103)	(103)
Employee benefits expense		(11,571)	(10,506)	-	-
Other hotel expenses		(8,093)	(7,902)	-	-
Depreciation and amortisation expense		(1,932)	(2,022)	-	-
Finance costs	4	(6,835)	(6,841)	(6,835)	(6,841)
Net change in fair value of hotel investment property derecognised		-	(209)	-	(209)
Net change in fair value of financial instruments held at balance date		61	(1,338)	61	(1,338)
Net change in fair value of hotel property, plant and equipment		(1,007)	(1,737)	-	-
Net change in fair value of investment properties		-	-	(2,506)	(6,476)
Administrative and other expenses		(807)	(810)	(804)	(810)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>(425)</b>	<b>(5,274)</b>	<b>(2,406)</b>	<b>(10,071)</b>
Income tax expense		(582)	(410)	-	-
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>(1,007)</b>	<b>(5,684)</b>	<b>(2,406)</b>	<b>(10,071)</b>
<b>Net profit / (loss) attributable to:</b>					
AHL members		1,335	1,077	-	-
AHT members		(2,342)	(6,761)	(2,406)	(10,071)
<b>NET PROFIT / (LOSS) AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE FUND</b>		<b>(1,007)</b>	<b>(5,684)</b>	<b>(2,406)</b>	<b>(10,071)</b>

# ABACUS HOSPITALITY FUND

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME HALF-YEAR ENDED 31 DECEMBER 2013

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 31 Dec 2012 \$'000	AHT Consolidated 31 Dec 2013 \$'000	AHT Consolidated 31 Dec 2012 \$'000
<b>NET PROFIT / (LOSS) AFTER TAX</b>	(1,007)	(5,684)	(2,406)	(10,071)
<b>OTHER COMPREHENSIVE INCOME</b>				
<i>Items that will not be reclassified subsequently to the income statement</i>				
Revaluation of assets, net of tax	(64)	(3,310)	-	-
<i>Items that may be reclassified subsequently to the income statement</i>				
Foreign exchange translation adjustments, net of tax	486	13	478	(9)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>	<b>(585)</b>	<b>(8,981)</b>	<b>(1,928)</b>	<b>(10,080)</b>
<b>Total comprehensive income attributable to: members of the Fund</b>				
Equity holders of the parent entity (AHL)	1,343	1,099	-	-
<b>members of other stapled entities</b>				
Non-Controlling interest - Abacus Hospitality Trust	(1,928)	(10,080)	(1,928)	(10,080)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>	<b>(585)</b>	<b>(8,981)</b>	<b>(1,928)</b>	<b>(10,080)</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

		AHF	AHF	AHT	AHT
		Consolidated	Consolidated	Consolidated	Consolidated
		31 Dec 13	30 Jun 13	31 Dec 13	30 Jun 13
	Notes	\$'000	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		12,016	10,972	5,598	5,602
Trade and other receivables		4,530	3,732	1,832	1,676
Inventory		520	441	-	-
Other		793	320	103	-
<b>TOTAL CURRENT ASSETS</b>		<b>17,859</b>	<b>15,465</b>	<b>7,533</b>	<b>7,278</b>
<b>NON-CURRENT ASSETS</b>					
Hotel Investment properties	7	-	-	142,800	140,594
Hotel property, plant and equipment	6	148,000	145,620	-	-
Related party receivables		-	-	13,591	13,277
Deferred tax assets		2,851	3,145	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>150,851</b>	<b>148,765</b>	<b>156,391</b>	<b>153,871</b>
<b>TOTAL ASSETS</b>		<b>168,710</b>	<b>164,230</b>	<b>163,924</b>	<b>161,149</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables		9,634	8,928	2,705	2,216
Provisions		643	581	-	-
Interest-bearing loans and borrowings	9(a)	76,576	72,046	76,576	72,046
Distribution payable	5(b)	245	-	245	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>87,098</b>	<b>81,555</b>	<b>79,526</b>	<b>74,262</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing loans and borrowings	9(b)	91,813	91,578	91,813	91,578
Derivatives at fair value	8	11,190	11,251	11,190	11,251
Deferred tax liabilities		151	162	-	-
Provisions		1,136	1,042	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>104,290</b>	<b>104,033</b>	<b>103,003</b>	<b>102,829</b>
<b>TOTAL LIABILITIES</b>		<b>191,388</b>	<b>185,588</b>	<b>182,529</b>	<b>177,091</b>
<b>NET ASSETS / (LIABILITIES)</b>		<b>(22,678)</b>	<b>(21,358)</b>	<b>(18,605)</b>	<b>(15,942)</b>
<b>TOTAL EQUITY</b>		<b>(22,678)</b>	<b>(21,358)</b>	<b>(18,605)</b>	<b>(15,942)</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**  
**AS AT 31 DECEMBER 2013**

		AHF	AHF	AHT	AHT
	Notes	Consolidated 31 Dec 2013 \$'000	Consolidated 30 Jun 2013 \$'000	Consolidated 31 Dec 2013 \$'000	Consolidated 30 Jun 2013 \$'000
<b>Equity attributable to members of AHL:</b>					
Contributed equity		2,459	2,459	-	-
Reserves		274	265	-	-
Accumulated losses		(6,806)	(8,141)	-	-
<b>Total equity attributable to members of AHL:</b>		<b>(4,073)</b>	<b>(5,417)</b>	-	-
<b>Equity attributable to unitholders of AHT:</b>					
Contributed equity		43,152	43,152	43,152	43,152
Reserves		1,220	807	1,220	742
Accumulated losses		(62,977)	(59,900)	(62,977)	(59,836)
<b>Total equity attributable to unitholders of AHT:</b>		<b>(18,605)</b>	<b>(15,941)</b>	<b>(18,605)</b>	<b>(15,942)</b>
<b>TOTAL EQUITY</b>		<b>(22,678)</b>	<b>(21,358)</b>	<b>(18,605)</b>	<b>(15,942)</b>
<b>EQUITY</b>					
Contributed equity	10	45,611	45,611	43,152	43,152
Reserves		1,494	1,072	1,220	742
Accumulated losses		(69,783)	(68,041)	(62,977)	(59,836)
<b>TOTAL EQUITY</b>		<b>(22,678)</b>	<b>(21,358)</b>	<b>(18,605)</b>	<b>(15,942)</b>



# ABACUS HOSPITALITY FUND

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY HALF-YEAR ENDED 31 DECEMBER 2013

Consolidated AHF - 2013	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 2013	45,611	64	1,008	(68,041)	(21,358)
Other comprehensive income / (loss)	-	(64)	486	-	422
Net loss for the period	-	-	-	(1,007)	(1,007)
<b>Total comprehensive income/(loss) for the period</b>	-	<b>(64)</b>	<b>486</b>	<b>(1,007)</b>	<b>(585)</b>
Distribution to security holders	-	-	-	(735)	(735)
<b>At 31 December 2013</b>	<b>45,611</b>	<b>-</b>	<b>1,494</b>	<b>(69,783)</b>	<b>(22,678)</b>

Consolidated AHF - 2012	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 2012	45,611	6,127	240	(64,847)	(12,869)
Other comprehensive income / (loss)	-	(3,310)	13	-	(3,297)
Net loss for the period	-	-	-	(5,684)	(5,684)
<b>Total comprehensive income/(loss) for the period</b>	-	<b>(3,310)</b>	<b>13</b>	<b>(5,684)</b>	<b>(8,981)</b>
Distribution to security holders	-	-	-	(1,659)	(1,659)
<b>At 31 December 2012</b>	<b>45,611</b>	<b>2,817</b>	<b>253</b>	<b>(72,190)</b>	<b>(23,509)</b>

## ABACUS HOSPITALITY FUND

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued) HALF-YEAR ENDED 31 DECEMBER 2013

Consolidated AHT - 2013	Attributable to the unit holder			
	Issued capital \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
<b>CONSOLIDATED</b>				
At 1 July 2013	43,152	742	(59,836)	(15,942)
Other comprehensive income/(loss)	-	478	-	478
Net loss for the period	-	-	(2,406)	(2,406)
<b>Total comprehensive (loss) for the period</b>	-	478	(2,406)	(1,928)
Distribution to unitholders	-	-	(735)	(735)
<b>At 31 December 2013</b>	<b>43,152</b>	<b>1,220</b>	<b>(62,977)</b>	<b>(18,605)</b>

Consolidated AHT - 2012	Attributable to the unit holder			
	Issued capital \$'000	Foreign currency translation \$'000	Retained earnings \$'000	Total Equity \$'000
<b>CONSOLIDATED</b>				
At 1 July 2012	43,152	181	(51,592)	(8,259)
Other comprehensive (loss)	-	(9)	-	(9)
Net loss for the period	-	-	(10,071)	(10,071)
<b>Total comprehensive (loss) for the period</b>	-	(9)	(10,071)	(10,080)
Distribution to unitholders	-	-	(1,659)	(1,659)
<b>At 31 December 2012</b>	<b>43,152</b>	<b>172</b>	<b>(63,322)</b>	<b>(19,998)</b>

**CONSOLIDATED STATEMENT OF CASH FLOW**  
**HALF-YEAR ENDED 31 DECEMBER 2013**

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 31 Dec 2012 \$'000	AHT Consolidated 31 Dec 2013 \$'000	AHT Consolidated 31 Dec 2012 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income receipts	28,803	25,495	6,445	6,377
Interest received	110	139	47	62
Income tax paid	(291)	(235)	-	-
Borrowing costs paid	(3,702)	(2,070)	(3,701)	(2,699)
Operating payments	(20,829)	(18,683)	(132)	251
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>4,091</b>	<b>4,646</b>	<b>2,659</b>	<b>3,991</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale and settlement of investments and funds repaid	-	12,974	-	-
Purchase of property, plant and equipment	(2,893)	(356)	(2,262)	(191)
Disposal of property, plant and equipment	-	-	-	12,974
Repayment of loans by related entities	-	-	(127)	(1,447)
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(2,893)</b>	<b>12,618</b>	<b>(2,389)</b>	<b>11,336</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	-	2,499	-	2,499
Repayment of borrowings	-	(14,999)	-	(14,999)
Distributions paid	(490)	(1,108)	(490)	(1,108)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(490)</b>	<b>(13,608)</b>	<b>(490)</b>	<b>(13,608)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>708</b>	<b>3,656</b>	<b>(220)</b>	<b>1,720</b>
Net foreign exchange differences	336	40	216	23
Cash and cash equivalents at beginning of period	10,972	9,990	5,602	6,208
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>12,016</b>	<b>13,686</b>	<b>5,598</b>	<b>7,951</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

### 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 2013 are authorised for issue in accordance with a resolution of the Directors of Abacus Hospitality Limited ("the Company") and Abacus Funds Management Limited on 26 February 2014.

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 2013. 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 2013 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 2013, AHF and AHT have a net asset deficiency of \$22.7 million and \$18.6 million 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.

At 31 December 2013, AHF and AHT have a net current liability of \$69.2 million and \$72.0 million respectively. Subsequent to the half-year end, AHF and AHT have refinanced its bank loans (refer to note 9 (1) and (2)).

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2013

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

**(b) Changes in accounting policy**

The following amending Standards have been adopted from 1 July 2013. Adoption of these Standards did not have any effect on the financial position, performance or accounting policies of the Fund and the Trust:

**AASB 124 – Related Party Disclosures:** This standard removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

**AASB 13 – Fair Value Measurement:** establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Adoption of AASB13 has expanded the disclosure requirements for all assets or liabilities carried at fair value by the Fund and the Trust which include information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

**3. REVENUE**

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 31 Dec 2012 \$'000	AHT Consolidated 31 Dec 2013 \$'000	AHT Consolidated 31 Dec 2012 \$'000
<b>Hotel income</b>				
Gross hotel revenue	31,642	29,687	-	-
Less: Cost of sales	(4,232)	(3,999)	-	-
<b>Total hotel income</b>	<b>27,410</b>	<b>25,688</b>	-	-

**4. EXPENSES**

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 31 Dec 2012 \$'000	AHT Consolidated 31 Dec 2013 \$'000	AHT Consolidated 31 Dec 2012 \$'000
<b>Finance costs</b>				
Interest on loans	2,535	2,699	2,535	2,699
Interest on Abacus Working Capital Facility	4,183	4,025	4,183	4,025
Amortisation of finance costs	117	117	117	117
<b>Total finance costs</b>	<b>6,835</b>	<b>6,841</b>	<b>6,835</b>	<b>6,841</b>

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2013

**5. DISTRIBUTIONS PAID AND PAYABLE**

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 31 Dec 2012 \$'000	AHT Consolidated 31 Dec 2013 \$'000	AHT Consolidated 31 Dec 2012 \$'000
<b>(a) Distributions paid during the period</b>				
Jun 2013 quarter: 0.5 cents per security (2012: 1.125 cents)	245	552	245	552
Sept 2013 quarter: 0.5 cents per security (2012: 1.125 cents)	245	555	245	555
	<b>490</b>	<b>1,107</b>	<b>490</b>	<b>1,107</b>
<b>(b) Distributions proposed and recognised as a liability</b>				
Dec 2013 quarter: 0.5 cents per security (2012: 1.125 cents)	245	552	245	552
<b>Total distributions paid and proposed 31 Dec 2013</b>	<b>735</b>	<b>1,659</b>	<b>735</b>	<b>1,659</b>

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

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 30 Jun 2013 \$'000
<b>Property</b>		
Australasian Hotels	148,000	145,620
	<b>148,000</b>	<b>145,620</b>
Average market capitalisation rate	9.37%	9.39%

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2013

**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 2013 \$'000	AHF Consolidated 30 Jun 2013 \$'000
<b>Land and buildings</b>		
At 1 July, net of accumulated depreciation	133,559	134,875
Additions	1,893	5,447
Revaluations	(1,071)	(7,284)
Effect of movements in foreign exchange	2,506	2,068
Depreciation charge for the period	(573)	(1,547)
<b>At 31 December, net of accumulated depreciation</b>	<b>136,314</b>	<b>133,559</b>
Cost or fair value	150,675	147,346
Accumulated depreciation	(14,361)	(13,787)
<b>Net carrying amount at end of period</b>	<b>136,314</b>	<b>133,559</b>
<b>Plant and equipment</b>		
At 1 July, net of accumulated depreciation	12,061	13,581
Additions	999	982
Effect of movements in foreign exchange	(19)	(39)
Depreciation charge for the period	(1,355)	(2,463)
<b>At 31 December, net of accumulated depreciation</b>	<b>11,686</b>	<b>12,061</b>
Cost or fair value	33,549	32,172
Accumulated depreciation	(21,863)	(20,111)
<b>Net carrying amount at end of period</b>	<b>11,686</b>	<b>12,061</b>
<b>Total</b>	<b>148,000</b>	<b>145,620</b>

If property, plant and equipment was carried under the cost model, the carrying amount would be \$145.5 million.

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2013

**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.

During the period ended 31 December 2013, 50% of the number of properties in the portfolio was subject to external valuation, the remaining 50% was subject to internal valuation.

The hotel properties are independently valued on a staggered basis every two years unless the underlying financing requires a more frequent independent valuation cycle. 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 9.37% (June 2013: 9.39%).
- The current weighted average occupancy rate for the hotel properties is 76% (June 2013: 72%).

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 2013 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.

**7. HOTEL INVESTMENT PROPERTIES**

**Reconciliation**

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

	AHF Consolidated 31 Dec 2013 \$'000	AHF Consolidated 30 Jun 2013 \$'000	AHT Consolidated 31 Dec 2013 \$'000	AHT Consolidated 30 Jun 2013 \$'000
Carrying amount at beginning of the financial period	-	-	140,594	142,803
Additions and capital expenditure	-	-	2,262	5,921
Fair value adjustments for properties held at balance date	-	-	(2,506)	(10,167)
Effect of movements in foreign exchange	-	-	2,450	2,037
<b>Carrying amount at end of the financial period</b>	-	-	<b>142,800</b>	<b>140,594</b>
Average market capitalisation rate	-	-	9.37%	9.39%

The Trust property portfolio was subject to external valuation of 50%, with the remaining 50% subject to internal valuation.

The investment property is carried at the directors' determination of fair value and is based on independent valuation. 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.

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 2013 have regards to market sales evidence in adopting a market valuation for each property including the key assumptions outlined.



**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2013**

**8. FINANCIAL INSTRUMENTS**

**Fair values**

The fair value of the Fund's and the Trust's financial assets and liabilities are approximately equal to that of their carrying values.

In accordance with AASB 7 *Financial Instruments: Disclosures* and AASB13 *Fair Value Measurement* the Fund's and the Trust's financial instruments are classified into the following fair value measurement hierarchy:

- a) Level 1 Quoted prices (unadjusted) in active markets for identical assets;
- b) Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset, either directly indirectly; and
- c) Level 3 Inputs for the asset that are not based on observable market data.

The following table presents the Fund's and the Trust's assets and liabilities measured and recognised at fair value at 31 December 2013.

	Level 1 2013 \$'000	Level 2 2013 \$'000	Level 3 2013 \$'000	Total 2013 \$'000
<b>31 December 2013</b>				
<b>Non-current</b>				
Derivative liabilities	-	11,190	-	11,190
<b>Total non-current</b>	-	<b>11,190</b>	-	<b>11,190</b>

	Level 1 2013 \$'000	Level 2 2013 \$'000	Level 3 2013 \$'000	Total 2013 \$'000
<b>30 June 2013</b>				
<b>Non-current</b>				
Derivative liabilities	-	11,251	-	11,251
<b>Total non-current</b>	-	<b>11,251</b>	-	<b>11,251</b>

There were no transfers between Levels 1, 2 and 3 during the period.

*Determination of fair value*

The fair value of interest rate swaps is determined using a generally accepted pricing model on a discounted cash flow analysis using assumptions supported by observable market rates.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

9. INTEREST BEARING LOANS AND BORROWINGS

	AHF Consolidated 31 Dec 13 \$'000	AHF Consolidated 30 Jun 13 \$'000	AHT Consolidated 31 Dec 13 \$'000	AHT Consolidated 30 Jun 13 \$'000
<b>(a) Current</b>				
Bank loans - A\$ <sup>(1) (3)</sup>	36,740	36,740	36,740	36,740
Bank loans - A\$ value of NZ\$ denominated loan <sup>(2) (3)</sup>	23,502	21,538	23,502	21,538
Loans from related parties <sup>(4)(5)</sup>	16,451	13,768	16,451	13,768
Less: Unamortised borrowing costs	(117)	-	(117)	-
	<b>76,576</b>	<b>72,046</b>	<b>76,576</b>	<b>72,046</b>
<b>(b) Non-current</b>				
Loans from related parties <sup>(4)(5)</sup>	72,181	72,181	72,181	72,181
Loans from other parties <sup>(6)</sup>	19,632	19,632	19,632	19,632
Less: Unamortised borrowing costs	-	(235)	-	(235)
	<b>91,813</b>	<b>91,578</b>	<b>91,813</b>	<b>91,578</b>
<b>(c) Maturity profile of current and non-current interest bearing loans</b>				
Due within one year	76,693	72,046	76,693	72,046
Due within two to five years	9,499	91,813	9,499	91,813
Due after five years	82,314	-	82,314	-
	<b>168,506</b>	<b>163,859</b>	<b>168,506</b>	<b>163,859</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 0.5 years.

(3) AHF's weighted average interest rate as at 31 December 2013 was 8.6% (June 2013: 8.0%). Line fees on undrawn facilities contributed to 0.51% of the weighted average interest rate at 31 December 2013 (June 2013: 0.41%). AHF's weighted average interest rate excluding the undrawn facilities line fees as at 31 December 2013 was 8.04% (June 2013: 7.59%).

(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 June 2019 and has remaining term to maturity of 5.5 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 2017 and has a term to maturity of 3.6 years. The interest rate on the borrowing was BBSY+3.25% p.a for the year.

(6) Loan from other parties is a fixed interest rate loan of 8% with the loan maturing in June 2019 and has a remaining term to maturity of 5.5 years.

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2013

**9. 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 13 \$'000	AHF Consolidated 30 Jun 13 \$'000	AHT Consolidated 31 Dec 13 \$'000	AHT Consolidated 30 Jun 13 \$'000
Total facilities - bank loans	83,412	80,724	83,412	80,724
Facilities used at reporting date - bank loans	(60,242)	(58,278)	(60,242)	(58,278)
<b>Facilities unused at reporting date - bank loans</b>	<b>23,170</b>	<b>22,446</b>	<b>23,170</b>	<b>22,446</b>

**(e) Assets pledged as security**

	AHF Consolidated 31 Dec 13 \$'000	AHF Consolidated 30 Jun 13 \$'000	AHT Consolidated 31 Dec 13 \$'000	AHT Consolidated 30 Jun 13 \$'000
Non-current				
<i>First mortgage</i>				
Property, plant and equipment	148,000	145,620	142,800	140,594
<b>Total assets pledged as security</b>	<b>148,000</b>	<b>145,620</b>	<b>142,800</b>	<b>140,594</b>

**(f) Defaults and breaches**

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

10. CONTRIBUTED EQUITY

	AHF Consolidated 31 Dec 13 \$'000	AHF Consolidated 30 Jun 13 \$'000	AHT Consolidated 31 Dec 13 \$'000	AHT Consolidated 30 Jun 13 \$'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
	<b>At 1 July 2013</b>	49,039	45,611	49,039
<b>Securities on issue at 31 December 2013</b>	<b>49,039</b>	<b>45,611</b>	<b>49,039</b>	<b>43,152</b>

11. CAPITAL MANAGEMENT

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

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

Since the end of the half-year, the Fund and Trust have received a credit approved term sheet from a major Australian bank in relation to refinancing their multi-currency facility to early 2017.

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

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

Covenant	Measure	Key details
Nature of facilities	Secured, non recourse	The Fund and the Trust have no unsecured facilities
Debt covenants	Compliant	Key covenants include Bank LVRs and Asset ICR

**NOTES TO THE FINANCIAL STATEMENTS**

**31 DECEMBER 2013**

**12. COMMITMENTS AND CONTINGENCIES**

There are no contingent liabilities referable to AHF and AHT at 31 December 2013.

**13. EVENTS AFTER BALANCE SHEET DATE**

Since the end of the half-year, the Fund and Trust have received a credit approved term sheet from a major Australian bank in relation to refinancing their multi-currency facility to early 2017.

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

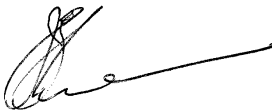
**DIRECTORS' DECLARATION**

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, notes and the additional disclosures included in the directors' report designated as audited, of the Fund and the Trust and their consolidated entities are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Fund's and the Trust's consolidated financial position as at 31 December 2013 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. there are reasonable grounds to believe that the Fund and the Trust will be able to pay their debts as and when they become due and payable. The Fund and the Trust have received an undertaking of support from AGHL.

On behalf of the Board



John Thame  
Chairman

Sydney, 26 February 2014



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 2013, the consolidated income statements, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows 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 a Financial Report 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 positions of the Fund and Trust as at 31 December 2013 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 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.

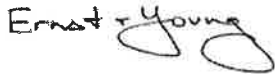
## Independence

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 follows 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 Abacus Hospitality Fund is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial positions of the Fund and Trust as at 31 December 2013 and of their performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Kathy Parsons  
Partner  
Sydney  
26 February 2014