

Abacus Hospitality Fund

ABN 62 116 839 304

Annual Financial Report

For the year ended 30 June 2019

ANNUAL FINANCIAL REPORT

30 June 2019

Directory

Abacus Funds Management Limited
ABN: 66 007 415 590

Registered Office:

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

Directors of Responsible Entity and Abacus Hospitality Limited:

John Thame, Chairman
Steven Sewell, Managing Director
Mark Haberlin
Holly Kramer
Jingmin Qian
Myra Salkinder

Company Secretary:

Robert Baulderstone

Auditor (Financial and Compliance Plan):

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

Share Registry:

Boardroom Pty Ltd
Level 12, 225 George St
SYDNEY NSW 2000
Tel: 1300 737 760
Fax: 1300 653 459

CONTENTS

DIRECTORS' REPORT	2
AUDITOR'S INDEPENDENCE DECLARATION	6
CONSOLIDATED INCOME STATEMENT	7
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	8
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	9
CONSOLIDATED STATEMENT OF CASH FLOW	11
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	12
NOTES TO THE FINANCIAL STATEMENTS	15
DIRECTORS' DECLARATION	37
INDEPENDENT AUDIT REPORT	38

It is 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

30 June 2019

The Directors present their report and the auditor's report thereon.

Abacus Hospitality Limited ("AHL" or the "Company") has been identified as the parent entity of the group referred to as the Abacus Hospitality Fund ("AHF" or the "Fund"). The consolidated financial reports of AHF comprise the consolidated financial reports of AHL and its controlled entities and Abacus Hospitality Trust and its controlled entities ("AHT").

PRINCIPAL ACTIVITIES

The principal activity of the Fund and the Trust during the year ended 30 June 2019 was the ownership and operation of hotels in Australia.

FUND STRUCTURE

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

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

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

REVIEW AND RESULTS OF OPERATIONS

During the period the fund divested its final asset, Novotel Twin Waters Resort on the Sunshine Coast in Queensland for a price of \$88.5 million.

The Fund made a profit of \$22.39 million for the year ended 30 June 2019 (2018: \$0.01 million loss).

The profit was mainly due to the forgiveness of a loan debt of \$24.2 million by Abacus Finance Pty Ltd.

INDIRECT COST RATIO

The Indirect Cost Ratio is the ratio of the Trust's management costs over the Fund's average net assets attributed for the year, expressed as a percentage. Management costs including management fees, custody fees and other expenses or reimbursements deducted in relation to the Trust, but do not include transactional or operational costs. The Indirect Cost Ratio for the Fund for the year ended 30 June 2019 was 1.40% (2018: 1.06%).

REVIEW OF FINANCIAL CONDITION

Following the divestment of the Novotel Twin Waters the remaining assets were used to repay part of the loan owed to Abacus Finance Pty Ltd loan and to return capital to securityholders. At 30 June 2019 the Fund had no assets and no liabilities.

DISTRIBUTIONS

The Fund and the Trust distributions in respect of the year ended 30 June 2019 were \$0.7 million (June 2018: \$1.5 million), which is equivalent to 1.5 cents per stapled security (June 2018: 3.0 cents). Further details on the distributions are set out in note 7 of the financial statements.

STAPLED SECURITIES ON ISSUE

During the year no new stapled securities were issued and at 30 June 2019 there were 49.04 million stapled securities on issue (2018: 49.04 million).

The Fund and the Trust repaid capital of \$36.3 million, which is equivalent to 74.0 cents per security to security holders during the year ended 30 June 2019.

DIRECTORS' REPORT**30 June 2019****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 financial 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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The financial statements have been prepared on a liquidation basis. The Fund's assets have been realised and the capital has been returned to the security holders.

INFORMATION ON DIRECTORS AND OFFICERS

The Directors and Company Secretary of AHL and AFML (the Responsible Entity of AHT), in office during the financial year and until the date of this report are as set out below, with qualifications, experiences and special responsibilities.

John Thame	Chairman (Non-executive)
Steven Sewell	Managing Director
William Bartlett	Non-executive Director (retired on 15 November 2018)
Mark Haberlin	Non-executive Director (appointed on 15 November 2018)
Holly Kramer	Non-executive Director (appointed on 13 December 2018)
Jingmin Qian	Non-executive Director
Myra Salkinder	Non-executive Director
Peter Spira	Non-executive Director (retired on 15 November 2018)

DIRECTORS' REPORT

30 June 2019

INFORMATION ON DIRECTORS AND OFFICERS (continued)

John Thame AIBF, FCPA Chairman (non-executive)

Mr Thame has over 30 years' experience in the retail financial services industry in senior management positions. His 26-year career with Advance Bank included 10 years as Managing Director until the Bank's merger with St George Bank Limited in 1997. Mr Thame was Chairman (2004 to 2008) and a director (1997 to 2008) of St George Bank Limited and St George Life Limited.

Steven Sewell BSc Managing Director

Mr Sewell joined Abacus in October 2017 bringing over 17 years' experience in real estate funds management, asset management, equity and debt capital markets and M&A transactions. Steven joined Abacus from the Macquarie Group where he was Executive Director of Macquarie Asset Management and Macquarie Infrastructure and Real Assets. Previously he was Chief Executive Officer of Federation Centres Ltd, Charter Hall Retail REIT and Macquarie Countrywide Trust. Refined during Steven's career he brings a valuable insight and connection to global real estate investors and provides valuable experience on whole business and investment strategies, capital allocation and developing third party capital relationships. He was appointed to the role of Managing Director in April 2018.

Mark Haberlin BSc (Eng) Hons, FCA

Mark is a Non-Executive Director and joined the Board in November 2018. Mark has significant expertise in fields that cover accounting and audit, capital transactions, mergers and acquisitions and risk management in the real estate and financial services sectors. Mark has been a highly respected partner at PwC for 25 years where he developed key accounting and audit experience. Mark was a member of the PwC Governance Board and completed his last two years as Chairman.

Holly Kramer BA Econ, MBA

Holly is a Non-Executive Director and joined the Board in December 2018. Holly brings a significant range of skills and expertise in a number of important areas relevant to our business including a strong customer lens, given her career across consumer and retail, with customer centricity in marketing. She has substantial ASX governance experience including leading a Remuneration Committee. Holly is currently Deputy Chair of Australia Post and a non-executive director of Woolworths.

Jingmin Qian CFA, MBA, FAICD

Ms Qian is a Non-Executive Director and has significant expertise in the property, infrastructure and resource sectors as well as rich experience in Asia. Ms Qian is a director of Jing Meridian and specialises in advising boards and senior management on investment, strategic management and cross-cultural management. Ms Qian has served as a member of the business liaison program of the Reserve Bank of Australia. Ms Qian is a trustee of Club Plus Super, a member of Macquarie University Council, a director of the Chartered Financial Analyst Society of Sydney, and a director of the Australia China Business Council.

Myra Salkinder MBA, BA

Mrs Salkinder is a Non-Executive Director and is a senior executive of the Kirsh Group. She has been integrally involved over many years with the continued expansion of the Kirsh Group's property and other investments, both in South Africa and internationally. Mrs Salkinder is a director of various companies associated with the Kirsh Group worldwide.

Robert Baulderstone BA, CA, FCIS Company Secretary and Chief Financial Officer

Mr Baulderstone has been the Company Secretary since February 2017. He has been a chartered accountant for over 25 years.

DIRECTORS' REPORT**30 June 2019****INFORMATION ON DIRECTORS AND OFFICERS (continued)****Directors' Benefits**

Since the end of the previous financial year, no director has received or become entitled to receive a benefit, other than any benefit disclosed in the financial statements as compensation or the fixed salary of key management personnel of the Fund or a related entity by reason of a contract made by the Fund or a related body corporate with the director or a with a firm of which he is a member, or with an entity in which he has a substantial financial interest.

Indemnification and Insurance of Directors and Officers

AFML has paid an insurance premium in respect of a contract insuring all directors, full time executive officers and secretary. The terms of this policy prohibit disclosure of the nature of the risks insured or the premium paid.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) – except for any loss in respect of any matters which are finally determined to have resulted from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Fund's and the Trust's environmental responsibilities, such as waste removal and water treatment, have been managed in compliance with all applicable regulations and licence requirements and in accordance with industry standards. No breaches of requirements or any environmental issues have been discovered and brought to the board's attention. There has been no known significant breaches of any environmental requirements applicable to the Fund and the Trust.

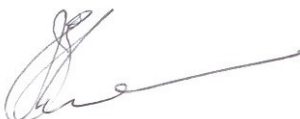
AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, Ernst & Young, and such declaration is shown on page 6.

ROUNDING

The amounts contained in this report and in the annual financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the group under ASIC Corporations Instrument 2016/191. The Fund and the Trust are entities to which the instrument applies.

Signed in accordance with a resolution of the directors.



John Thame
Chairman
Sydney, 16 August 2019



Steven Sewell
Managing Director



Building a better
working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the audit of Abacus Hospitality Fund for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Abacus Hospitality Fund and the entities it controlled during the financial year.

Ernst & Young

Kathy Parsons
Partner
16 August 2019

CONSOLIDATED INCOME STATEMENT **YEAR ENDED 30 JUNE 2019**

		AHF	AHF	AHT	AHT
		Consolidated	Consolidated	Consolidated	Consolidated
		2019	2018	2019	2018
	Notes	\$'000	\$'000	\$'000	\$'000
REVENUE					
Rental income		-	-	1,215	5,156
Hotel income		6,469	30,112	-	-
Finance income		979	637	954	592
Total Revenue		7,448	30,749	2,169	5,748
OTHER INCOME					
Net change in fair value of hotel investment property held at balance date		-	-	-	8,232
Net change in fair value of hotel property, plant and equipment derecognised		(2,100)	-	-	-
Net change in fair value of investment properties derecognised		-	-	(1,799)	-
Other income	1	24,236	32	24,211	4
Total Revenue and Other Income		29,584	30,781	24,581	13,984
Cost of sales		(904)	(3,900)	-	-
Property expenses & outgoing		(80)	(271)	(11)	-
Other hotel expenses		(1,567)	(7,320)	-	-
Depreciation and amortisation expense	2(a)	-	(2,440)	-	-
Finance costs	2(b)	(1,405)	(2,884)	(1,405)	(2,884)
Employee benefits expense	2(c)	(2,497)	(12,901)	-	-
Administrative and other expenses		(742)	(1,078)	(1,090)	(1,068)
PROFIT / (LOSS) BEFORE TAX		22,389	(13)	22,075	10,032
Income tax (expense) / benefit	3(a)	-	-	-	-
NET PROFIT / (LOSS) AFTER TAX		22,389	(13)	22,075	10,032
Net profit / (loss) attributable to:					
AHL members		314	7	-	-
AHT members		22,075	(20)	22,075	10,032
NET PROFIT / (LOSS)		22,389	(13)	22,075	10,032

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 JUNE 2019

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
NET PROFIT / (LOSS) AFTER TAX	22,389	(13)	22,075	10,032
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to the income statement</i>				
Revaluation of assets, nil tax effect	-	10,052	-	-
Other	-	-	484	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	22,389	10,039	22,559	10,032
Total comprehensive income attributable to:				
Members of the parent entity (AHL)	314	7	-	-
Members of other stapled entity:				
Non-controlling interest - Abacus Hospitality Trust	22,075	10,032	22,559	10,032
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	22,389	10,039	22,559	10,032

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

		AHF	AHF	AHT	AHT
		Consolidated	Consolidated	Consolidated	Consolidated
		2019	2018	2019	2018
	Notes	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS					
Hotel property, plant and equipment held for sale	4	-	88,500	-	-
Cash and cash equivalents	5	-	29,087	-	27,069
Inventory		-	237	-	-
Trade and other receivables		-	451	-	109
Other		-	134	-	-
Hotel Investment properties held for sale	9	-	-	-	85,250
TOTAL CURRENT ASSETS		-	118,409	-	112,428
TOTAL ASSETS		-	118,409	-	112,428
CURRENT LIABILITIES					
Trade and other payables		-	5,696	-	194
Interest-bearing loans and borrowings		-	96,721	-	96,721
Related party payables		-	-	-	671
Provisions		-	980	-	-
TOTAL CURRENT LIABILITIES		-	103,397	-	97,586
TOTAL LIABILITIES		-	103,397	-	97,586
NET ASSETS		-	15,012	-	14,842
TOTAL EQUITY		-	15,012	-	14,842

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AS AT 30 JUNE 2019

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
Equity attributable to members of AHL:				
Contributed equity	2,459	2,459	-	-
Accumulated losses	(2,459)	(2,288)	-	-
Total equity attributable to members of AHL:	-	171	-	-
Equity attributable to members of AHT:				
Contributed equity	6,854	43,152	6,854	43,152
Reserves	-	29,780	-	-
Accumulated losses	(6,854)	(58,091)	(6,854)	(28,310)
Total equity attributable to unitholders of AHT:	-	14,841	-	14,842
TOTAL EQUITY	-	15,012	-	14,842

		AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
	Notes				
EQUITY					
Contributed equity	6	9,313	45,611	6,854	43,152
Reserves		-	29,780	-	-
Accumulated losses		(9,313)	(60,379)	(6,854)	(28,310)
TOTAL EQUITY		-	15,012	-	14,842

CONSOLIDATED STATEMENT OF CASH FLOW **YEAR ENDED 30 JUNE 2019**

		AHF	AHF	AHT	AHT
		Consolidated	Consolidated	Consolidated	Consolidated
		2019	2018	2019	2018
	Notes	\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Income receipts		6,944	29,853	1,126	6,705
Interest received		985	631	960	585
Borrowing cost paid		(8,459)	(2,099)	(8,459)	(2,099)
Operating payments		(9,106)	(24,976)	(2,988)	(938)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES	5	(9,636)	3,409	(9,361)	4,253
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(255)	(888)	-	(108)
Disposal of property, plant and equipment		83,660	-	-	-
Disposal of investment property		-	-	85,228	-
Repayment of loans by related entities		-	-	(80)	(1,492)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		83,405	(888)	85,148	(1,600)
CASH FLOWS FROM FINANCING ACTIVITIES					
Return of capital		(36,298)	-	(36,298)	-
Repayment of borrowings		(65,455)	-	(65,455)	-
Distributions paid		(1,103)	(1,471)	(1,103)	(1,471)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(102,856)	(1,471)	(102,856)	(1,471)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(29,087)	1,050	(27,069)	1,182
Cash and cash equivalents at beginning of year		29,087	28,037	27,069	25,887
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	-	29,087	-	27,069

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2019

Consolidated AHF - 2019	Attributable to the stapled security holder			
	Asset			Total Equity
	Issued capital	revaluation reserve	Accumulated Losses	
CONSOLIDATED	\$'000	\$'000	\$'000	\$'000
At 1 July 2018	45,611	29,780	(60,379)	15,012
Other comprehensive income	-	(29,780)	29,780	-
Net profit for the year	-	-	22,389	22,389
Total comprehensive income for the year	-	(29,780)	52,169	22,389
Return of capital	(36,298)	-	-	(36,298)
Distribution to security holders	-	-	(1,103)	(1,103)
At 30 June 2019	9,313	-	(9,313)	-

Consolidated AHF - 2018	Attributable to the stapled security holder			
	Asset			Total Equity
	Issued capital	revaluation reserve	Accumulated Losses	
CONSOLIDATED	\$'000	\$'000	\$'000	\$'000
At 1 July 2017	45,611	19,728	(58,895)	6,444
Other comprehensive income	-	10,052	-	10,052
Net profit for the year	-	-	(13)	(13)
Total comprehensive income for the year	-	10,052	(13)	10,039
Distribution to security holders	-	-	(1,471)	(1,471)
At 30 June 2018	45,611	29,780	(60,379)	15,012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **YEAR ENDED 30 JUNE 2019**

Consolidated AHT - 2019	Attributable to the unit holder		
	Issued capital \$'000	Accumulated Losses \$'000	Total Equity \$'000
CONSOLIDATED			
At 1 July 2018	43,152	(28,310)	14,842
Other comprehensive income	-	484	484
Net profit for the year	-	22,075	22,075
Total comprehensive income for the year	-	22,559	22,559
Return of capital	(36,298)		(36,298)
Distribution to unit holders	-	(1,103)	(1,103)
At 30 June 2019	6,854	(6,854)	-

Consolidated AHT - 2018	Attributable to the unit holder		
	Issued capital \$'000	Accumulated Losses \$'000	Total Equity \$'000
CONSOLIDATED			
At 1 July 2017	43,152	(36,871)	6,281
Net profit for the year	-	10,032	10,032
Total comprehensive income for the year	-	10,032	10,032
Distribution to unit holders	-	(1,471)	(1,471)
At 30 June 2018	43,152	(28,310)	14,842

CONTENTS

30 JUNE 2019

Notes to the financial statements	About this report				Page 15
	Results for the year	Operating assets and liabilities	Capital structure and financing costs	Group Structure	Other Items
	1. Revenue	4. Hotel Property, Plant and equipment	5. Cash and cash equivalents	8. Parent entity financial information	9. Investment properties
	2. Expenses		6. Contributed equity		10. Commitments and contingencies
	3. Income tax		7. Distributions paid and proposed		11. Related party disclosures
					12. Key management personnel
					13. Deed of cross guarantee
					14. Summary of significant accounting policies
					15. Auditors remuneration
				16. Events after balance sheet date	

NOTES TO THE FINANCIAL STATEMENTS – About this Report

30 JUNE 2019

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 year ended 30 June 2019 are authorised for issue in accordance with a resolution of the Directors of Abacus Hospitality Limited ("the Company") and Abacus Funds Management Limited on 16 August 2019.

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

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Fund's and the Trust's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Fund and the Trust. All judgements, estimates and assumptions made are believed to be reasonable, based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(a) Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and tax losses on revenue account as management considers that it is probable that future taxable profits will be available to utilise those temporary differences and tax losses.

(a) Significant accounting estimates and assumptions

Valuation of investment properties and property, plant and equipment - Hotels

The Fund and the Trust make judgements in respect of the fair value of investment property and property, plant and equipment (Note 14(k)) and (Note 14(l)). The fair value of these properties are reviewed regularly by management with reference to external independent property valuations and market conditions existing at reporting date, using generally accepted market practices. The assumptions underlying estimated fair values are those relating to the receipt of contractual rents, expected future market rentals, maintenance requirements, capitalisation rates and discount rates that reflect current market conditions and current or recent property investment prices. If there is any material change in these assumptions or regional, national or international economic conditions, the fair value of investment property and property, plant & equipment may differ and may need to be re-estimated.

Key estimates – Liquidation Basis of Accounting

The Fund is in the process of being wound up and the financial statements are prepared on a liquidation basis.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

1. REVENUE

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
Other Income				
Debt forgiveness on the Abacus Working Capital Facility	24,211	-	24,211	-
Sundry Income	25	32	-	4
Total other income	24,236	32	24,211	4

2. EXPENSES

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
(a) Depreciation and amortisation expense				
Depreciation of property, plant and equipment - hotels	-	2,440	-	-
Total depreciation and amortisation expense	-	2,440	-	-
(b) Finance costs				
Interest on related party loans	1,405	2,884	1,405	2,884
Total finance costs	1,405	2,884	1,405	2,884
(c) Employee benefits expense				
Wages and salaries	2,413	10,937	-	-
Leave provisions	(252)	115	-	-
Other	336	1,849	-	-
Total employee benefits expense	2,497	12,901	-	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

3. INCOME TAX

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
(a) Income tax expense				
The major components of income tax expense are:				
Income Statement				
Current income tax charge	94	31	-	-
Adjustments in respect of current income tax of previous years	-	(4)	-	-
Movement in depreciable assets tax depreciation	(47)	9	-	-
Relating to origination and reversal of temporary differences	22	(43)	-	-
Unrecognised tax losses brought to account	(69)	7	-	-
Income tax expense reported in the income statement	-	-	-	-
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate				
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Fund's applicable income tax rate is as follows:				
Profit / (loss) before income tax expense	22,389	(13)	22,075	(20)
Prima facie income tax expense / (benefit) calculated at 30%	6,717	(4)	6,623	(6)
Less prima facie income tax expense / (benefit) on loss / (profit) from the Trust	(6,623)	6	(6,623)	6
Prima Facie income tax of entities subject to income tax	94	2	-	-
Entertainment	-	3	-	-
Adjustment of prior year tax applied	-	(4)	-	-
Unrecognised tax losses brought to account	(69)	7	-	-
Other items (net)	(25)	(8)	-	-
Income tax expense reported in the consolidated income statement	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

3. INCOME TAX (continued)

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
(c) Recognised tax assets and liabilities				
At 30 June 2019 relates to the following:				
Tax liabilities				
Other	-	431	-	-
Gross income tax liabilities	-	431	-	-
Set off against income tax assets	-	(431)	-	-
Net income tax liabilities	-	-	-	-
Tax assets				
Losses available for offset against future taxable income	-	55	-	-
Derecognition of deferred tax assets (losses)	-	(7)	-	-
Employee provisions	-	294	-	-
Other	-	89	-	-
Gross income tax assets	-	431	-	-
Set off against income tax liabilities	-	(431)	-	-
Net income tax assets	-	-	-	-

Unrecognised temporary differences

At 30 June 2019, there are no unrecognised temporary differences associated with the Fund's investments in subsidiaries, as the Fund has no liability for additional taxation should unremitted earnings be remitted (2018: nil).

Tax consolidation

AHL and its 100% owned Australian resident subsidiaries have formed a tax consolidated group. AHL is the head entity of the tax consolidated group. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Members of the tax groups during the relevant periods have entered into tax sharing arrangements in order to allocate income tax expense to the head entity of the group.

Nature of the tax funding agreement

Members of the respective tax consolidated groups have entered into tax funding agreements. The tax funding agreements require payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount allocated under the tax funding agreement and the allocation under UIG 1052, the head entity accounts for these as equity transactions.

The amounts receivable or payable under the tax funding agreements are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

4. HOTEL PROPERTY, PLANT AND EQUIPMENT

The following table is a reconciliation of the movements of property, plant and equipment for the year ended 30 June 2019.

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000
Property, plant and equipment		
Hotel held for sale	-	88,500
	-	88,500
Average market capitalisation rate	-	7.00%
	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000
Land and buildings		
At 1 July, net of accumulated depreciation	81,068	71,828
Additions	-	109
Fair value movement through comprehensive income	-	10,052
Disposal	(81,068)	-
Depreciation charge for the year	-	(921)
At 30 June, net of accumulated depreciation	-	81,068
Fair value less costs to sell	-	91,300
Accumulated depreciation	-	(10,232)
Net carrying amount at end of year	-	81,068
Plant and equipment		
At 1 July, net of accumulated depreciation	7,432	8,172
Additions	251	688
Disposals	(7,683)	-
Depreciation charge for the year	-	(1,428)
At 30 June, net of accumulated depreciation	-	7,432
Cost	-	21,409
Accumulated depreciation	-	(13,977)
Net carrying amount at end of year	-	7,432
Total net carrying amount of Property, Plant and Equipment	-	88,500

If property, plant and equipment was carried under the cost model, the carrying amount would be nil (2018: \$46.6m).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. HOTEL PROPERTY, PLANT AND EQUIPMENT (continued)

Revaluation gain on property, plant and equipment:

Property, plant and equipment held in AHF relates to its hotel asset and was held at fair value less costs to sell at 30 June 2018. During the year, there was no movement in fair value recognised in the comprehensive income statement (2018: \$10.1m). Recoverable amount has been determined as the fair value of the property, plant and equipment by reference to internal and external valuations performed as detailed below.

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.

In the year ended 30 June 2019, none (2018: nil) of the property portfolio was subject to external valuation.

Sensitivity Information

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net market EBITDA	Increase	Decrease
Optimal occupancy	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase

The adopted capitalisation rate forms part of the income capitalisation approach.

When calculating the income capitalisation approach, the EBITDA has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total EBITDA generated from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the EBITDA and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the EBITDA and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the EBITDA and the adopted capitalisation rate could potentially magnify the impact to the fair value.

- A weighted average capitalisation rate for the hotel properties is nil (2018: 7.00%).
- The current weighted average occupancy rate for the hotel properties is nil (2018: 69%).

External valuations are conducted by qualified independent valuers who are appointed by the Managing Director of Abacus Property Services Pty Ltd who is also responsible for the Fund's and the Trust's internal valuation process. He is assisted by one employee who holds relevant recognised professional qualifications and is experienced in valuing the types of properties in the applicable locations.

The hotel property, plant and equipment are independently valued on a staggered basis every two years unless the underlying financing requires a more frequent independent valuation cycle.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

5. CASH AND CASH EQUIVALENTS

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
Reconciliation to Statement of Cash Flow				
For the purposes of the Statement of Cash Flow, cash and cash equivalents comprise the following at 30 June 2019:				
Cash at bank and in hand ¹	-	29,087	-	27,069

1. Cash at bank earns interest at floating rates. The carrying amounts of cash and cash equivalents represent fair value.

Net profit / (loss)	22,389	(13)	22,075	10,032
Adjustments for:				
Depreciation and amortisation expense	-	2,440	-	-
Net change in fair value of hotel property, plant and equipment derecognised	396	-	-	-
Net change in fair value of investment property derecognised	-	-	1,799	-
Net change in fair value of investment property held at balance date	-	-	-	(8,232)
Increase/(decrease) in payables and provisions	(32,920)	1,271	(33,152)	915
(Increase)/decrease in receivables and other assets	499	(289)	(83)	1,538
Net cash from operating activities	(9,636)	3,409	(9,361)	4,253

(a) Disclosure of financing facilities

Refer to Note 7.

6. CONTRIBUTED EQUITY

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
(a) Issued securities				
Issued securities	9,313	45,611	6,854	43,152
Total contributed equity	9,313	45,611	6,854	43,152

(b) Movement in securities on issue

	AHF Issued securities		AHT Issued units	
	Number '000	Value '000	Number '000	Value '000
At 30 June 2018	49,039	45,611	49,039	43,152
Return of capital	-	(36,298)	-	(36,297)
Securities on issue at 30 June 2019	49,039	9,313	49,039	6,855

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

7. DISTRIBUTIONS PAID AND PROPOSED

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
(a) Distributions paid during the year				
Jun 2018 quarter: 0.750 cents per security (2017: 0.750 cents)	368	368	368	368
Sep 2018 quarter: 0.750 cents per security (2017: 0.750 cents)	368	368	368	368
Dec 2018 quarter: 0.750 cents per security (2017: 0.750 cents)	367	368	367	368
Mar 2019 quarter: nil cents per security (2018: 0.750 cents)	-	367	-	367
	1,103	1,471	1,103	1,471
(b) Distributions proposed and not recognised as a liability				
Jun 2019 quarter: nil cents per security (2018: 0.750 cents)	-	368	-	368

8. PARENT ENTITY FINANCIAL INFORMATION

	AHF PARENT 2019 \$'000	AHF PARENT 2018 \$'000	AHT PARENT 2019 \$'000	AHT PARENT 2018 \$'000
Results of the parent entity				
Profit/(loss) for the year	(3,036)	-	54,557	(1,713)
Total comprehensive income / (expense) for the year	(3,036)	-	54,557	(1,713)
Financial position of the parent entity at year end				
Current assets	811	811	-	100,533
Total assets	811	811	-	100,533
Current liabilities	4,498	1,463	-	118,793
Total liabilities	4,498	1,463	-	118,793
Net deficiency	(3,687)	(652)	-	(18,260)
Total equity of the parent entity comprising of:				
Issued capital	2,459	2,459	6,854	43,152
Accumulated losses	(6,146)	(3,111)	(6,854)	(61,412)
Total equity	(3,687)	(652)	-	(18,260)

AHL, the parent entity of AHF has assets and liabilities in relation to one of its wholly-owned companies Abacus Matson Holding Pty Ltd. These are eliminated at the total fund level and will be cleared at the individual level once the ongoing liquidation process of Abacus Matson Holding Pty Ltd has been completed.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

9. 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 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
Carrying amount at beginning of the financial period	-	-	85,250	76,910
Capital expenditure	-	-	-	108
Net change in fair value as at balance date	-	-	-	8,232
Disposals	-	-	(85,250)	-
Carrying amount at end of the financial year	-	-	-	85,250

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

Sensitivity Information

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Adopted capitalisation rate	Decrease	Increase
Optimal occupancy	Increase	Decrease
Adopted discount rate	Decrease	Increase

The adopted capitalisation rate forms part of the income capitalisation approach.

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving at a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

In the year ended 30 June 2019, none (2018: nil) of the property portfolio was subject to external valuation.

Investment properties are independently valued on a staggered basis every two years unless the underlying financing requires a different valuation cycle.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

10. COMMITMENTS AND CONTINGENCIES

There are no contingent liabilities referable to AHF and AHT at 30 June 2019.

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

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

11. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of the following entities:

Entity	Equity interest	
	2019 %	2018 %
<i>Abacus Hospitality Limited and its subsidiaries:</i>		
Abacus Matson Holding Pty Ltd	100	100
Abacus Tradewinds Operating Company Pty Ltd	0	100
Abacus Twin Waters Resort Pty Ltd	100	100
<i>Abacus Hospitality Trust and its subsidiaries</i>		
Abacus Matson Resort Trust	0	100
Abacus Tradewinds Trust	0	100
Abacus Twin Waters Resort Trust	100	100

(b) Responsible Entity

The Responsible Entity of AHF is AFML, an Australian Financial Services License holder whose immediate and ultimate holding company is AGHL. Transactions between the Fund and the Responsible Entity result from normal dealings with that company as the Fund's Responsible Entity.

(c) Key Management Personnel

Details of key management personnel are disclosed in Note 12.

(d) Director-related entity transactions

No transactions with directors occurred during the year.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

11. RELATED PARTY DISCLOSURES (continued)

(e) Transactions with related parties

	AHF Consolidated 2019 \$'000	AHF Consolidated 2018 \$'000	AHT Consolidated 2019 \$'000	AHT Consolidated 2018 \$'000
Transactions with related parties				
Loans from related parties	-	96,721	-	96,721
Expenses				
Management fee	699	1,031	699	1,031
Other fees	2,027	96	2,027	96
Other transactions				
Loan and interest repayments to related party	(73,915)	(2,099)	(73,915)	(2,099)
Waiver of interest on related party loan	(24,211)	-	(24,211)	-
Interest expense of loan from related party	1,405	2,884	1,405	2,884

Terms and conditions of transactions

Interest and fees to and purchases and fees charged from related parties are made in accordance with the commercial terms in the Fund's constitution's and management agreement.

Outstanding balances at year-end are unsecured and settlement occurs in cash.

No provision for doubtful debts has been recognised or bad debts incurred with respect to amounts payable or receivable from related parties during the year.

(f) Fees

AFML provides management and investment accounting services to the Fund.

All costs associated with the provision of investment accounting services are paid for by the Responsible Entity, and are conducted on normal commercial terms and conditions.

The Responsible Entity receives all management fees that have been paid by the Fund during the year. In accordance with Fund's offer document and constitution, the Responsible Entity is entitled to receive a management fee of 0.85% of the total assets of the fund per annum under the terms of the Constitution. The fees are paid on a monthly basis. Total fees paid to the Responsible Entity during the year for management of the Fund were \$0.7 million (2018: \$1.0 million).

Also in accordance with the terms in the Fund's offer document and constitution, the Responsible Entity is entitled to receive property transaction, fund establishment and capital raising fees. AHF paid a disposal fee of \$2.0 million to the Responsible Entity for the year ended 30 June 2019 (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

12. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

(i) Directors

John Thame	Chairman (Non-executive)
Steven Sewell	Managing Director
William Bartlett	Non-executive Director (retired on 15 November 2018)
Mark Haberlin	Non-executive Director (appointed on 15 November 2018)
Holly Kramer	Non-executive Director (appointed on 13 December 2018)
Jingmin Qian	Non-executive Director
Myra Salkinder	Non-executive Director
Peter Spira	Non-executive Director (retired on 15 November 2018)

(ii) Executives

R. Baulderstone	Chief Financial Officer and Company Secretary
P. Strain	Director – Property

(b) Compensation details of Key Management Personnel

No amount is paid by the Fund and the Trust directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 “Related Party Disclosures” is paid by the Fund to the Directors as Key Management Personnel.

(c) Other related entity transactions

In addition to the Directors note above, Abacus Funds Management Limited, the Responsible Entity of the Trust is considered to be Key Management Personnel with the authority for the strategic direction and management of the Trust.

Compensation is paid to the Responsible Entity in the form of fees and is disclosed in Note 11.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2019****13. DEED OF CROSS GUARANTEE**

AHL and one of its wholly-owned companies (the “Closed Group”) – Abacus Twin Waters Resort Pty Limited, are parties to a Deed of Cross Guarantee (the “Deed”). The effect of the Deed is that the members of the Closed Group guarantee to each creditor, payment in full of any debt, in the event of winding up of any of the members under certain provisions of the Corporations Act 2001.

ASIC Class Order 98/1418 (as amended) dated 13 August 1998, provided relief to parties to the Deed from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and Directors’ reports, subject to certain conditions as set out therein. This Class Order does not apply to trusts.

Pursuant to the requirements of this Class order, a summarised consolidated Income Statement for the year ended 30 June 2019 and Balance Sheet as at 30 June 2019, comprising the members of the closed Group after eliminating all transactions between members are set out below:

	CLOSED GROUP	
	2019	2018
	\$’000	\$’000
Summarised Income Statement		
Profit/(loss) before income tax benefit	314	(18)
Income tax benefit	(606)	6
Loss for the year	(292)	(12)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

13. DEED OF CROSS GUARANTEE (continued)

	CLOSED GROUP	
	2019	2018
	\$'000	\$'000
CURRENT ASSETS		
Cash and cash equivalents	-	2,018
Trade and other receivables	-	342
Other assets	-	371
Hotel Property, plant and equipment held for sale	-	3,250
Deferred tax assets	-	1,038
Investment in controlled entities	811	811
TOTAL CURRENT ASSETS	811	7,830
TOTAL ASSETS	811	7,830
CURRENT LIABILITIES		
Trade and other payables	4,498	9,813
Provisions	-	980
Deferred tax liabilities	-	431
TOTAL CURRENT LIABILITIES	4,498	11,224
TOTAL LIABILITIES	4,498	11,224
NET LIABILITIES	(3,687)	(3,394)

	CLOSED GROUP	
	2019	2018
	\$'000	\$'000
EQUITY		
Contributed equity	2,459	2,459
Accumulated losses	(6,146)	(5,853)
TOTAL EQUITY	(3,687)	(3,394)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The liquidation basis of accounting has been adopted for the financial statements of the Fund for the year ended 30 June 2019 with the intention of the fund being wound up. Under the liquidation basis of accounting, assets are stated at their estimated net realisable value, and liabilities are stated at their estimated settlement amounts, and the relevant estimates will be periodically reviewed and adjusted as appropriate.

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 Corporations Instrument 2016/191. The Fund and the Trust are entities to which the instrument applies.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the AASB and IASB respectively.

(c) New accounting standards and interpretations

The financial statements have been prepared on a liquidation basis. The accounting standards effective from July 18 which includes AASB9 and AASB 15, and the accounting standards issued but not effective which includes AASB 16, will have no impact on the financial statements of the Fund.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of AHL and its subsidiaries and AHT and its subsidiaries.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies with adjustments made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits from intra-group transactions, have been eliminated in full and subsidiaries are consolidated from the date on which control is transferred to the Fund and the Trust and cease to be consolidated from the date on which control is transferred out of the Fund and the Trust. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Fund and the Trust have control.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

(e) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of the Fund and the Trust are in Australian dollars. Each entity in the Fund and the Trust determines its own functional currency and items are included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings on translation of foreign operations that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation (continued)

At reporting date the assets and liabilities of foreign operations are translated into the presentation currency of the Fund and the Trust at the rate of exchange prevailing at balance date and the financial performance is translated at the average exchange rate prevailing during the reporting period. The exchange differences arising on translation are taken directly to the foreign currency translation reserve in equity.

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the Trust and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Hotel Income

Revenue from rooms is recognised and accrued on the provision of rooms or on the date which rooms are to be provided in accordance with the terms and conditions of the bookings. Advance deposits from customers received are not recognised as revenue until such time when the rooms have been provided or when the customers forfeit the deposits due to failure of attendance.

Finance Income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Net change in fair value of investments and financial instruments derecognised during the year

Revenue from sale of investments is recognised on settlement when the significant risks and rewards of the ownership of the investments have been transferred to the buyer and all performance obligations under the contract has been met. Risks and rewards are generally considered to have passed to the buyer at the time of settlement of the sale. Financial instruments are derecognised when the right to receive or pay cash flows from the financial derivative has expired or when the entity transfers substantially all the risks and rewards and the performance obligations of the financial derivative through termination. Gains or losses due to derecognition are recognised in the statement of comprehensive income.

(g) Expenses

Expenses including rates, taxes and other outgoings, are brought to account on an accrual basis and any related payables are carried at cost.

(h) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flow, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) Trade and other receivables

Trade and other receivables, which generally have 30 day terms, are held to collect contractual cash flows and these contractual cash flows are solely payments of principal and interest. At initial recognition, these are measured at amortised cost at the transaction price.

Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method, reduced by impairment losses. Interest income and impairment losses are recognised in the income statement. The receivable is written off when there is no reasonable expectation of recovering the contractual cash flows. Any gain or loss on derecognition is also recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) Trade and other receivables**

In assessing for impairment under AASB 9, the Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. For trade receivables, the Fund applies the simplified approach permitted by the standard, which requires lifetime expected losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade debtors and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on outstanding balances, days past their due date and the corresponding historical credit losses experienced. Historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors (including GDP) affecting the ability of customers to settle their debts.

In assessing for impairment in prior years prior to the adoption of AASB 9, collectability of trade and other receivables was reviewed on an ongoing basis. Individual debts that are determined to be uncollectible are written off when identified. An impairment provision for doubtful debts is recognised when there is evidence that the Fund will not be able to collect the receivable.

(j) Investments and other financial assets

All investments are initially recognised at cost, being the fair value of the consideration given.

Financial assets in the scope of AASB 9 *Financial Instruments* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. At 30 June property loans are classified as loans and receivables at amortised costs.

Recognition and derecognition

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, that is the date that the Group commits to purchase the assets. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

After initial recognition, investments, which are classified as held for trading, are measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Gains or losses on investments held for trading are recognised in the income statement.

For investments where there is no quoted market or unit price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Loans and receivables

Loans and receivables are non-derivative financial assets that are not quoted in an active market with solely payments of principal and interest (SPPI). Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

Subsidiaries

Investment in subsidiaries are held at lower of cost or recoverable amount.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings – 50 years	Plant and equipment – 3 to 20 years
----------------------	-------------------------------------

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Hotel property, plant and equipment

Property (including land and buildings), plant and equipment represent owner-occupied properties and are initially measured at cost including transaction costs and acquisition costs. Subsequent to initial recognition, properties are measured at fair value less accumulated depreciation and any impairment in value after the date of revaluation.

Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss except to the extent that it offsets a previous revaluation increase for the same asset in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Hotel property, plant and equipment are independently valued on an biennial basis unless the underlying financing requires a more frequent independent valuation cycle.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. 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.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property (including land and buildings), plant and equipment is the greater of fair value less costs to sell 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 assets.

Impairment losses are recognised in the income statement.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Other property, plant and equipment are independently valued on a staggered basis every two years unless the underlying financing requires a more frequent independent valuation cycle.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(l) Investment properties**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time that the cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market and property specific conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Investment properties under construction are carried at fair value. Fair value is calculated based on estimated fair value on completion after allowing for the remaining expected costs of completion plus an appropriate risk adjusted development margin.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.

For a transfer from investment property to inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Land and buildings that meet the definition of investment property are considered to have the function of an investment and are therefore regarded as a composite asset, the overall value of which is influenced by many factors, the most prominent being income yield, rather than diminution in value of the building content due to the passing of time. Accordingly, the buildings and all components thereof, including integral plant and equipment, are not depreciated.

Investment properties are independently valued on a staggered basis every two years unless the underlying financing requires a more frequent independent valuation cycle. In determining fair value, the capitalisation of net income method and the discounting of future cashflows to their present value have been used.

Lease incentives provided by the Fund and the Trust to lessees, and rental guarantees which may be received by the Fund and the Trust from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property. Leasing costs and incentives are included in the carrying value of investment property and are amortised over the respective lease period, either using a straight-line basis, or a basis which is more representative of the pattern of benefits.

Under AASB 140, investment properties, including any plant and equipment, are not subject to depreciation. However, depreciation allowances in respect of certain buildings, plant and equipment are currently available to investors for taxation purposes.

(m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Fund and Trust as a lessor

Leases in which the Fund and the Trust retain substantially all the risks and benefits of ownership of the lease assets are classified as operating leases.

(n) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Fund and the Trust prior to the end of the financial year that are unpaid and arise when the Fund and the Trust become obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(o) Provisions and employee leave benefits**

Provisions are recognised when the Fund and the Trust have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

*Employee leave benefits**i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(p) Distributions and dividends

Trusts generally distribute their distributable assessable income to their unitholders. Such distributions are determined by reference to the taxable income of the respective trusts. Distributable income may include capital gains arising from the disposal of investments and tax-deferred income. Unrealised gains and losses on investments that are recognised as income are usually retained and are generally not assessable or distributable until realised. Capital losses are not distributed to security holders but are retained to be offset against any future realised capital gains.

A liability for dividend or distribution is recognised in the Balance Sheet if the dividend or distribution has been declared, determined or publicly recommended prior to balance date.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid in the establishment of loan facilities that are yield related are included as part of the carrying amount of loans and borrowings.

Borrowings are classified as non-current liabilities where the Fund and the Trust have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing Costs

Borrowing costs are recognised as an expense when incurred unless they relate to a qualifying asset or to upfront borrowing establishment and arrangement costs, which are deferred and amortised as an expense over the life of the facility. A qualifying asset is an asset that generally takes more than 12 months to get ready for its intended use or sale. In these circumstances, the financing costs are capitalised into the cost of the asset. Where funds are borrowed by the Fund and the Trust for the acquisition or construction of a qualifying asset, the amount of the borrowing costs capitalised are those incurred in relation to the borrowing.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Fund and the Trust. Stapled securities are classified as equity. Incremental costs directly attributable to the issue of new securities are shown in equity as a deduction, net of tax, from the proceeds.

(s) Taxation

The Fund comprises taxable and non-taxable entities. A liability for current and deferred tax and tax expense is only recognised in respect of taxable entities that are subject to income tax and potential capital gains tax as detailed below.

Trust income tax

Under current Australian income tax legislation, the Trust is not liable to Australian income tax provided security holders are presently entitled to the taxable income of the trusts and the trusts generally distribute their taxable income.

Company income tax

AHL and its Australian resident wholly-owned subsidiaries have formed separate tax consolidation groups.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(s) Taxation (continued)**

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

15. AUDITOR'S REMUNERATION

	AHF Consolidated 30 June 2019 \$	AHF Consolidated 30 June 2018 \$	AHT Consolidated 30 June 2019 \$	AHT Consolidated 30 June 2018 \$
Amounts received or due and receivable by Ernst & Young Australia for:				
- an audit of the financial report of the entity and any other entity in the consolidated entity	9,690	80,000	7,690	49,000

16. EVENTS AFTER BALANCE SHEET DATE

Other than as disclosed in this report, there has been no other matter or circumstance that has arisen since the end of the year that has significantly affected, or may affect, the Fund's or the Trust's operations in future financial periods, the results of those operations or the Fund's or the Trust's state or 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 of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund's and the Trust's and consolidated entity's financial position as at 30 June 2019 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. the financial report also complies with International Financial Reporting Standards as disclosed in Note 14(b); and
- c. there are reasonable grounds to believe that the Fund and the Trust will be able to pay its debts as and when they become due and payable.

On behalf of the Board



John Thame
Chairman
Sydney, 16 August 2019



Steven Sewell
Managing Director

Independent Auditor's Report to the Members of Abacus Hospitality Fund

Opinion

We have audited the financial report of Abacus Hospitality Fund ('the Fund') and the entities it controlled at the year's end or from time to time during the financial year and Abacus Hospitality Trust (the 'Trust') and the entities it controlled at the year's end or from time to time during the financial year.), which comprises:

- the consolidated statements of financial position as at 30 June 2019;
- the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

In our opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Fund and Trust's financial position as at 30 June 2019 and of their financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund and Trust in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to note 14 of the financial report, which describes the basis of accounting. It is the Directors' intention to wind up the Fund prior to the next year end. As a result, the financial report has been prepared on a liquidation basis. Our opinion is not modified in respect of this matter.

Information Other than the Financial Report and Auditor's Report Thereon

The directors of Abacus Hospitality Limited and the directors of Abacus Funds Management Limited as Responsible Entity for the Trust are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Abacus Hospitality Limited and the directors of Abacus Funds Management Limited as Responsible Entity for the Trust are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's and Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's and Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund and Trust to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Fund and Trust audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ernst & Young



Kathy Parsons
Partner
Sydney
16 August 2019