

**ANGAS SECURITIES LIMITED**

**ACN: 091 942 728**

Annual report for the financial year ended 30 June 2016

## Directors' report

The directors of Angas Securities Limited ("the Company" or "Angas") submit herewith the annual financial report of the company for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Information about the directors

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
Andrew Luckhurst-Smith	Executive Chairman. Lawyer who has practiced principally in the area of banking and finance, member of the Banking and Financial Services Law Association of Australia Limited, joined the Board 29 March 2000.
Matthew John Hower	Managing Director. Finance industry experience in area of corporate structured finance, joined the Board 29 March 2000.
Clive Thomas Guthrie	Twenty seven years at Westpac handling general banking, financial services and trust management followed by 15 years at Trust Company as manager of corporate trusts and Senior Manager Structured Finance. Joined the Board 1 July 2013.

The above named directors held office during the whole of the financial year and since the end of the financial year.

### Directorships of other listed companies

No directors have held directorships of other listed companies in the three years immediately before the end of the financial year.

### Directors' shareholdings

The following table sets out each director's relevant interest in shares, fixed interest securities, and rights or options in shares or fixed interest securities of the company or a related body corporate as at the date of this report.

Directors	Angas Securities Limited			
	Fully paid ordinary shares Number	Partly paid ordinary shares Number	Redeemable Preference Shares \$	Fixed interest securities \$
A Luckhurst-Smith	171,976	-	-	-
M J Hower	3,049,518	-	-	-
C T Guthrie	-	-	-	-

### Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report section of this Directors' Report, on pages 6 to 11. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

### Company secretary

Ariel Slavin was appointed company secretary on 14 August 2015. She joined Lauren Crosby as dual company secretary. Both Lauren and Ariel are qualified solicitors and hold Bachelor degrees in Law and Arts and a Graduate Diploma in Legal Practice. Ariel Slavin resigned as company secretary on 18 August 2016 and Lauren Crosby resigned as company secretary on 19 September 2016. Natalie Gatis was appointed company secretary on 19 September 2016. She is a qualified solicitor who joined Angas from a national law firm where she specialised in the field of banking and finance.

## Principal activities

Historically, a significant component of the Company's business involved raising funds from investors under a Mortgage Debenture Deed (the "Trust Deed") and then lending those monies to various borrowers secured by first ranking mortgages over real property. This component is described as the "Mortgage Debenture Business". It is now in formal Run-Off.

A meeting was held on 11 August 2016 at which the debenture holders voted in favour of an extraordinary resolution to extend the period of the Run-Off. The outcome of the meeting was approved by the Federal Court on 19 August 2016. The details of the Run-Off are explained further under "Changes in state of affairs".

In addition, Angas is the responsible entity of two managed investment schemes, Angas Prime Income Fund and Angas Contributory Mortgage Fund, which have external investors. Angas Financial Services, being a division of Angas Securities Limited, is a housing and commercial loan broker.

The consolidated entity holds investments in real property. Five of the most substantial property investments are held in Angas Commercial Property Trust. This portfolio includes three well located commercial properties, of which two are fully let to single tenants with strong lease covenants including fixed rent increases. There are also two holdings of vacant land. All of these properties are intended to be sold pursuant to the Run-Off.

Other property investments comprise an interest in two units at Fernleigh Gardens Estate, Woodcroft, SA, and residential land at Wannanup, WA. Finally there is a structured finance investment in the Mannum Green Shopping Centre in SA.

## Review of operations

The operating profit of the consolidated group prior to impairment (after income tax and before dividends) for the period amounted to \$2,790,433 (2015: Loss \$2,817,898). This was a significant improvement over the previous year's result.

After allowing for impairment, the loss of the consolidated group (after income tax and before dividends) for the period amounted to \$8,840,397 (2015: Loss \$15,030,738).

Impaired loans continued to be managed. Further impairment expenses of \$11,630,830 have been incurred for the year ending 30 June 2016 assessed in accordance with Australian Accounting Standards.

Interest revenue decreased for the year due to a number of factors. The major influences impacting revenue are the treatment of loans having interest suspended or reduced as they are managed out to discharge, as well as a reduction in the mortgage book size of \$66,061,743 for the financial year.

During the period, the activities of the consolidated entity focused on the run-off of its traditional debenture business, as detailed below in "Change in state of affairs", the management of Angas Contributory Mortgage Fund ("ACMF") which is a commercial property finance portfolio that is funded externally, and the management of Angas Prime Income Fund ("APIF") which is a pooled mortgage trust. The Company is licensed by ASIC to be Responsible Entity for ACMF and APIF. Revenue is derived by the Company from managing these two mortgage trusts including a performance fee structure. The Company bears no credit risk for non-performance of loans in either ACMF's or APIF's portfolio.

At the meeting of debenture holders held on 11 August 2016, the Company expressed the intention to restructure ACMF and APIF by transferring the Responsible Entity and management to a wholly-owned subsidiary so that both businesses could be sold off (if required) to repay first ranking debentures pursuant to the Run-Off. The Company obtained the opinion of an independent expert which supported the view of the Directors that ACMF and APIF had a market value of \$10 million.

## Changes in state of affairs

### Mortgage Debenture Business – 2015 Run-Off Proposal

The Company and the Trustee for first ranking debenture holders reached an agreement on 9 June 2015. The core requirements of the agreement were that the Company agreed to submit a proposal (the "Run-Off Proposal") to the debenture holders that would require them to consider amending the Trust Deed for First Ranking Debenture Stock to give effect to the following:

- The redemption date for all debentures to be extended until 31 December 2016;
- The interest rate for all debentures to be reduced to 4% per annum with effect from 1 August 2015;
- The Company to make interim part redemptions of principal owed to debenture holders with a final discharge due by 31 December 2016. This is defined as the "Run-Off Period";
- An independent committee comprising three members to be established being the Loans Realisation Committee ("LRC") to consult with and advise the Board of the Company regarding the realisation of its loan assets during the Run-Off period;
- The Company was to hold a cash buffer of \$5 million at the end of each month to be used only with the approval of the LRC;
- The Company was to be released from certain of its obligations under the Trust Deed from the date the extraordinary resolution was passed until 31 December 2016, such as paying dividends to the holders of redeemable preference shares; and
- The Company and the Trustee to be authorised to do anything reasonably required to give effect to the Federal Court orders and the Run-Off Proposal.

A meeting was held on 10 August 2015 at which the debenture holders voted in favour of an extraordinary resolution to implement the Run-Off Proposal. The outcome of the meeting was then approved by the Federal Court on 14 August 2015 and the Company was then directed to amend the Trust Deed and implement the proposal accordingly.

The Board of the Company remains responsible for the conduct of the Company's business. The Board will consult with the LRC during the period of the Run-Off period. If the Board desires not to follow any opinions or advice of the LRC in relation to the loan asset realisation process, the Company and the Trustee will be required to seek directions from the Federal Court.

## Subsequent events

### Mortgage Debenture Business - 2016 Run-Off Proposal

Pursuant to the Run-Off Proposal detailed above, the Company had made payments to debenture holders comprising 34 cents in the dollar of the Principal Balances as at 30 June 2016. These payments had been made later than required by the Run-Off Proposal approved by the debenture holders in August 2015. Further, under the terms of the Run-Off Proposal, the Company was required to have paid debenture holders 50 cents in the dollar of their Principal Balances by 30 June 2016. The Company was therefore in breach of the Run-Off Proposal and the Trust Deed.

The Company made application to the Federal Court seeking relief from the consequences of its breach. The Company proposed changes to the Run-Off Proposal be put to the debenture holders at a further meeting for their approval. These changes are intended to give effect to the New Run-Off Proposal and broadly provide for:

- the dates and amounts of the remaining interim payments of Principal Balances to be amended such that Angas will make part payments of remaining Principal Balances in amounts determined by Angas where Angas holds sufficient cash to make payment;
- the redemption date for all Debentures to be extended from 31 December 2016 to 30 June 2017 or such later date, being no later than 30 September 2017, as is approved by the Loans Realisation Committee;
- interest payments on Debentures to be suspended from 1 August 2016 but with interest to continue to accrue at the current rate of 4% per annum and payment of this suspended interest to be made to debenture holders after their Debentures have been redeemed in full, or if Angas has insufficient assets remaining to pay the suspended interest in full, payment of their pro rata share of any remaining Angas assets in the New Run-Off Schedule;
- the release of Angas from certain of its obligations under the Trust Deed that were approved by debenture holders at the August 2015 meeting being extended to match the proposed extension to the redemption date for Debentures.

On 26 July 2016, the Company sent an explanatory notice to its debenture holders calling for a meeting to consider these proposals which required them to vote on an extraordinary resolution. The meeting was held on 11th August 2016 at which the debenture holders voted an extraordinary resolution in favour of the New Run-Off Proposal. The outcome of the meeting was then approved by the Federal Court on 19th August 2016 and the Company was then directed to amend the Trust Deed and implement the proposal accordingly.

The Directors have determined that the New Run-off Proposal has given rise to a substantial modification to the terms of the mortgage debenture liabilities (this has been explained in detail as at Note 3.2 Mortgage Debenture Business). This substantial modification is attributable to; the change in term of the debentures, the interest rate offered, the timing of the interest payments and the obligation for the Company to pay the interest. These amendments are considered to be qualitatively substantial. In an event of a substantial modification to a financial liability the directors are required to

derecognise the original financial liability and to recognise the new financial liability at fair value. The mortgage debenture liability will then be accounted for in accordance with the consolidated entity's accounting policies.

The Directors have been unable to accurately quantify the financial effect of the change as it requires them to determine the fair value of the liability which is a complex process and will require them to engage appropriately qualified advisors to assist them.

#### Hindmarsh Precinct Developments Pty Ltd

The "Share and Unit Sale and Purchase Agreement" to sell Angas' 70% investment in Hindmarsh Precinct Developments was executed in July 2016. In accordance with the terms of the contract, Angas received \$500,000 on 19 July 2016 with the balance to be received on 31 October 2016.

### **Future developments**

The Company is required to run-off its mortgage debenture business by 30 June 2017 or such later date, being no later than 30 September 2017. The consolidated entity plans to maintain the retail lending business which generates fee income from retail lending using third party funding sources. APIF is a retail investment product comprising a pooled mortgage trust. This product is in addition to the contributory mortgage trust known as ACMF. Both mortgage trusts are becoming established as Managed Investment Schemes for retail investors. They are expected to be solid contributors to earnings during the 2017 financial year, but may be sold if required to fulfill the Company's obligations under the Run-Off Proposal.

A diminution in direct competitors, the increasing demographic of the Australian population seeking self-funded retirement products and low interest rates are expected to underpin the strength of the Company's retail offerings.

Business risks that Angas faces to its financial performance include credit losses of principal and interest in respect of its lending activities from its run-off debenture funded portfolio. These could arise due to loan size, borrower default, and protracted delays in realising security and falls in the property market. As some direct property investments are geared, any losses could be magnified. Investments utilising put and call structures expose Angas to equity risk. The Directors believe that there are appropriate risk management structures in place to mitigate against potential losses. In the case of ACMF and APIF, losses from lending are absorbed by investors in the mortgage trusts rather than by the Company as manager.

### **Dividends**

No dividend was declared in respect of the financial year ended 30 June 2016.

### Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named on page 1), the Company Secretary, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 16 Board meetings and 11 Audit, Risk Management and Compliance Committee ("ARMCO") meetings were held.

Directors	Board Meetings		ARMCO	
	Held	Attended	Held	Attended
Mr A Luckhurst-Smith	16	16	11	11
Mr M J Hower	16	14	-	1 **
Mr C T Guthrie	16	16	-	1 **

\*\* - Mr M Hower and Mr C Guthrie were present as observers at one ARMCO meeting to approve the 30 June 2015 Audited financial statements.

### Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 37 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 37 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### Auditor's independence declaration

The auditor's independence declaration is included on page 12 of the annual report.

## Remuneration report

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Angas Securities Limited's key management personnel ("KMP") for the financial year ended 30 June 2016. The term KMP refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel
- remuneration policy
- relationship between the remuneration policy and company performance
- remuneration of key management personnel
- key terms of employment contracts.

### Key Management Personnel

The directors and other key management personnel of the consolidated entity during or since the end of the financial year were:

Name	Position	Appointment Date
Matthew Hower	Managing Director	24 March 2000
Andrew Luckhurst-Smith	Executive Chairman	24 March 2000
Clive Guthrie	Non-executive Director	1 July 2013
Lauren Crosby	Company Secretary (dual)	13 May 2015 (resigned 19 September 2016)
Ariel Slavin	Company Secretary (dual)	14 August 2015 (resigned on 18 August 2016)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

### Remuneration policy

Under ordinary circumstances, as each KMP fulfils a different role in the consolidated entity, each KMP will be entitled to an annual review of remuneration. This review will require an independent assessment from an industry expert which will determine that the KMP's remuneration is at a market level for their particular role. The Board will then review the independent expert's assessment and confirm whether it accepts the recommended rate. This is solely at the Board's discretion and the relevant KMP must abstain from voting with regard to their particular recommendation.

The last Remuneration Report was obtained from Makrid Preiss early in the 2015 financial year. Since that time, there has been no increase in remuneration to the Executive Directors.

Moreover, it was agreed that as a result of the implementation of the Run-Off Proposal, the remuneration packages of the Executive Directors would be reduced by 15%. The Board approved this reduction, which was effective 1 October 2015.

Annual Remuneration as at 30 June 2016:

Name	Annual Salary *	% Paid
Matthew Hower	\$208,680 + 9.5% Super	100%
Andrew Luckhurst-Smith	\$208,680 + 9.5% Super	100%
A Slavin	\$85,000 + 9.5% Super	100%
Clive Guthrie **	N/A	N/A

\* The term Annual Salary refers to a nominal amount and each executive is only entitled to be paid a percentage of that nominal salary. The percentage paid is calculated based on hours worked as agreed by the Board.

\*\* Mr Guthrie is a non-executive director and therefore is not paid a salary. Mr Guthrie is paid a directors fee of \$5,000.00 per month and \$1,000.00 per month consultancy fee for heading the Due Diligence Committee and being a member of the Loans Realisation Committee (LRC).

KMP (excluding the Company Secretary) are not entitled to long service leave but will be entitled to annual leave in accordance with the agreed Annual Leave Policy for Executive Directors.

No KMP (excluding the Company Secretary) are employed under contract.

KMP are paid in line with the current market with respect to salaries.

Remuneration for KMP has not been linked to performance, with no automatic annual remuneration increases made.

The Angas Securities Board has determined that from company inception, the most appropriate way to protect its investors and to maximise shareholder wealth is to manage the company in a prudent and conservative manner. No change to the dividend policy is envisaged and in any case, this can only be implemented by a Board resolution.

The Board has adopted a Policy on Security Interest over Shareholdings on 22 May 2008. The policy reflects:

1. Directors will not register charges over their shareholding in ASL without the consent of the Board;
2. In the absence of sound commercial reasons that are for the benefit of ASL such consent will not normally be forthcoming; and
3. In the event directors' ASL shareholding is changed, the National Stock Exchange ("NSX") will be immediately notified.

There are no margin loans against any Angas Securities shares held by Executive Directors.

With respect to the company's capital base, it cannot be reduced without full consent of the Board, trustee and an independent auditor's sign off. The independent auditors' sign off is a requirement under the Trust Deed for First Ranking Debenture Stock ('agreed upon procedures') and of the Board.

#### Relationship between the remuneration policy and company performance

The Board has determined that as the majority of KMP are also shareholders of the business it is not appropriate to link remuneration to company performance. Accordingly, KMP are not entitled to instruments such as performance and equity options. Likewise, there will be no cash incentives or bonus payments available for KMP.

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2016:

	30 June 2012 \$	30 June 2013 \$	30 June 2014 \$	30 June 2015 \$	30 June 2016 \$
Revenue	35,728,620	44,448,874	33,563,703	30,215,630	22,730,736
Net profit / (loss) before tax	2,012,309	1,252,562	(7,981,874)	(11,732,892)	(8,826,949)
Net profit / (loss) after tax	1,547,125	534,187	(5,422,923)	(15,030,738)	(8,840,397)

	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
Share price at start of year <sup>2</sup>	-	-	-	-	-
Share price at end of year <sup>2</sup>	-	-	-	-	-
Interim dividend <sup>1</sup>	-	-	-	-	-
Final dividend <sup>1</sup>	1,000,000	1,000,000	-	-	-

<sup>1</sup> Franked to 100% at 30% corporate income tax rate.

<sup>2</sup> Angas Securities Limited shares are not traded in an active market and therefore no price is disclosed.

Angas Securities Limited shares are not traded in an active market and hence there is no link between performance and the share price.



**Remuneration of key management personnel**

2016	Short-term employee benefits			Post-employment benefits	Total
	Salary	Fees (i)	Allowances	Superannuation	
	\$	\$	\$	\$	\$
<b>Executive officers</b>					
M J Hower	222,966	53,250	-	21,182	297,398
A Luckhurst-Smith	212,807	53,250	-	20,217	286,274
C T Guthrie	-	72,000	-	-	72,000
A Slavin	63,839	-	-	6,065	69,904
L Crosby (ii)	-	-	-	-	-
					<b>725,576</b>

2015	Short-term employee benefits			Post-employment benefits	Total
	Salary	Fees (i)	Allowances	Superannuation	
	\$	\$	\$	\$	\$
<b>Executive officers</b>					
M J Hower	262,728	60,000	-	24,959	347,687
A Luckhurst-Smith	220,164	60,000	-	20,916	301,080
P S McCarthy	27,022	8,548	-	2,567	38,137
C T Guthrie	-	72,000	-	-	72,000
E Starck	97,978	-	-	8,824	106,802
L Crosby (ii)	-	-	-	-	-
					<b>865,706</b>

(i) Fees relate to directors fees.

(ii) L Crosby was not employed by the Company, but has been on secondment from Charlton Rowley Lawyers.

No director or senior management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

**Bonuses and share-based payments granted as compensation for the current financial year**

Bonuses

There are no cash incentives or bonus payments available for KMP.

Employee share option plan

There are no share option plans.

Other share based compensation

There is no other share based compensation.

**Key terms of employment contracts**

No KMP (excluding the Company Secretary) are employed under contract.

The Company Secretary is employed under a standard salary based employment contract. Under the terms of the contract either party can terminate the contract with 4 weeks written notice.

The employment contract is set for a fixed annual amount plus 9.50% superannuation with annual salary reviews.

**Loans to key management personnel**

The consolidated entity has not provided any key management personnel with any loans.

**Key management personnel equity holdings**

Fully paid ordinary shares of Angas Securities Limited

	Balance at 1 July No.	Net other change No.	Balance at 30 June No.
<b>2016</b>			
A Luckhurst-Smith	171,976	-	171,976
M J Hower	424,176	2,625,342	3,049,518
<b>2015</b>			
A Luckhurst-Smith	171,976	-	171,976
M J Hower	424,176	-	424,176

Partly paid ordinary shares of Angas Securities Limited

	Balance at 1 July No.	Net other change No.	Balance at 30 June No.
<b>2016</b>			
-	-	-	-
<b>2015</b>			
-	-	-	-

**Other transactions with key management personnel of the Group**

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

	Consolidated	
	2016	2015
	\$	\$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the consolidated entity or their related parties:		
Serviced office	21,388	128,328
Trail commission	823	7,717
	22,211	136,045
Consolidated profit includes the following expenses arising from transactions with key management personnel of the consolidated entity or their related parties:		
Legal consultancy	-	46,998
Management fee	100,083	102,554
	100,083	149,552
Total adjustments to assets arising from transactions pertaining to loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Trade and other receivables	-	-
	-	-

Angas Securities Limited charged a service fee to Hower Corporation Pty Ltd, of which Mr M J Hower is a director, for office space, equipment and services provided. For the 2016 financial year \$21,388 (2015: \$128,328) was charged to Hower Corporation Pty Ltd in the form of a service fee. This arrangement was terminated on 31 August 2015. The balance of service fees owing from Hower Corporation Pty Ltd as at 30 June 2016 was \$351,896 (2015: \$534,722).

During the 2015/16 financial year, the retail lending business received \$823 (2015: \$7,717) in trail commission from FAST in relation to residential home loans held by Andrew Luckhurst-Smith.

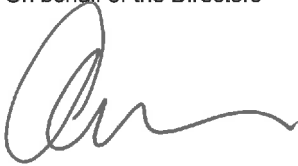
No amounts were paid to Mr A Luckhurst-Smith for legal consultancy fees for the current year (2015: \$ 46,998).

A management fee was paid by Angas Commercial Property Trust ("Trust") to Angas Property Fund Limited (M J Hower and A Luckhurst-Smith are shareholders of this company) of \$100,083 (2015: \$102,554). The management fee related to services provided by Angas Property Fund Limited relating to the management of investment properties held within the Trust.

Included under assets in trade and other receivables (trailing commission receivable) an amount totalling \$8,470 (2015: \$30,299) has been included as trailing commission receivable by the company as a result of home loans between Mr A Luckhurst-Smith and Angas Financial Services; and Mr Paul McCarthy (former director) and Angas Financial Services. The trail commission receivable rate is determined by FAST.

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



A Luckhurst-Smith  
Director  
Adelaide, 12 October 2016

The Board of Directors  
Angas Securities Limited  
Level 14, 26 Flinders Street  
ADELAIDE SA 5000

12 October 2016

Dear Board Members

Angas Securities Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Angas Securities Limited.

As lead audit partner for the audit of the financial statements of Angas Securities Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



S T Harvey  
Partner  
Chartered Accountants

## Independent Auditor's Report to the members of Angas Securities Limited

### Report on the Financial Report

We have audited the accompanying financial report of Angas Securities Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 15 to 73.

### *Directors' Responsibility for the Financial Report*

The directors of the company 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 Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Angas Securities Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of Angas Securities Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

## *Emphasis of matter*

Without modifying our opinion, we draw attention to Note 3 in the financial report, which indicates that the consolidated entity incurred a loss of \$8,840,397 and has net operating cash outflows of \$6,812,794 for the year ended 30 June 2016 and as of that date the consolidated entity has net liabilities of \$6,139,164. These conditions, along with other matters set forth in Note 3 under the headings entitled 'Material Uncertainty around critical estimates, judgments and assumptions' and 'Going Concern', indicate the existence of a material uncertainty that may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and therefore, the company and the consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.


## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Angas Securities Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



S T Harvey  
Partner  
Chartered Accountants  
Adelaide, 12 October 2016

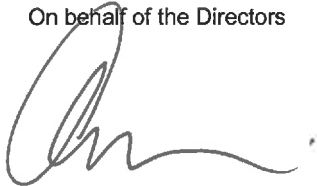
## Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3 of the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors



A Luckhurst-Smith  
Director  
Adelaide, 12 October 2016



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## Consolidated statement of profit or loss and other comprehensive income for the financial year ended 30 June 2016

	Note	Consolidated		Company	
		2016 \$	2015 \$	2016 \$	2015 \$
Interest revenue	6	14,248,983	20,785,871	14,241,696	20,770,065
Interest expense	7	(9,224,613)	(19,118,043)	(8,258,621)	(18,053,001)
<b>Net interest revenue</b>		<b>5,024,370</b>	<b>1,667,828</b>	<b>5,983,075</b>	<b>2,717,065</b>
Non interest revenue	6	8,481,753	9,429,759	6,517,678	7,709,880
Marketing expenses		(120,785)	(370,000)	(120,785)	(370,000)
Occupancy expenses		(609,383)	(688,160)	(609,383)	(688,160)
Administration expenses	8	(8,536,095)	(8,885,626)	(8,450,296)	(8,843,252)
Impairment expenses	8	(11,630,830)	(12,212,840)	(11,139,150)	(11,903,897)
Other expenses		(1,435,979)	(673,853)	(487,651)	(97,862)
<b>Profit / (loss) before tax</b>		<b>(8,826,949)</b>	<b>(11,732,892)</b>	<b>(8,306,512)</b>	<b>(11,476,227)</b>
Income tax benefit / (expense)	9	(13,448)	(3,297,846)	-	(3,119,665)
<b>Profit / (loss) for the year</b>		<b>(8,840,397)</b>	<b>(15,030,738)</b>	<b>(8,306,512)</b>	<b>(14,595,892)</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>(8,840,397)</b>	<b>(15,030,738)</b>	<b>(8,306,512)</b>	<b>(14,595,892)</b>
Attributable to:					
Equity holders of the parent		(8,791,634)	(14,990,388)	(8,306,512)	(14,595,892)
Non-controlling interests		(48,763)	(40,350)	-	-
		<b>(8,840,397)</b>	<b>(15,030,738)</b>	<b>(8,306,512)</b>	<b>(14,595,892)</b>

Notes to the financial statements are included on pages 21 to 73.

## Consolidated statement of financial position as at 30 June 2016

	Note	Consolidated		Company	
		2016 \$	2015 \$	2016 \$	2015 \$
<b>Assets</b>					
Cash and cash equivalents	33(a)	4,696,078	27,972,738	4,392,853	27,607,459
Trade and other receivables	11	21,672,303	13,731,411	21,109,024	13,314,082
Current tax assets	9	-	79,308	-	79,308
Property held for resale	17	3,613,500	5,052,803	-	1,439,303
Loans	13	100,755,411	166,817,154	100,241,279	165,921,322
Deferred tax assets	9	-	-	-	-
Other financial assets	12	424,952	300,000	15,294,177	15,405,300
Property, plant and equipment	15	31,344	89,917	19,328	76,472
Other assets	21	1,725,460	2,639,091	1,712,205	2,567,362
Inventory - property	18	396,000	2,514,600	396,000	2,514,600
Investment property	16	29,354,193	29,609,202	519,750	519,750
Other intangible assets	20	11,006	44,578	11,006	44,578
Goodwill	19	-	141,611	-	141,611
<b>Total assets</b>		<b>162,680,247</b>	<b>248,992,413</b>	<b>143,695,622</b>	<b>229,631,147</b>
<b>Liabilities</b>					
Trade and other payables	23	2,978,257	4,355,073	2,306,089	3,840,840
Other financial liabilities	26	-	144	-	144
Interest bearing liabilities	24	165,573,514	249,772,509	145,955,209	230,168,465
Current tax liability	9	55,625	70,577	-	-
Provisions	25	212,015	289,935	212,015	289,935
<b>Total liabilities</b>		<b>168,819,411</b>	<b>254,488,239</b>	<b>148,473,313</b>	<b>234,299,385</b>
<b>Net assets</b>		<b>(6,139,164)</b>	<b>(5,495,825)</b>	<b>(4,777,691)</b>	<b>(4,668,238)</b>
<b>Equity</b>					
Issued capital	27	17,225,127	9,028,067	17,225,127	9,028,067
Retained earnings	28	(23,433,152)	(14,641,517)	(22,002,818)	(13,696,305)
Equity attributable to equity holders of the parent		(6,208,025)	(5,613,450)	(4,777,691)	(4,668,238)
Non-controlling interest		68,861	117,624	-	-
<b>Total equity</b>		<b>(6,139,164)</b>	<b>(5,495,825)</b>	<b>(4,777,691)</b>	<b>(4,668,238)</b>

Notes to the financial statements are included on pages 21 to 73.

## Consolidated statement of change in equity for the financial year ended 30 June 2016

### Consolidated

	Issued Capital \$	Retained earnings \$	Non-controlling interest \$	Total \$
<b>Balance at 30 June 2014</b>	9,028,067	872,711	(117,921)	9,782,857
Profit/(loss) for the period	-	(14,990,388)	(40,350)	(15,030,738)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(14,990,388)	(40,350)	(15,030,738)
Payment of dividends – ordinary shares	-	-	-	-
Payment of dividends – preference shares	-	(247,945)	-	(247,945)
Transfer of units with minority interests	-	(275,894)	275,894	-
Issue of capital – ordinary shares	-	-	-	-
Issue of capital – preference shares	-	-	-	-
Installment partly paid shares	-	-	-	-
Other	-	-	-	-
<b>Balance at 30 June 2015</b>	9,028,067	(14,641,517)	117,624	(5,495,827)
Profit/(loss) for the period	-	(8,791,634)	(48,763)	(8,840,397)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(8,791,634)	(48,763)	(8,840,397)
Payment of dividends – ordinary shares	-	-	-	-
Payment of dividends – preference shares	-	-	-	-
Transfer of units with minority interests	-	-	-	-
Conversion of RPS to ordinary shares	7,745,342	-	-	7,745,342
RPS interest payable derecognised	451,718	-	-	451,718
Issue of capital – ordinary shares	-	-	-	-
Issue of capital – preference shares	-	-	-	-
Installment partly paid shares	-	-	-	-
<b>Balance at 30 June 2016</b>	17,225,127	(23,433,152)	68,861	(6,139,164)

### Company

	Issued Capital \$	Retained earnings \$	Non-controlling interest \$	Total \$
<b>Balance at 30 June 2014</b>	9,028,067	1,147,532	-	10,175,599
Profit/(loss) for the period	-	(14,595,892)	-	(14,595,892)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(14,595,892)	-	(14,595,892)
Payment of dividends – ordinary shares	-	-	-	-
Payment of dividends – preference shares	-	(247,945)	-	(247,945)
Installment partly paid shares	-	-	-	-
<b>Balance at 30 June 2015</b>	9,028,067	(13,696,305)	-	(4,668,238)
Profit/(loss) for the period	-	(8,306,512)	-	(8,306,512)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(8,306,512)	-	(18,306,512)
Payment of dividends – ordinary shares	-	-	-	-
Payment of dividends – preference shares	-	-	-	-
Conversion of RPS to ordinary shares	7,745,342	-	-	7,745,342
RPS interest payable derecognised	451,718	-	-	451,718
Installment partly paid shares	-	-	-	-
<b>Balance at 30 June 2016</b>	17,225,127	(22,002,818)	-	(4,777,691)

Notes to the financial statements are included on pages 21 to 73.

**Consolidated statement of cash flows  
for the financial year ended 30 June 2016**

	Note	Consolidated		Company	
		2016 \$	2015 \$	2016 \$	2015 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		8,816,774	9,777,523	7,033,001	8,072,658
Payments to suppliers and employees		(9,160,614)	(13,609,671)	(8,333,855)	(13,259,276)
Payments of property investment distributions		(7,816)	(8,395)	-	-
Interest received		4,621,562	19,152,230	4,725,048	19,411,094
Interest paid		(11,162,008)	(20,669,491)	(10,249,451)	(19,596,976)
Income tax received		79,308	-	79,308	-
Income taxes paid		-	(65,822)	-	(13,062)
Net cash used in operating activities	33(d)	(6,812,794)	(5,423,626)	(6,745,949)	(5,385,562)
<b>Cash flows from investing activities</b>					
Proceeds from repayment of mortgage loans		58,128,087	82,550,607	57,956,023	82,528,607
Payments for mortgage loans		(1,280,128)	(52,847,002)	(1,280,128)	(52,883,002)
Proceeds from units in trust		-	-	-	-
Payment of units in trust		-	-	-	(600,000)
Proceeds from sale of property held for resale		1,439,303	4,289,356	1,439,303	4,289,356
Amounts advanced to subsidiaries		-	-	-	(197,707)
Amounts received from subsidiaries		-	-	150,000	-
Payment for investment properties		(170,100)	-	-	-
Payments for property, plant and equipment		-	(28,969)	-	(14,728)
Payment of building and development costs for investment properties		5,540	(53,746)	-	-
Net cash outflow on disposal of subsidiary	38(c)	-	-	-	-
Amounts advanced to subsidiaries		-	-	-	-
Net cash provided by / (used in) investing activities		58,122,702	33,910,246	58,265,198	33,122,526
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		133,026	88,726	-	-
Repayment of borrowings		14,260	(1,165,381)	-	(1,046,658)
Repayment of units redeemed in trust		-	-	-	-
Proceeds from issue of equity securities		-	-	-	-
Proceeds from investors – managed investment scheme		-	-	-	-
Payment for investment in subsidiary		-	(1,078,726)	-	-
Proceeds from issue of fixed interest securities		(144)	12,038,598	(144)	12,038,598
Repayment of fixed interest securities		(74,733,711)	(32,894,123)	(74,733,711)	(32,894,123)
Proceeds from issue of redeemable preference shares		-	-	-	-
Repayment of redeemable preference shares		-	-	-	-
Payment of debt issue costs		-	-	-	-
Dividends paid:					
- members of parent entity		-	(247,945)	-	(247,945)
Net cash provided by / (used in) financing activities		(74,586,569)	(23,258,851)	(74,733,855)	(22,150,128)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(23,276,661)</b>	<b>5,227,769</b>	<b>(23,214,606)</b>	<b>5,586,836</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>27,972,738</b>	<b>22,744,969</b>	<b>27,607,459</b>	<b>22,020,623</b>
<b>Cash and cash equivalents at the end of the financial year</b>	33(a)	<b>4,696,078</b>	<b>27,972,738</b>	<b>4,392,853</b>	<b>27,607,459</b>

Notes to the financial statements are included on pages 21 to 73.

## 1. General information

Angas Securities Limited (the Company) is a public company incorporated in Australia and operating in Adelaide. Fixed interest securities issued up to and including the date of 31 January 2014 by Angas Securities Limited were listed on the National Stock Exchange (NSX). No fixed interest securities were listed on the NSX after 31 January 2014.

The Company's registered office and its principal place of business is as follows:

<b>Registered office</b> Level 14, 26 Flinders Street Adelaide SA 5000 Tel: (08) 8410 4343	<b>Principal place of business</b> Level 14, 26 Flinders Street Adelaide SA 5000 Tel: (08) 8410 4343
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The principal activities of the Company and its subsidiaries (the consolidated entity) are described in note 5.

## 2. Application of new and revised Accounting Standards

### 2.1 Amendments to AASBs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Group has applied two amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.
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The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### 2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of financial statements, the Standards and Interpretations that were issued but not yet effective are listed below.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB128'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017

**2. Application of new and revised Accounting Standards (cont'd)**  
**2.2 Standards and Interpretations in issue not yet adopted (cont'd)**

AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

At the date of publication, there have been no IASB Standards or IFRIC Interpretations that are issued but not yet effective.

**3. Significant accounting policies**

**3.1 Statement of compliance**

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the separate financial statements of the Company and the consolidated financial statements of the consolidated entity. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the consolidated entity comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 12 October 2016.

**3.2 Basis of preparation**

The consolidated financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Going Concern and Material Uncertainty around critical estimates, judgments and assumptions**

**Mortgage Debenture Business**

A significant component of the Company's business involves raising funds from investors under a Mortgage Debenture Deed (the "Trust Deed") and then lending those monies to various borrowers secured by first ranking mortgages over real property. This component is described as the "Mortgage Debenture Business".

The Mortgage Debenture Business is overseen by an Independent Trustee who is appointed under the Mortgage Debenture Deed and acts on behalf of the Investors to ensure the Company complies with the Mortgage Debenture Deed.

### 3.2 Basis of preparation (cont'd)

#### Going Concern and Material Uncertainty around critical estimates, judgments and assumptions (cont'd)

Due to deterioration in the property market after the global financial crisis, the value of securities supporting the loans made under the Mortgage Debenture Deed reduced to a point where the Trustee considered there may exist uncertainty as to whether the Company could meet its obligations under the Mortgage Debenture Deed.

Subsequent to a series of negotiations and protracted court proceedings, the Company and the Trustee reached an agreement on 9 June 2015. The core requirements of the agreement were that the Company agreed to submit a proposal (the "Run-Off proposal") to the debenture holders that would require them to consider amending the Trust Deed for First Ranking Debenture Stock to give effect to the following:

- The redemption date for all debentures to be extended until 31 December 2016;
- The interest rate for all debentures to be reduced to 4% per annum with effect from 1 August 2015;
- The Company to make interim part redemptions of principal owed to debenture holders commencing on 30 October 2015 followed by further interim part redemptions with a final discharge due by 31 December 2016. This is defined as the "Run-Off period";
- An independent committee comprising three members to be established being the Loans Realisation Committee ("LRC") to consult with and advise the Board of the Company regarding the realisation of its loan assets during the Run-Off period;
- The Company was to hold a cash buffer of \$5 million to be used only with the approval of the LRC;
- The Company was to be released from certain of its obligations under the Trust Deed from the date the extraordinary resolution was passed until 31 December 2016, such as paying dividends to the holders of redeemable preference shares; and
- The Company and the Trustee to be authorised to do anything reasonably required to give effect to the Federal Court orders and the Run-Off Proposal.

A meeting was held on 10 August 2015 at which the debenture holders voted in favour of an extraordinary resolution to implement the Run-Off Proposal. The outcome of the meeting was then approved by the Federal Court on 14 August 2015 and the Company was then directed to amend the Trust Deed and implement the proposal accordingly.

The Board of the Company remains responsible for the conduct of the Company's business. The Board will consult with the LRC during the period of the Run-Off Proposal of the mortgage debentures. If the Board desires not to follow any opinions or advice of the LRC in relation to the loan asset realisation process, the Company and the Trustee will be required to seek directions from the Federal Court.

The first payment of 20c in the dollar to debenture holders in accordance with the Run-Off Proposal was due to be paid on 30 October 2015. The Company sought approval from the LRC on 28 October 2015 to make a payment of 16c on 30 October 2015 and another payment of 4c on 20 November 2015 due to the timing of realisation of loan assets. These payments were made to debenture holders on 30 October 2015 and 20 November 2015 respectively. The cash buffer was used to make the payment to debenture holders on 20 November 2015 with the conditional approval of the LRC.

The second payment of 20c in the dollar to debenture holders was due to be paid on 29 February 2016. The Company sought approval from the LRC on 21 January 2016 to make a payment of 10c on 29 February 2016 and a payment of 10c on 30 April 2016 due to the timing of realisation of loan assets. This was approved by the LRC and the payment of 10c was paid to debenture holders on 29 February 2016 with permission of the LRC to use some of its cash buffer.

Due to the timing of realisation of loan assets, the Company was unable to make the payment of 10c in the dollar that was due to be paid on 30 April 2016. The Company then made a 4c payment to debenture holders on 24 June 2016.

As at 30 June 2016, the Company had therefore made payments to debenture holders comprising 34 cents in the dollar of the Principal Balances, but, under the terms of the Run-Off Proposal, the Company was required to have paid debenture holders 50 cents in the dollar of their Principal Balances.

In accordance with the New Run-Off Proposal accepted by debenture holders at the second investor meeting held 11 August 2016, part payments of remaining Principal Balances will be made at the end of a given month in which the Company holds sufficient cash in excess of the cash buffer. Further, the redemption date for all debentures has been extended from 31 December 2016 to 30 June 2017 or such later date, being no later than 30 September 2017, as is approved by the LRC.

The Directors believe it has put in place plans which will achieve the repayment schedule as set out above.

#### Material Uncertainty around critical estimates, judgments and assumptions

As with the Run-Off Proposal, the New Run-Off Proposal (this is explained in more detail in the preceding note entitled "Mortgage Debenture Business") requires the Directors of the Company to make significant estimates, judgments and assumptions in relation to the method, quantum and timing of cashflows in respect of the repayments, and refinancing of loan facilities and/or the orderly realisation of the securities supporting those facilities. The Directors have applied their knowledge and experience in the areas of lending, property development and property management, and have sought advice from appropriately qualified professionals. In relation to each loan facility and other assets, a realisation strategy has been developed to maximise the returns to investors. There have been selling agents appointed to properties representing approximately 87% of the loan facilities and other assets. The Directors intend to ensure that the remaining 13% of loan facilities and other assets have selling agents appointed in the near term.



### 3.2 Basis of preparation (cont'd)

#### Material Uncertainty around critical estimates, judgments and assumptions (cont'd)

There is a significant level of volatility and uncertainty in relation to both the quantum and timing of future cash flows and decisions will need to be made as to when each asset is realised. There are many milestones and hurdles in this process and if delays occur the timing of asset sales may need to be varied to obtain the best outcome for the investors. In some cases these events could result in further impairment of the carrying value of loan assets.

The Directors have assessed impairment based on the best information available to them. Given the factors set out above, there is inherent and significant uncertainty in relation to estimates, judgments and assumptions made and if the ultimate outcome of the events and circumstances surrounding each loan facility realisation are not consistent with those estimates, judgments and assumptions then the Company and the Consolidated Entity may not achieve the carrying amounts in the financial statements resulting in further impairment charges.

#### Going Concern

The financial report has been prepared on the going concern basis which contemplates the continuity of business activities and the realisation of assets and the settlement of liabilities in the normal course of business and in line with the New Run-Off Proposal.

For the reasons outlined below, there is material uncertainty whether the Company and Consolidated Entity will continue as going concerns:

- 1) The result of the year ended 30 June 2016 is a loss after tax of \$8.84 million (2015: \$15.03 million loss), resulting in a net liability position of \$6.14 million.
- 2) The net operating cash outflows have increased in the current year to \$6.81 million (2015: \$5.42 million). Net cash outflows/(inflows) from financing and investing activities were \$16.46 million (2015: \$(10.65) million).
- 3) The Company and the Consolidated Entity have a significant number of loan facilities which are non-performing and therefore are not earning interest or fee income and are at a risk of incurring further impairments. The Company and the Consolidated Entity have amended the Trust Deed with the mortgage debenture holders as set out above which had committed the Company and the Consolidated Entity to a Run-Off Proposal and required payments to be made to mortgage debenture holders for the amounts and dates contained therein. Actual performance during the period:
  - Repaid 16% on 31 October 2015 and the LRC agreed to an extension to 20 November 2015 for the balance of 4%
  - The Company sought and received approval from the LRC to vary the 29 February 2016 repayment to be paid 10% on 29 February 2016 and 10% on 30 April 2016.
  - The Company repaid 10% on 29 February 2016 with permission of the LRC to use some of its cash buffer.
  - The Company repaid 4% on 24 June 2016.
- 4) The New Run-Off Proposal requires the Company and the Consolidated Entity to realise the mortgage loans and other assets to meet the remaining payments by 30 June 2017, or such later date, being no later than 30 September 2017, as is approved by the LRC. The realisation of loan assets to make payments to debenture holders requires the Directors of the Company to make significant estimates, judgments and assumptions in relation to the method, quantum and timing of cash flows from the repayments, refinancing of loan facilities and/or orderly realisation of the securities supporting those facilities. This is explained in more detail in the preceding note entitled "Material Uncertainty around critical estimates, judgments and assumptions". If the Company and the Consolidated Entity are unable to meet these commitments or obtain further approval from the LRC, this will result in the Company and the Trustee seeking directions from the Federal Court.
- 5) The Company breached its obligations under its Australian Financial Services Licence ("AFSL") as at 30 June 2016, in relation to its net asset requirements.

The Directors believe that it is appropriate to prepare the financial report on the going concern basis after considering the following mitigating factors:

- 1) The Directors and management spent significant time preparing the New Run-Off Proposal. In doing so, the Directors have applied their knowledge and experience in the areas of lending and property development and property management and sought advice from appropriately qualified professionals and in relation to each loan facility, developed a realisation strategy which they believe will maximise the returns to the investors. The Directors have assessed that the assumptions underlying the New Run-Off Proposal were reasonable and achievable.
- 2) In relation to loan assets where the Company is realising the value of underlying securities, the estimated quantum and timing of the net cash flows is based on the estimated net realisable value for which a property can be exchanged on the estimated date of sale and taking into account the estimated selling costs likely to be incurred in the disposal of the property. The 30 June 2016 estimations are the Directors' assessment of the net cash flows arising from the price that they expect they can achieve within the required timeframe, based on their business experience and, where available, a combination of external advice, sales plans presented by licensed real estate agents and offers received for the properties.
- 3) A significant portion of the operating loss for the financial year has resulted from the impairment of certain loans and other assets.
- 4) The Directors believe that the Company's and the Consolidated Entity's continued focus as fund manager, the restructuring and streamlining of business operations and overhead structure will ensure the Company and the Consolidated Entity are well placed during the New Run-Off Proposal.

- 5) The Company estimates that it has rectified its breach of its AFSL on 11 August 2016, under the New Run-Off Proposal where the mortgage debenture liability will be recognised at fair value. This is detailed in "Mortgage Debenture Business – 2016 Run-Off Proposal" under Subsequent Events.

If the above mitigating factors are not achieved, then there is material uncertainty whether the Company and the Consolidated Entity will continue as going concerns and therefore whether they will realise their assets and settle their liabilities in the normal course of business and in line with the New Run-Off Proposal. If this occurs, it is likely to result in the Company and the Consolidated Entity being placed in to formal administration. The financial report does not include adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Company and the Consolidated Entity not continue as going concerns.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

### 3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with consolidated entity's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the consolidated entity's ownership interests in subsidiaries that do not result in the consolidated entity losing control are accounted for as equity transactions. The carrying amounts of the consolidated entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the consolidated entity loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the consolidated entity had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

### 3. Significant accounting policies (cont'd)

#### 3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the consolidated entity, liabilities incurred by the consolidated entity to the former owners of the acquiree and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the consolidated entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Noncurrent Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the consolidated entity's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the consolidated entity attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

#### 3.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see 3.4 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

### 3. Significant accounting policies (cont'd)

#### 3.5 Goodwill (cont'd)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The consolidated entity's policy for goodwill arising on the acquisition of an associate is described at 3.4 above.

#### 3.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

##### Interest revenue

Interest revenue from a financial asset is recognised when it is probable that the economic benefits will flow to the consolidated entity and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### Trust distribution

Trust distribution revenue is recognised when receivable.

##### Loan fee income

Loan fee income is recognised over the loan period. However, loan fee income which is earned as a result of maintaining the loan will be recognised as revenue as the service is provided.

##### Trailing commission

Trailing commission is recognised as revenue as the service is provided. Interest revenue on trailing commission is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

##### Upfront commission

Upfront commission is recognised as revenue when received. The upfront commission is paid at loan settlement date and no further servicing is required to fulfil the receipt of the upfront commission.

##### Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

##### Profit on sale of property

Revenue from the sale of property is recognised when all the following conditions are satisfied:

- the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the consolidated entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

In addition, where the consolidated entity enters an agreement that locks in the sale price to be settled at a future date and the above conditions are met this is treated as a sale of the property and the corresponding profit is recognised.

#### 3.7 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The consolidated entity's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### 3. Significant accounting policies (cont'd)

#### 3.7 Income tax (cont'd)

##### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the consolidated entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

##### Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively. Where current and deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### 3.8 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, cash in banks and investments in money market instruments.

#### 3.9 Financial instruments

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### 3.10 Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

### 3. Significant accounting policies (cont'd)

#### 3.10 Financial assets (cont'd)

##### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest revenue is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### Derecognition of financial assets

The consolidated entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the consolidated entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the consolidated entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the consolidated entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the consolidated entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the consolidated entity retains an option to repurchase part of a transferred asset), the consolidated entity allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

#### 3.11 Financial liabilities and equity instruments

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

### 3. Significant accounting policies (cont'd)

#### 3.11 Financial liabilities and equity instruments (cont'd)

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the consolidated entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### Compound instruments

The component parts of compound instruments (convertible bonds) issued by the consolidated entity are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recognised as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to retained earnings. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

##### Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out at 3(d) above.

##### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

##### Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction cost.

Other financial liabilities are subsequently measured at amortised cost using effective interest rate method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

##### Derecognition of financial liabilities

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 3. Significant accounting policies (cont'd)

#### 3.12 Derivative financial instruments

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

##### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

#### 3.13 Property, plant and equipment

Plant and equipment and assets held under finance leases are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

Plant and equipment	2.5 – 10 years
Assets held under finance leases	2.5 – 10 years

#### 3.14 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Depreciation is recognised so as to write off the cost or valuation of investment properties less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

Buildings	50 years
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#### 3.15 Intangible assets

##### Software

Software is recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life. The estimated useful life and amortisation method is reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The following useful lives are used in the calculation of amortisation:

Software (including under lease)	2.5 - 4 years
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### 3. Significant accounting policies (cont'd)

#### 3.16 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

#### 3.17 Employee benefits

##### Short-term and Long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

##### Retirement benefits costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

##### Termination benefit

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

#### 3.18 Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

##### The consolidated entity as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

##### The consolidated entity as lessee

Assets held under finance leases are initially recognised as assets of the consolidated entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **3. Significant accounting policies (cont'd)**

#### **3.19 Provisions**

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **3.20 Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher 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 asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **3.21 Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales for such assets (or disposal groups) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the consolidated entity is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the consolidated entity will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

#### **3.22 Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **3.23 Lending waivers**

Lending waivers relate to the waiver of interest and other loan fees at the discretion of the Board.

#### 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

##### 4.1 Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that the directors have made in the process of applying the consolidated entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

###### Trailing commission

Trailing commission receivable is calculated at a discount rate of 16.73% (post-tax) on total retail loans. Management estimates that the average life of a loan is 8 years.

###### Loans

Management uses independent valuations in conjunction with other credit assessment material in determining whether a potential borrower has adequate security and in turn determining the likelihood of recovering the loan advance that is to be made. All real property must be valued by an independent licensed valuer appointed by the company before a loan is made. The valuation is used to determine the maximum loan amount to be advanced taking into account the following Loan to Valuation Ratios ("LVR"):

- Residential Land 70%
- Industrial Land 70%
- Commercial Land 70%
- Rural Land 50%
- Development Loan of up to 70% of the "as is" value of the development
- Construction Loan of up to 70% of the "as if complete" end value of the development.

Since the implementation of the Run-Off Proposal, the Company has not entered in to any new lending.

In terms of provisioning against loans, the Board meets on a monthly basis and reviews all loans which have indicators of impairment. Where there is objective evidence of impairment, the Board assess the recoverability of a loan by preparing a discounted cashflow. The cashflow requires critical judgements to be made on the timing of the cash inflows and outflows in addition to the actual amounts recovered. The Board uses previous sales evidence obtained from market data to assess the value of the inflows and outflows and critical judgement on the timing of such inflows and outflows in determining the recoverability of the loan. If the principal and unpaid interest and fees falls short of the discounted cashflow total, then a provision equal to the shortfall is adopted by the Board. Once the recommendation is approved by the Board a provision is made against the loan

The Board believe that the chosen valuation techniques and assumptions used are appropriate in determining the recoverability of impaired loans.

###### Deferred taxation on tax losses

For the purposes of measuring a deferred tax asset arising from tax losses Management has reviewed future budgets and forecasts to determine that the Consolidated entity will be profitable and hence will be in a position to claim tax losses in the future.

##### 4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **4. Critical accounting judgments and key sources of estimation uncertainty (cont'd)**

##### **4.2 Key sources of estimation uncertainty (cont'd)**

###### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill at 30 June 2016 was \$NIL (30 June 2015: \$141,611). An impairment loss was recognised during 2016 of \$141,611 (2015: \$450,753).

###### Recoverable amount of financial and non-financial assets

In terms of provisioning against loans, the Board meets on a monthly basis and reviews all loans which have indicators of impairment. For all mortgage loans, independent valuations are commissioned to assess the value of the underlying real property associated with the registered first mortgage security on an ongoing basis.

Where there is objective evidence of impairment, the Board assess the recoverability of a loan by preparing a discounted cashflow. The cashflow requires critical judgements to be made on the timing of the cash inflows and outflows in addition to the actual amounts recovered. The Board uses previous sales evidence obtained from market data to assess the value of the inflows and outflows and critical judgement on the timing of such inflows and outflows in determining the recoverability of the loan. If the principal and unpaid interest and fees falls short of the discounted cashflow total, then a provision equal to the shortfall is adopted by the Board. Once the recommendation is approved by the Board a provision is made against the loan.

Similarly, for non-current assets held for sale, investment and inventory properties, periodic independent valuations from licensed valuers are commissioned in assessing recoverable amount and net realisable values.

The recoverable amount for loans and investment property and net realisable value for inventory properties are estimates sensitive to several key assumptions in any independent valuation including estimated future sales rates made based on current and future sales in relevant markets and estimated project development potential. Changes in these assumptions could cause the carrying amounts to exceed the recoverable amounts from time to time.

The Board believe that the chosen valuation techniques and assumptions used are appropriate in determining the recoverability of impaired assets.

###### Trail Commission

When valuing the trail book, the Board estimates that the average life of a loan is 7 years. The estimate of 7 years is based on the historic repayment of loans in the existing trail book.

The Board believe that 7 years is an appropriate estimate of average life of an Angas Financial Services loan.

#### **5. Segment information**

AASB 8 requires operating segments to be identified on the basis of internal reports and components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess its performance.

Information reported to the Board of Directors of the Company for the purposes of assessing the performance of the consolidated entity specifically focuses on the consolidated entity's core financial products. The consolidated entity's reportable segments under AASB 8 are therefore as follows:

- Commercial Lending
- Structured Finance
- Commercial Property Investments
- Investment Properties

The Commercial Lending reportable segment involves the supply of first mortgage lending mainly on commercial properties (including investments in mortgages via Angas Contributory Mortgage Fund) in addition to any other associated investments made via the fixed interest securities book.

The Structured Finance segment includes all financing which is funded by third parties. This includes the supply of retail mortgages funded by Finance & Systems Technology Pty Ltd and/or Pepper Home Loans and first mortgage lending via a warehouse trust facility held with Bendigo and Adelaide Bank Limited.

Commercial Property Investments include investment in projects for a short term hold, which may include holding an asset for resale, partial or full development of an asset to enhance its sale value and thus delivering an investment profit.

The final reportable segment is Investments Properties, which includes all activities relating to investments made in properties solely for investment purposes (all properties are commercial tenanted and receive monthly rental income).

**5. Segment information (cont'd)**

Segment revenues and results

The following is an analysis of the consolidated entity's revenue and results by reportable segment.

	Segment revenue		Segment profit/(loss)	
	Consolidated		Consolidated	
	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Commercial Lending	16,361,822	24,505,988	(11,422,331)	(13,756,986)
Structured Finance	3,793,632	3,322,003	2,845,866	2,207,073
Commercial Property Investments	661,860	657,533	(295,767)	(264,421)
Investment Properties	1,913,422	1,730,106	45,283	81,442
	<b>22,730,736</b>	<b>30,215,630</b>	<b>(8,826,949)</b>	<b>(11,732,892)</b>
Profit / (loss) before tax			(8,826,949)	(11,732,892)
Income tax benefit / (expense)			(13,448)	(3,297,846)
Consolidated segment revenue and profit / (loss) for the year	<b>22,730,736</b>	<b>30,215,630</b>	<b>(8,840,397)</b>	<b>(15,030,738)</b>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2015: nil).

The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

Segment assets

	30 June 2016 \$	30 June 2015 \$
Commercial Lending	127,728,707	213,308,911
Structured Finance	1,540,726	2,116,626
Commercial Property Investments	12,332,731	12,437,492
Investment Properties	21,078,083	21,050,076
Total segment assets	<b>162,680,247</b>	<b>248,913,105</b>
Unallocated assets	-	79,308
Total assets	<b>162,680,247</b>	<b>248,992,413</b>

**5. Segment information (cont'd)**

Segment liabilities

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
Commercial Lending	142,089,853	227,769,496
Structured Finance	1,173,420	1,321,383
Commercial Property Investments	13,414,522	13,223,516
Investment Properties	12,085,990	12,103,266
Total segment liabilities	168,763,786	254,417,662
Unallocated liabilities	55,625	70,577
Total liabilities	168,819,411	254,488,239

For the purpose of monitoring segment performance and allocating resources between segments all assets and liabilities are allocated to reportable segments other than current and deferred tax assets and liabilities.

Other segment information

Depreciation and amortisation

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
Commercial Lending	90,283	174,763
Structured Finance	434	436
Commercial Property Investments	-	-
Investment Properties	196,138	35,480
Total depreciation and amortisation	286,855	210,679

## 6. Revenue

The following is an analysis of the consolidated entity's revenue for the year.

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Interest revenue:</b>				
Bank deposits	227,548	675,127	224,784	670,985
Other loans and receivables	14,021,435	20,110,744	14,016,912	20,099,080
	<u>14,248,983</u>	<u>20,785,871</u>	<u>14,241,696</u>	<u>20,770,065</u>
<b>Non interest revenue:</b>				
Loan fee income	2,858,467	3,705,739	2,858,467	3,705,233
Management Fees	2,366,474	2,357,340	2,366,474	2,357,340
Distributions from unit trusts	-	-	592,184	631,605
Dividends from subsidiaries	-	-	-	-
Trailing commission & retail lending income	82,433	156,983	82,433	156,983
Upfront commission – retail lending	50,428	70,299	50,428	70,299
Gain/(loss) on disposal of property	(36,946)	(52,297)	(36,946)	(52,297)
<b>Rental income:</b>				
Operating lease rental income:				
Investment properties	2,605,729	2,529,588	33,204	146,078
Other – serviced office	555,167	662,107	571,433	694,639
	<u>8,481,753</u>	<u>9,429,759</u>	<u>6,517,678</u>	<u>7,709,880</u>

## 7. Interest expense

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on fixed interest securities	7,953,401	17,131,870	7,953,401	17,131,870
Interest on Redeemable Preference Shares ("RPS") Series 1 & 3	305,220	876,586	305,220	876,586
Interest on hire purchase	-	1,659	-	1,659
Interest on portfolio loan	260,638	345,309	-	42,886
Interest on commercial bills	705,355	762,619	-	-
Other interest expense	-	-	-	-
Total interest expense	<u>9,224,613</u>	<u>19,118,043</u>	<u>8,258,621</u>	<u>18,053,001</u>

## 8. Profit for the year

Profit for the year has been arrived at after charging / (crediting):

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Direct operating expenses from investment properties that generated rental income during the year (i)	459,272	516,757	33,418	97,862
	459,272	516,757	33,418	97,862
Operating lease rental expenses (i)	578,732	642,146	578,732	642,146
	578,732	642,146	578,732	642,146
<u>Impairment losses on investment property</u>				
Impairment loss on investment property	148,500	227,700	-	227,700
Reversal of impairment loss on investment property	-	-	-	-
	148,500	227,700	-	227,700
<u>Impairment losses on property held for resale</u>				
Impairment of property held for resale	-	-	-	-
	-	-	-	-
<u>Impairment losses on financial assets:</u>				
Reversal of impairment loss on loans carried at amortised cost (note 13)	-	-	-	-
Impairment loss on loans carried at amortised cost	8,442,344	6,696,780	8,232,708	6,555,960
Bad debt	1,792,845	1,275,468	1,792,845	1,275,468
Impairment loss on trade receivables	481,349	2,272,971	386,682	2,272,971
Impairment loss on inventory – property (note 18)	624,182	-	624,182	-
Impairment loss on property sale receivables (note 11)	-	1,289,348	-	1,289,348
Impairment loss/(reversal) on investments in subsidiaries	-	-	168,390	(168,122)
Impairment on Goodwill	141,611	450,573	141,611	450,573
Reversal of impairment loss on investments in subsidiaries	-	-	(207,267)	-
	11,842,330	11,985,140	11,139,150	11,676,198
	11,630,830	12,212,840	11,139,150	11,903,898

(i) Included in other operating expenses in the consolidated statement of profit or loss and other comprehensive income.



**8. Profit for the year (cont'd)**

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
<u>Administration expenses:</u>				
<u>Employee benefit expense:</u>				
<u>Post employment benefits:</u>				
Defined contribution plans	176,630	228,475	176,630	228,475
Other employee benefits	2,127,896	2,718,644	2,127,896	2,718,644
Other employee expenses	356,332	603,095	356,332	603,095
Lending expenses and disbursements	2,292,325	2,949,678	2,292,325	2,949,678
Professional fees	2,377,143	1,069,515	2,377,143	1,069,515
Computer expenses	240,190	249,726	240,190	249,726
Depreciation	286,855	210,679	90,717	175,199
Travel and entertainment	162,646	211,051	162,646	211,051
Printing and postage	128,841	107,006	128,841	107,006
Insurance	156,180	172,838	156,180	172,838
Other	231,059	364,919	341,398	358,025
	8,536,095	8,885,626	8,450,296	8,843,252

## 9. Income taxes

### Income tax recognised in profit or loss

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Current tax</b>				
In respect of the current year	13,448	70,577	-	-
In respect of prior years	-	-	-	-
	13,448	70,577		-
<b>Deferred tax</b>				
In respect of the current year	-	3,227,269	-	3,119,665
Total income tax expense / (benefit) recognised in the current year	13,448	3,297,846	-	3,119,665

The income tax expense / (benefit) for the year can be reconciled to the accounting profit as follows:

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Profit / (loss) before tax	(8,826,949)	(11,732,892)	(8,306,512)	(11,476,227)
Income tax expense / (benefit) calculated at 30%	(2,648,085)	(3,519,868)	(2,491,954)	(3,442,868)
Effect of expenses that are not deductible in determining taxable profit	(241,531)	475,850	(241,531)	(155,755)
Less franking credits claimed on dividend from subsidiary	-	-	-	-
	(2,889,616)	(3,044,018)	(2,733,485)	(3,598,623)
Derecognition of tax assets recognised in the current and prior years	2,903,064	6,341,864	2,733,485	6,718,288
Income tax expense / (benefit) recognised in profit or loss	13,448	3,297,846	-	3,119,665

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

### Current tax assets and liabilities

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<u>Current tax assets</u>				
Tax refund receivable	-	79,308	-	79,308
	-	79,308	-	79,308
<u>Current tax liability</u>				
Income tax payable	55,625	70,577	-	-
	55,625	70,577	-	-

**9. Income taxes (cont'd)**

**Deferred tax balances**

Deferred tax balances are presented in the statement of financial position as follows:

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Deferred tax assets	-	-	-	-
Deferred tax liabilities	-	-	-	-
	-	-	-	-

The directors believe that the Consolidated Entity will not be in a position to utilise deferred tax assets within a reasonable period and therefore the asset had been fully written off in the prior period.

2016	Consolidated		
	Opening balance \$	Recognised in profit or loss \$	Closing balance \$
<b>Temporary differences</b>			
Inventory – property	-	-	-
Trade and other receivables	-	-	-
Trade and other payables	-	-	-
Provisions	-	-	-
Loans	-	-	-
<b>Unused tax losses and credits</b>			
Tax losses	-	-	-
	-	-	-

2015	Consolidated		
	Opening balance \$	Recognised in profit or loss \$	Closing balance \$
<b>Temporary differences</b>			
Inventory – property	446,486	(446,486)	-
Trade and other receivables	662,584	(662,584)	-
Trade and other payables	96,667	(96,667)	-
Provisions	101,180	(101,180)	-
Loans	1,279,296	(1,279,296)	-
<b>Unused tax losses and credits</b>			
Tax losses	641,056	(641,056)	-
	3,227,269	(3,227,269)	-

2016	Company		
	Opening balance \$	Recognised in profit or loss \$	Closing balance \$
<b>Temporary differences</b>			
Inventory – property	-	-	-
Trade and other receivables	-	-	-
Trade and other payables	-	-	-
Provisions	-	-	-
Loans	-	-	-
<b>Unused tax losses and credits</b>			
Tax losses	-	-	-
	-	-	-

2015	Company		
	Opening balance \$	Recognised in profit or loss \$	Closing balance \$
<b>Temporary differences</b>			
Inventory – property	446,486	(446,486)	-
Trade and other receivables	662,584	(662,584)	-
Trade and other payables	96,667	(96,667)	-
Provisions	101,180	(101,180)	-
Loans	1,171,692	(1,171,692)	-
<b>Unused tax losses and credits</b>			
Tax losses	641,056	(641,056)	-
	3,119,665	(3,119,665)	-

**10. Earnings per share**

The company is not required to disclose earnings per share as it is not:

- (a) a reporting entity whose ordinary shares or potential ordinary shares are publicly traded; or
- (b) a reporting entity that is in the process of issuing ordinary shares or potential ordinary shares in public markets.

**11. Trade and other receivables**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Trade receivables – Interest (i)	20,796,685	12,097,031	20,174,981	11,717,566
Trade receivables – Fees (i)	3,405,978	3,757,512	3,243,640	3,726,072
Trade receivables - allowance for doubtful debts	(3,836,135)	(3,223,320)	(3,610,002)	(3,223,320)
Trailing commission receivable	424,004	486,754	424,004	486,754
Property sale receivables	9,013,078	9,013,078	9,013,078	9,013,078
Property sale receivables – allowance for doubtful debts	(9,013,078)	(9,013,078)	(9,013,078)	(9,013,078)
Other receivables	881,771	613,434	876,401	607,010
	<b>21,672,303</b>	<b>13,731,411</b>	<b>21,109,024</b>	<b>13,314,082</b>

(i) The average credit term on trade receivables is 7 days. No interest is charged on the trade receivables for the first 7 days. Interest is charged on low rate interest only on the 8th day of the month at a rate outlined in the individual loan agreement.

Ageing of past due but not impaired

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
0 – 1 year	1,248,286	986,576	1,248,286	986,576
1 – 2 years	1,576,875	-	1,576,875	-
2 – 5 years	395,570	284,798	-	-
5+ years	1,855,059	4,932,600	1,855,059	4,932,600
	<b>5,075,790</b>	<b>6,203,974</b>	<b>4,680,220</b>	<b>5,919,176</b>

Ageing of past due impaired

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
0 – 1 year	9,460,918	226,373	9,460,918	226,373
1 – 2 years	1,453,400	-	1,453,400	-
2 – 5 years	-	94,667	-	-
5+ years	7,359	-	7,359	-
	<b>10,921,677</b>	<b>321,040</b>	<b>10,921,677</b>	<b>226,373</b>

**11. Trade and other receivables (cont'd)**

Movement in the allowance for doubtful debts

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Balance at the beginning of the year	(12,236,398)	(9,282,108)	(12,236,398)	(9,282,108)
Impairment losses recognised on property sale receivables	-	(1,289,348)	-	(1,289,348)
Impairment losses recognised on loan receivables	(612,815)	(1,664,942)	(386,682)	(1,664,942)
Impairment losses on loan receivables realised	-	-	-	-
Balance at the end of the year	(12,849,213)	(12,236,398)	(12,623,080)	(12,236,398)

In determining the recoverability of a trade receivable, the consolidated entity reviews the current security held on the loan against the loans' combined principal and arrears, any shortfall is provided for 100%.

**12. Other financial assets**

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Investments carried at cost:				
Investments in subsidiaries (note 32)	324,952	200,000	12,825,567	12,618,300
Loans and receivables carried at amortised cost:				
Term deposit – BankSA (i)	100,000	100,000	-	-
Loan to Angas Investment Finance Pty Ltd (ii)	-	-	(31,390)	287,000
Loan to Mannum Unit Trust (iii)	-	-	2,500,000	2,500,000
	424,952	300,000	15,294,177	15,405,300

(i) Angas Commercial Property Trust ("ACPT") was required to deposit \$100,000 (2015: \$100,000) as security in relation to the \$12,048,000 Commercial Bill Facility with BankSA. The deposit is subject to a Deed of Deposit and Set-off.

(ii) This loan was made to Angas Investment Finance Pty Ltd (formerly Advance Investments Finance No 2 Pty Ltd) to fulfil the subordinated debt requirements of the Bendigo and Adelaide Bank Limited warehouse facility.

(iii) This loan was made to Mannum Unit Trust with interest payable monthly.

**13. Loans**

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Mortgage loans	119,372,020	177,876,046	118,148,751	176,480,712
Interest received in advance	(17,037)	(1,074,516)	(17,037)	(1,074,515)
Fees received in advance	-	(79,287)	-	(79,287)
Allowances for doubtful debts	(18,599,572)	(9,905,089)	(17,890,435)	(9,405,588)
	<u>100,755,411</u>	<u>166,817,154</u>	<u>100,241,279</u>	<u>165,921,322</u>
<u>Maturity analysis</u>				
Not longer than 3 months	99,755,411	137,038,764	99,241,279	136,142,932
Longer than 3 months and not longer than 12 months	1,000,000	25,633,273	1,000,000	25,633,273
Longer than one year not longer than 5 years	-	4,145,117	-	4,145,117
	<u>100,755,411</u>	<u>166,817,154</u>	<u>100,241,279</u>	<u>165,921,322</u>
<u>Loan by security</u>				
Secured by chattel mortgage	460,657	1,135,000	460,657	1,135,000
Secured by first mortgage	100,028,736	165,416,136	99,514,604	164,520,304
Secured by second mortgage (i)	266,018	266,018	266,018	266,018
Secured by collateral security	-	-	-	-
	<u>100,755,411</u>	<u>166,817,154</u>	<u>100,241,279</u>	<u>165,921,322</u>
<u>Loan by security</u>				
Chattel	460,657	1,135,000	460,657	1,135,000
Commercial property	24,834,317	47,917,383	24,834,317	47,917,383
Rural property	-	474,436	-	474,436
Residential property	75,460,437	117,290,335	74,946,305	116,394,503
Industrial property	-	-	-	-
	<u>100,755,411</u>	<u>166,817,154</u>	<u>100,241,279</u>	<u>165,921,322</u>

(i) All loans secured by second mortgages are funded from equity not fixed interest securities funds.

Movement in the allowance for doubtful debts

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Balance at the beginning of the year	9,905,088	2,852,418	9,405,588	2,493,738
Impairment losses recognised on loans	10,422,345	7,477,366	10,212,708	7,336,546
Reversal of impairment losses recognised on loans	-	(424,696)	-	(424,696)
Bad debt write off	(1,727,861)	-	(1,727,861)	-
Balance at the end of the year	<u>18,599,572</u>	<u>9,905,088</u>	<u>17,890,435</u>	<u>9,405,588</u>

### **13. Loans (cont'd)**

#### **Loan recoverability**

The primary security for any real property loan provided by the company must be a first registered mortgage over freehold and leasehold property. Additional security is often sought as collateral. Since the implementation of the Run-Off Proposal, no new loans have been advanced. In terms of loan recovery and provisioning against loans, the Board meets on a monthly basis and reviews all loans which have indicators of impairment. Where there is objective evidence of impairment, the Board assesses the recoverability of a loan by preparing a discounted cashflow. The cashflow requires critical judgements to be made on the timing of the cash inflows and outflows in addition to the actual amounts recovered. The Board uses previous sales evidence obtained from market data to assess the value of the inflows and outflows and critical judgement on the timing of such inflows and outflows in determining the recoverability of the loan. If the principal and unpaid interest and fees falls short of the discounted cashflow total, then a provision equal to the shortfall is adopted by the Board. Once the recommendation is approved by the Board a provision is made against the loan.

**13. Loans (cont'd)**

Top Five loans to related borrowers as at 30 June 2016

TOTAL LOANS	NO. OF LOANS	COMMENTARY
\$ 36,257,785	4	Primary asset is a prestigious rural/residential property close to Sydney
\$ 22,313,000	4	Perth based builder and property developer with a range of distinct residential, commercial and retail properties
\$ 12,292,308	3	Perth based property developer with security comprising prime commercial, residential and retail sites across WA
\$ 4,422,050	3	Security comprises several retirement villages in Adelaide
\$ 1,823,860	2	Completed apartment complex on the outskirts of Adelaide CBD
<b>\$ 77,109,003</b>		

Top Eight loans to related borrowers as at 30 June 2015

TOTAL LOANS	NO. OF LOANS	COMMENTARY
\$ 26,300,000	3	Primary asset is a prestigious rural/residential property close to Sydney and additional collateral security over harbour side apartments in Sydney
\$ 24,836,529	6	Perth based builder and property developer with a range of distinct residential, commercial and retail properties
\$ 17,352,556	5	Perth based property developer with security comprising prime commercial, residential and retail sites across WA
\$ 12,080,000	3	Security comprises a luxury residential/equine property on the northern beach outskirts of Sydney
\$ 11,950,848	7	Major WA based land developer with well located residential commercial assets across WA (predominantly residential subdivision)
\$ 11,463,402	2	Adelaide based property developer and retailers with prime security comprising residential subdivision land and commercial/light industrial land holdings
\$ 7,115,320	3	Completed apartment complex on the outskirts of Adelaide CBD
\$ 5,743,257	4	Security comprises several retirement villages in Adelaide
<b>\$ 116,841,912</b>		



13. Loans (cont'd)

Top Ten largest loans as at 30 June 2016

CUSTOMER	LOAN AMOUNT	CATEGORY	ASSET STATE	ASSET VALUE*	VALUATION DATE	ARREARS
A	\$ 17,668,628	Residential	NSW	\$ 18,953,644	17/06/2014	\$3,610,895
A	\$ 16,088,500	Residential	NSW	\$ 19,047,352	17/06/2014	\$3,133,490
C	\$ 8,579,000	Residential	WA	\$ 19,165,000	01/03/2014	\$1,949,929
E	\$ 7,095,948	Residential	WA	\$ 5,500,000	14/10/2014	-
F	\$ 7,092,950	Residential	WA	\$10,680,000	21/05/2015	\$1,445,368
L	\$ 5,543,000	Residential	WA	\$8,800,000	30/06/2015	899,575
M	\$ 5,530,000	Commercial	WA	\$6,580,000	03/10/2014	1,029,408
O	\$ 4,384,651	Commercial	SA	\$7,625,455	08/09/2014	-
K	\$ 4,280,000	Residential	SA	\$9,421,000	25/03/2015	\$338,334
N	\$ 4,052,604	Residential	WA	\$11,424,999	30/04/2015	428,260
<b>Total</b>	<b>\$80,315,282</b>					

Top Ten largest loans as at 30 June 2015

CUSTOMER	LOAN AMOUNT	CATEGORY	ASSET STATE	ASSET VALUE*	VALUATION DATE	ARREARS
A	\$ 13,000,000	Residential	NSW	\$ 17,918,636	17/06/2014	\$270,833
A	\$ 12,300,000	Residential	NSW	\$ 17,918,636	17/06/2014	\$256,250
B	\$ 10,000,000	Residential	NSW	\$ 13,000,000	10/12/2014	\$1,591,033
C	\$10,000,000	Residential	WA	\$19,165,000	01/03/2014	\$442,167
D	\$ 9,905,000	Commercial	QLD	\$ 15,000,000	27/09/2011	\$3,199,967
F	\$ 8,976,265	Residential	WA	\$10,680,000	21/05/2015	\$909,739
E	\$ 7,990,609	Residential	WA	\$35,298,000	14/10/2014	-
H	\$ 7,042,150	Commercial	SA	\$16,431,000	08/04/2015	-
K	\$ 6,594,000	Residential	SA	\$9,421,000	25/03/2015	-
L	\$ 5,543,000	Residential	WA	\$8,800,000	09/07/2015	\$496,731
<b>Total</b>	<b>\$91,351,024</b>					

**14. Expired loans**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Expired loans – Fixed interest securities funded	93,612,299	45,773,344	93,612,299	45,773,344
Expired loans – Non-fixed interest securities funded	4,720,150	5,144,816	4,110,018	4,152,984
<b>Total</b>	<b>98,332,449</b>	<b>50,918,160</b>	<b>97,722,317</b>	<b>49,926,328</b>

Expired loans refer to loans which are greater than 90 days past the expiry date, included in Mortgage Loans in Note 13.

Ageing of expired loan but not impaired – Fixed interest securities funded

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
0 - 1 year	7,111,755	14,505,277	7,111,755	14,505,277
1 - 2 years	8,191,000	-	8,191,000	-
2 – 5 years	4,020,030	15,648,258	4,020,030	15,648,258
5+ years	460,657	1,000,000	460,657	1,000,000
<b>Total</b>	<b>19,783,442</b>	<b>31,153,535</b>	<b>19,783,442</b>	<b>31,153,535</b>

The above ageing analysis includes the principal outstanding for all fixed interest securities funded expired loans. Security is in the form of registered first mortgages on land and buildings, chattels and collateral security.

Ageing of expired loan but not impaired – Non-fixed interest securities funded

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
0 - 1 year	-	3,982,966	-	3,982,966
1 - 2 years	4,178,333	238,333	3,940,000	-
2 – 5 years	230,936	573,018	-	170,018
5+ years	170,018	-	170,018	-
<b>Total</b>	<b>4,579,287</b>	<b>4,794,317</b>	<b>4,110,018</b>	<b>4,152,984</b>

The above ageing analysis includes the principal outstanding for all non-fixed interest securities expired loans.

Ageing of impaired expired loans – Fixed interest securities funded

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
0 - 1 year	57,764,681	1,467,885	57,764,681	1,467,885
1 - 2 years	8,922,139	-	8,922,139	-
2 – 5 years	7,142,037	12,768,439	7,142,037	12,768,439
5+ years	-	383,486	-	383,486
<b>Total</b>	<b>73,828,857</b>	<b>14,619,810</b>	<b>73,828,857</b>	<b>14,619,810</b>

The above ageing analysis includes the principal outstanding less provisions for all impaired expired loans. Security is held in the form of a first registered mortgage over land.

Ageing of impaired expired loans – Non-fixed interest securities funded

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
1 - 2 years	-	-	-	-
2 – 5 years	140,863	350,499	-	-
<b>Total</b>	<b>140,863</b>	<b>350,499</b>	<b>-</b>	<b>-</b>

The above ageing analysis includes the principal outstanding less provisions for all impaired expired loans.

**15. Property, plant and equipment**

Consolidated	Plant and equipment at cost	Equipment under finance lease at cost	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at 1 July 2014	557,078	186,024	743,102
Additions	34,084	-	34,084
Disposals – sale and leaseback	-	-	-
Disposals	(37,471)	(186,024)	(223,495)
<b>Balance at 1 July 2015</b>	553,691	-	553,691
Additions	-	-	-
Disposals – sale and leaseback	-	-	-
Disposals	-	-	-
<b>Balance at 30 June 2016</b>	553,691	-	553,691
<b>Accumulated depreciation</b>			
Balance at 1 July 2014	(402,074)	(139,633)	(541,707)
Depreciation expense	(91,087)	(41,278)	(132,365)
Disposals	29,387	180,911	210,298
<b>Balance at 1 July 2015</b>	(463,774)	-	(463,774)
Depreciation expense	(58,573)	-	(58,573)
Disposals	-	-	-
<b>Balance at 30 June 2016</b>	(522,346)	-	(522,346)
<b>Net book value</b>			
As at 30 June 2015	89,917	-	89,917
As at 30 June 2016	31,344	-	31,344

Company	Plant and equipment at cost	Equipment under finance lease at cost	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at 1 July 2014	557,078	186,024	743,102
Additions	19,843	-	19,843
Disposals – sale and leaseback	-	-	-
Disposals	(37,471)	(186,024)	(223,495)
<b>Balance at 1 July 2015</b>	539,450	-	539,450
Additions	-	-	-
Disposals – sale and leaseback	-	-	-
Disposals	-	-	-
<b>Balance at 30 June 2016</b>	539,450	-	539,450
<b>Accumulated depreciation</b>			
Balance at 1 July 2014	(402,074)	(139,633)	(541,707)
Depreciation expense	(90,291)	(41,278)	(131,569)
Disposals	29,387	180,911	210,298
<b>Balance at 1 July 2015</b>	(462,978)	-	(462,978)
Depreciation expense	(57,145)	-	(57,145)
Disposals	-	-	-
<b>Balance at 30 June 2016</b>	(520,122)	-	(520,122)
<b>Net book value</b>			
As at 30 June 2015	76,472	-	76,472
As at 30 June 2016	19,328	-	19,328

There was no depreciation during the period that was capitalised as part of the cost of other assets.

**16. Investment property**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<u>At cost</u>				
Balance at beginning of year	29,609,202	33,908,050	519,750	4,837,659
Acquisitions	-	-	-	-
Impairment losses (note 8)	(148,500)	-	-	-
Reversal of impairment losses (note 8)	-	-	-	-
Building & development costs	88,201	53,745	-	-
Transfer from property held for resale (note 17)	-	(4,317,909)	-	(4,317,909)
Depreciation	(194,710)	(34,684)	-	-
Balance at end of year	29,354,193	29,609,202	519,750	519,750

The carrying value of the investment properties are determined by using the cost model.

**Consolidated**

**2016**

Property location	Book Value	Fair Value	Valuation Date
26 Murdoch Circuit, Acacia Ridge QLD	\$ 891,000	\$ 960,300	30/06/2015
32 Murdoch Circuit Acacia Ridge QLD	\$5,756,612	\$5,940,000	30/06/2015
23 Breene Place Morningside QLD	\$8,574,897	\$8,910,000	30/06/2015
107 Reichart Rd Winnellie NT	\$4,206,772	\$4,250,000	30/06/2014
Lot 71 Coral Cove QLD	\$ 891,000	\$1,050,000	30/06/2014
Villa 41, 177 Pimpala Rd Woodcroft SA	\$ 297,000	\$ 300,000	28/07/2014
Apt 307, 177 Pimpala Rd Woodcroft SA	\$ 222,750	\$ 225,000	28/07/2014
Mannum Green Shopping Centre SA	\$8,514,162	\$9,550,000	17/10/2013
<b>TOTAL</b>	<b>\$29,354,193</b>	<b>\$31,185,300</b>	

**Consolidated**

**2015**

Property location	Book Value	Fair Value	Valuation Date
26 Murdoch Circuit, Acacia Ridge QLD	\$ 891,000	\$ 960,300	30/06/2015
32 Murdoch Circuit Acacia Ridge QLD	\$5,774,056	\$5,940,000	30/06/2015
23 Breene Place Morningside QLD	\$8,546,624	\$8,910,000	30/06/2015
107 Reichart Rd Winnellie NT	\$4,207,136	\$4,250,000	30/06/2014
Lot 71 Coral Cove QLD	\$1,039,500	\$1,050,000	30/06/2014
Villa 41, 177 Pimpala Rd Woodcroft SA	\$ 297,000	\$ 300,000	28/07/2014
Apt 307, 177 Pimpala Rd Woodcroft SA	\$ 222,750	\$ 225,000	28/07/2014
Mannum Green Shopping Centre SA	\$8,631,136	\$9,550,000	17/10/2013
<b>TOTAL</b>	<b>\$29,609,202</b>	<b>\$31,185,300</b>	

**16. Investment property (cont'd)**

**Company**

<b>2016</b>			
<b>Property location</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Valuation Date</b>
Villa 41, 177 Pimpala Rd Woodcroft SA	\$ 297,000	\$ 300,000	28/07/2014
Apt 307, 177 Pimpala Rd Woodcroft SA	\$ 222,750	\$ 225,000	28/07/2014
<b>TOTAL</b>	<b>\$ 519,750</b>	<b>\$ 525,000</b>	

<b>2015</b>			
<b>Property location</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Valuation Date</b>
Villa 41, 177 Pimpala Rd Woodcroft SA	\$ 297,000	\$ 300,000	28/07/2014
Apt 307, 177 Pimpala Rd Woodcroft SA	\$ 222,750	\$ 225,000	28/07/2014
<b>TOTAL</b>	<b>\$ 519,750</b>	<b>\$ 525,000</b>	

**Fair value of the consolidated entity's investment properties**

The fair value of the consolidated entity's investment properties as at 30 June 2016 and 30 June 2015 has been arrived at on the basis of valuations carried out on the respective dates (listed in the above tables) by independent valuers not related to the Group. All the valuers used are members of the Institute of Valuers of Australia, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Details of the consolidated entity's investment properties and information about the fair value hierarchy as at 30 June 2016 are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value as at 30 June 2016</b>
Investment properties	-	\$31,185,300	-	<b>\$31,185,300</b>

There were no transfers between Levels 1 and 2 during the year.

**17. Property held for resale**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Balance at beginning of year	5,052,803	4,917,552	1,439,303	1,304,052
Impairment losses	-	-	-	-
Sale of property	(1,439,303)	(4,182,658)	(1,439,303)	(4,182,658)
Transfer from investment property	-	4,317,909	-	4,317,909
Transfer to investment property	-	-	-	-
Transfer from other assets	-	-	-	-
Balance at end of year	<u>3,613,500</u>	<u>5,052,803</u>	<u>-</u>	<u>1,439,303</u>

**Consolidation**

2016			
	Book Value	Fair Value	Valuation Date
Lot 101 Adam St Hindmarsh SA (i)	\$3,613,500	\$3,650,000	04/02/2013
<b>TOTAL</b>	<b>\$3,613,500</b>	<b>\$3,650,000</b>	

(i) The contract to sell Angas' investment in Hindmarsh Precinct Developments was executed in July 2016.

2015			
	Book Value	Fair Value	Valuation Date
53A Junction Rd Wahroonga NSW (i)	\$1,439,303	\$1,700,300	26/02/2013
Lot 101 Adam St Hindmarsh SA	\$3,613,500	\$3,650,000	04/02/2013
<b>TOTAL</b>	<b>\$5,052,803</b>	<b>\$5,350,300</b>	

**Company:-**

2016			
Property location	Book Value	Fair Value	Valuation Date
NIL	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	

2015			
Property location	Book Value	Fair Value	Valuation Date
53A Junction Rd Wahroonga NSW	\$1,439,303	\$1,700,300	26/02/2013
<b>TOTAL</b>	<b>\$1,439,303</b>	<b>\$1,700,300</b>	

Fair value of the consolidated entity's property held for resale

The fair value of the consolidated entity's property held for resale as at 30 June 2016 and 30 June 2015 has been arrived at on the basis of valuations carried out on the respective dates (listed in the above tables) by independent valuers not related to the Group. All the Valuers used are members of the Institute of Valuers of Australia, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Details of the consolidated entity's property held for resale and information about the fair value hierarchy as at 30 June 2016 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 30 June 2016
<u>Property held for resale</u>	-	\$3,650,000	-	<b>\$3,650,000</b>

There were no transfers between Levels 1 and 2 during the year.

**18. Inventory – property**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Balance at beginning of year	2,514,600	2,742,300	2,514,600	2,742,300
Sale of property	(1,299,087)	-	(1,299,087)	-
Loss on sale of property	(195,331)	-	(195,331)	-
Impairment losses	(624,182)	(227,700)	(624,182)	(227,700)
Balance at end of year	396,000	2,514,600	396,000	2,514,600

**19. Goodwill**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
Balance at beginning of year	707,209	707,209	707,209	707,209
Balance at end of year	707,209	707,209	707,209	707,209
<b>Accumulated impairment losses</b>				
Balance at beginning of year	(565,598)	(115,025)	(565,598)	(115,025)
Impairment losses recognised in the year	(141,611)	(450,573)	(141,611)	(450,573)
Balance at end of year	(707,209)	(565,598)	(707,209)	(565,598)
<b>Net book value</b>				
At the beginning of the financial year	141,611	592,184	141,611	592,184
At the end of the financial year	-	141,611	-	141,611

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the Structured Finance cash-generating unit.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
Structured Finance	645,484	645,484	645,484	645,484
Commercial Property Investments	61,725	61,725	61,725	61,725
	707,209	707,209	707,209	707,209

Structured Finance

Angas Financial Services (formerly API Home Loans) does not trade in an active market and in turn the recoverable amount is based on value in use. The following are the assumptions used by management in measuring the recoverable amount of the cash-generating unit containing goodwill.

A cash flow was prepared over a 5 year period and a terminal value, using a post-tax discount rate of 14.0%. The first year of the cash flow was based on internal budgets prepared for this business unit for the year ending 30 June 2017 and going forward a 2.5% growth rate was factored in per annum for the remaining years. The main drivers of the impairment valuation were: growth in sources of revenue through Angas Financial Services relationship with FAST and new income sources (application fees); pre-existing loans from GE are expected to reduce to zero over the projected period; and margin improvements reflecting the relatively fixed cost base of Angas Financial Services.

During the financial year, the consolidated entity assessed the recoverable amount of goodwill, and determined that goodwill associated with the acquisition of API Home Loans was impaired by \$141,611 (2015: \$450,573).

Commercial Property Investments

The goodwill associated with the Commercial Property Investments cash-generating unit was impaired to nil in 2011.

**20. Other intangible assets**

	Consolidated			
	Software under lease \$	Software \$	Copyright, Website & Formation Exp \$	Total \$
<b>Gross carrying amount</b>				
Balance at 30 June 2014	50,681	157,619	2	208,302
Additions	-	13,711	-	13,711
Disposal	(50,681)	-	-	(50,681)
<b>Balance at 30 June 2015</b>	-	171,330	2	171,332
Additions	-	-	-	-
Disposal	-	-	-	-
<b>Balance at 30 June 2016</b>	-	171,330	2	171,332
<b>Accumulated amortisation and impairment</b>				
Balance at 30 June 2014	(28,535)	(91,567)	-	(120,102)
Amortisation expense	(8,435)	(35,187)	-	(43,622)
Disposal	36,970	-	-	36,970
<b>Balance at 30 June 2015</b>	-	(126,754)	-	(126,754)
Amortisation expense	-	(33,573)	-	(33,573)
Disposal	-	-	-	-
<b>Balance at 30 June 2016</b>	-	(160,328)	-	(160,328)
<b>Net book value</b>				
As at 30 June 2015	-	44,576	2	44,578
As at 30 June 2016	-	11,004	2	11,006

	Company			
	Software under lease \$	Software \$	Copyright, Website & Formation Exp \$	Total \$
<b>Gross carrying amount</b>				
Balance at 30 June 2014	50,681	157,619	2	208,302
Additions	-	13,711	-	13,711
Disposal	(50,681)	-	-	(50,681)
<b>Balance at 30 June 2015</b>	-	171,330	2	171,332
Additions	-	-	-	-
Disposal	-	-	-	-
<b>Balance at 30 June 2016</b>	-	171,330	2	171,332
<b>Accumulated amortisation and impairment</b>				
Balance at 30 June 2014	(28,535)	(91,567)	-	(120,102)
Amortisation expense	(8,435)	(35,187)	-	(43,622)
Disposal	36,970	-	-	36,970
<b>Balance at 30 June 2015</b>	-	(126,754)	-	(126,754)
Amortisation expense	-	(33,573)	-	(33,573)
Disposal	-	-	-	-
<b>Balance at 30 June 2016</b>	-	(160,328)	-	(160,328)
<b>Net book value</b>				
As at 30 June 2015	-	44,576	2	44,578
As at 30 June 2016	-	11,004	2	11,006

**21. Other assets**

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Prepayments	1,725,460	2,639,091	1,712,205	2,567,362
	1,725,460	2,639,091	1,712,205	2,567,362



## 22. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 24 to the financial statements, all assets of the Company, except goodwill, plant & equipment under lease and deferred tax assets, have been pledged as security. The holder of the security does not have the right to sell or repledge the assets other than in an event of default.

## 23. Trade and other payables

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Trade payables (i)	2,242,071	3,094,772	1,955,952	2,826,215
Proceeds received from settlements payable to third parties	-	-	-	-
Goods and services tax payable	736,186	934,959	350,137	889,283
Dividends payable on fully paid preference shares (series 5)	-	125,342	-	125,342
Payables to minority investors in subsidiaries	-	200,000	-	-
	<u>2,978,257</u>	<u>4,355,073</u>	<u>2,306,089</u>	<u>3,840,840</u>

(i) The average credit period on purchases of goods is 30 days. No interest is charged on the trade payables.

## 24. Interest bearing liabilities

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Secured – at amortised cost</b>				
Fixed interest securities (i)	144,920,615	221,566,652	144,920,615	221,566,652
Redeemable Preference Shares (ii)	1,034,594	8,601,813	1,034,594	8,601,813
BankSA Bank bills (iii)	12,047,767	12,047,767	-	-
Business markets loan (iv)	7,570,538	7,556,277	-	-
BankSA Portfolio loan	-	-	-	-
	<u>165,573,514</u>	<u>249,772,509</u>	<u>145,955,209</u>	<u>230,168,465</u>
<b>Maturity analysis</b>				
Not longer than 3 months	-	-	-	-
Longer than 3 months and not longer than 12 months	158,842,064	122,664,894	145,123,759	113,096,849
Longer than 1 year and not longer than 5 years	6,731,450	127,107,615	831,450	117,071,616
Longer than 5 years	-	-	-	-
	<u>165,573,514</u>	<u>249,772,509</u>	<u>145,955,209</u>	<u>230,168,465</u>

- (i) The face value of fixed interest securities was \$144,920,615 (2015: \$219,654,325). Fixed interest securities are secured by a first ranking floating charge over the company's assets and undertakings. Under the Run-Off Proposal, the redemption date for all fixed interest securities was extended until 31 December 2016, and the interest rate was reduced to 4% per annum with effect from 1 August 2015.
- (ii) The face value of the Redeemable Preference Shares ("RPS") Series 1 ("RPS1"), Series 3 ("RPS3") and Series 4 ("RPS4"): \$1,045,000 (2015: \$8,665,000). RPS1, RPS3 and RPS4 are subordinate to fixed interest securities but will rank ahead of ordinary share capital and any external funding facility. In October 2015, all of RPS4 and all but 204,000 of RPS1 were converted to ordinary shares. RPS1 has one remaining reset date being 30 April 2017; RPS3 has two reset dates, the first being 30 April 2015 and the second being 30 April 2018. At each reset date the Company can elect to exchange by either: converting the RPS into Ordinary Shares, repurchase the RPS, arrange for a third party to acquire the RPS; or redeem the RPS. The RPS holder can request exchange on either: the reset dates; a dividend not being paid in full for two consecutive dividend periods, certain takeover offers, or during a sale of all or substantially all of the business (some exclusions apply to this condition). RPS1 will expire on 30 April 2020 and RPS3 will expire on 30 April 2021. On expiry or redemption investors will be paid the full face value of their RPS.
- (iii) As at the balance date there were four (2015: four) bank bills in place with BankSA. The bank bill expiry dates range from within the next 12 months. All of the bank bills are secured against real property.
- (iv) As referred to in note 32, Mannum Green became wholly owned by the Consolidated Entity on the 3rd of September 2014 and as such the terms of the loan facility with NAB were renegotiated. The renegotiated facility has a covenant around interest rate cover which is currently being met.

**25. Provisions**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee benefits (i)	212,015	289,935	212,015	289,935
	212,015	289,935	212,015	289,935

- (i) The provision for employee benefits includes \$53,842 (2015: \$79,351) of annual leave and \$158,173 (2015: \$210,584) of long service leave entitlements accrued. Over the next 12 months management estimates that 90% of the annual leave provision will be taken and 10% of the long service leave provision.

**26. Other financial liabilities**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Funds received in advance	-	144	-	144
Rental received in advance	-	-	-	-
	-	144	-	144

**27. Issued capital**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
10,983,388 fully paid ordinary shares (2015: 738,046)	12,225,127	1,528,067	12,225,127	1,528,067
Nil partly paid ordinary shares (2015: Nil)	-	-	-	-
5,000,000 redeemable preference shares (2015: 7,500,000)	5,000,000	7,500,000	5,000,000	7,500,000
	17,225,127	9,028,067	17,225,127	9,028,067

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2016		2015	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of year	738,046	1,528,067	738,046	1,528,067
Issue of shares				
Conversion of redeemable preference shares (RPS)	10,120,000	10,120,000	-	-
Conversion of RPS dividend payable	125,342	125,342	-	-
RPS interest payable derecognised	-	451,718	-	-
Balance at end of year	10,983,388	12,225,127	738,046	1,528,067

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**27. Issued capital (cont'd)**

	2016		2015	
	No.	\$	No.	\$
<b>Partly paid ordinary shares</b>				
Balance at beginning of year	-	-	-	-
Installment on allotment	-	-	-	-
Transfer to fully paid ordinary shares	-	-	-	-
Balance at end of year	-	-	-	-

Partly paid ordinary shares carry one vote per share.

75% of all dividends paid to shareholders holding partly paid shares will be retained by the company and applied against any unpaid amounts owing on the partly paid shares whether or not a call has been made for unpaid capital. The remaining 25% of dividends will be paid to the owner of the partly paid shares.

	2016		2015	
	No.	\$	No.	\$
<b>Redeemable preference shares</b>				
Balance at beginning of year	7,500,000	7,500,000	7,500,000	7,500,000
Conversion to ordinary shares	(2,500,000)	(2,500,000)	-	-
Balance at end of year	5,000,000	5,000,000	7,500,000	7,500,000

Redeemable Preference Shares – Series 2 (“RPS2”) and Series 5 (“RPS5”) carry no voting rights except in certain circumstances as outlined in the Private Placement Agreement Appendix A; signed in September 2011 (RPS2); signed in November 2012 (RPS5). RPS2 and RPS5 rank equally among themselves and among all other preference shares issued by Angas Securities Limited. Redemption is solely at the discretion of the company. They rank in priority to all ordinary shares but are unsecured and subordinated to all fixed interest securities holders and creditors to Angas Securities Limited. RPS2 and RPS5 rank in priority to ordinary shares for the payment of dividend. In October 2015, RPS5 were converted to ordinary shares.

Franked Dividends are only payable out of profits for RPS2 and RPS5. RPS2 matures on 31 January 2021 at which date they may be repurchased by the Company at their face value. Dividends will continue to be declared and paid under the Terms of the Issue until the exchange has been effected by the Company.

**28. Retained earnings**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Balance at beginning of year	(14,641,517)	872,711	(13,696,305)	1,147,532
Profit / (loss) attributable to owners of the Company	(8,791,634)	(14,990,388)	(8,306,512)	(14,595,892)
Transfer of units within wholly owned group	-	(275,895)	-	-
Dividends provided for or paid (note 29)	-	(247,945)	-	(247,945)
Balance at end of financial year	(23,433,152)	(14,641,517)	(22,002,818)	(13,696,305)



**30. Contingent liabilities and contingent assets**

There is a claim against the Company for Trustee expenses of \$1.95 million which remains unsubstantiated and subject to approval by the Federal Court. The Company had previously brought to account the sum of \$1,212,681 as at 30 June 2015, comprising \$862,681 paid by the Company in August 2015 on account of the Trustee's unresolved claim together with a further sum of \$350,000 which the Company considers to be a reasonable allowance for any additional liability (subject to receipt of substantiation from the Trustee). The balance of \$737,319 is considered as a contingent liability.

Other than as detailed above, there are no other contingent liabilities or contingent assets.

### 31. Leases

#### Finance leases

##### Leasing arrangements

There were no finance leases in place for the year.

##### Finance lease liabilities

	Lease payments			
	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
No later than 1 year	-	-	-	-
Later than 1 year and not later than 5 years	-	-	-	-
	-	-	-	-

#### Operating leases

##### Leasing arrangements as Lessee

The consolidated entity leases three offices under operating leases expiring within two to six years, with option to extend for further terms. All three operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew.

##### Non-cancellable operating lease payments

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Not longer than 1 year	449,482	493,466	449,482	493,466
Longer than 1 year and not longer than 5 years	1,984,141	628,098	1,984,141	628,098
	2,433,623	1,121,564	2,433,623	1,121,564

##### Leasing arrangements as Lessor

The consolidated entity has eight operating leases for terms that range from one to eleven years on land and building held at Mannum SA, Acacia Ridge QLD, Winnellie NT, and Morningside QLD.

##### Non-cancellable future minimum lease receivable

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Not longer than 1 year	724,191	1,856,111	-	-
Longer than 1 year and not longer than 5 years	2,196,174	3,569,119	-	-
Longer than 5 years	4,026,175	4,586,624	-	-
	6,946,540	10,011,854	-	-

### 32. Subsidiaries

Name of subsidiary	Principal activity	Country of incorporation	Ownership interest	
			2016 %	2015 %
Angas Commercial Property Trust	Property Investments	Australia		98.6
Hindmarsh Precinct Developments Pty Ltd as trustee for The Lot 101 Development Unit Trust	Commercial Property Investment	Australia		70.0
Angas Investment Finance Pty Ltd (formerly Advance Investments Finance No 2 Pty Ltd)	Structured Finance	Australia		100.0
Mannum Investment Group Pty Ltd as trustee for Mannum Investment Unit Trust (i)	Commercial Property Investment	Australia		80.0
Mannum Green Shopping Centre Pty Ltd as trustee for Mannum Unit Trust (ii)	Commercial Property Investment	Australia		75.0

- (i) Angas Securities holds 80% of the units in Mannum Investment Group Pty Ltd as trustee for Mannum Investment Unit Trust. Angas Commercial Property Trust holds the other 20% of the units in Mannum Investment Group Pty Ltd as trustee for Mannum Investment Unit Trust.
- (ii) Mannum Investment Group Pty Ltd as trustee for Mannum Investment Unit Trust owns 75% of the units in Mannum Green Shopping Centre Pty Ltd as trustee for Mannum Unit Trust. Angas Commercial Property Trust holds the other 25% of the units Mannum Green Shopping Centre Pty Ltd as trustee for Mannum Unit Trust.

#### Composition of group

Information about the composition of the Group at the end of the reporting period is as follows:

Principal Activity	Place of incorporation and operation	Number of wholly-owned subsidiaries	
		2016	2015
Property Investments	Australia	-	-
Commercial Property Investment	Australia	-	-
Commercial Lending	Australia	-	-
Structured Finance	Australia	1	1

Principal Activity	Place of incorporation and operation	Number of non-wholly-owned subsidiaries	
		2015	2014
Property Investments	Australia	-	-
Commercial Property Investment	Australia	-	-
Commercial Lending	Australia	-	-
Structured Finance	Australia	1	1

**33. Notes to the statement of cash flows**

**(a) Reconciliation of cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Cash – Trading account (at call)	1,818,169	1,427,686	1,514,945	1,062,407
Cash – Fixed interest securities fund (at call)	2,877,513	14,570,151	2,877,513	14,570,151
Cash – NAB (at call and term deposit)	-	5,111,977	-	5,111,977
Cash – Bank of Queensland (term deposit)	-	6,861,614	-	6,861,614
Cash on hand	395	1,310	395	1,310
	4,696,078	27,972,738	4,392,853	27,607,459

**(b) Financing facilities**

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Secured bank bill facilities:				
• amount used	13,718,305	13,704,044	-	-
• amount unused	-	118,956	-	-
	13,718,305	13,823,000	-	-
Portfolio Loan:				
• amount used	-	-	-	-
• amount unused	-	-	-	-
	-	-	-	-
Hire purchase facility:				
• amount used	-	-	-	-
• amount unused	-	-	-	-
	-	-	-	-
Business market loan:				
• amount used	5,900,000	5,900,000	-	-
• amount unused	-	-	-	-
	5,900,000	5,900,000	-	-

**(c) Cash balances not available for use**

In accordance with the Run-Off Proposal, the consolidated entity must hold \$5 million in cash at the end of each month, subject to the approval of the LRC if any of the buffer is to be used.

The consolidated entity must hold \$97,000 (2015: \$97,000) in cash in the consolidated trading account for working capital relating to Angas Commercial Property Trust.

BankSA holds a set off deed over the Trading account for \$450,000 which is made up of the following:

- \$ 290,000      Bank guarantee – office leases
- \$ 60,000      Visa business card facility
- \$ 100,000     Transaction Negotiation Authority



**33. Notes to the statement of cash flows (cont'd)**

**(d) Reconciliation of profit for the period to net cash flows from operating activities**

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Profit / (loss) for the year	(8,840,397)	(15,030,738)	(8,306,512)	(14,595,892)
Debt issue costs recognised in profit or loss	(52,781)	(11,786)	(52,781)	(11,786)
Investment expenses recognised in profit or loss	77,034	107,850	77,034	107,850
Impairment of assets	11,251,720	8,224,387	10,798,917	8,083,567
Impairment recovered on assets	-	-	-	-
Reversal of impairment loss recognised on investments in subsidiaries	-	-	(207,267)	-
Impairment loss recognised on investments in subsidiaries	-	-	168,390	(168,122)
Impairment on Goodwill	141,611	450,573	141,611	450,573
Depreciation and amortisation	238,263	210,679	90,717	175,199
Change in tax balances	64,356	3,232,024	79,308	3,106,604
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Trade and other receivables	(8,327,574)	2,954,343	(8,181,625)	3,144,341
Loan receivables	(1,136,765)	(1,908,623)	(1,136,765)	(1,908,623)
Inventory	2,118,600	227,700	2,118,600	227,700
Other assets	913,630	(2,432,816)	855,157	(2,437,957)
Increase/(decrease) in liabilities:				
Trade and other payables	(1,270,244)	150,910	(1,200,487)	39,114
Interest bearing liabilities	(1,912,326)	(1,550,798)	(1,912,326)	(1,550,798)
Provisions	(77,920)	(47,332)	(77,920)	(47,332)
Net cash used in operating activities	(6,812,794)	(5,423,627)	(6,745,949)	(5,385,562)

### 34. Financial instruments

#### (a) Capital risk management

The Company manages its capital to ensure that entities in the consolidated entity will be able to continue as a going concern while maximising the return to shareholders. The consolidated entity proposes to maintain its core operating functions, subject to the run-off of the Mortgage Debenture business, whilst continuing to build its asset base and turnover. Growth of the asset base is expected to be derived from the growth of the two managed investment schemes, APIF and ACMF.

Angas Commercial Property Trust, a subsidiary of the consolidated entity, currently holds four bank bills which are secured against two investment properties held in Queensland and one investment property held in the Northern Territory. Hindmarsh Precinct Developments Pty Ltd as trustee for The Lot 101 Development Unit Trust, also a subsidiary of the consolidated entity, currently holds one loan facility secured against one property held in South Australia. Mannum Unit Trust holds one business markets loan which is secured against a development project in South Australia. Mannum Unit Trust is a subsidiary of the consolidated entity.

#### (b) Categories of financial instruments

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Financial assets</b>				
Cash and cash equivalents	4,696,078	27,972,738	4,392,853	27,607,459
Loans and receivables	122,852,666	180,848,565	136,644,480	192,549,486
<b>Financial liabilities</b>				
At amortised cost	168,551,770	254,127,726	148,261,297	234,009,449

#### (c) Financial risk management objectives

The consolidated entity's activities expose it to financial risks, market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program seeks to minimise potential adverse effects on the financial performance of the consolidated entity. Risk management is carried out by the Audit Risk Management and Compliance Committee ("ARMCO") and the Credit Committee (specific to lending).

ARMCO is a committee established by the Board of Directors of the consolidated entity to assist the Company in the effective discharge of its corporate governance and oversight responsibilities. The Credit Committee focuses on assessing the risk and credit worthiness of all borrowings prior to a letter of offer being issued.

Management minimises market risk by maintaining a maximum loan to value ratio across the total loan portfolio of 70% in conjunction with only lending on first mortgage loans. In addition, all real property must be valued by an independent licensed valuer appointed by the Company before any loan is made.

In accordance with the Run-Off Proposal, the Company must retain a cash buffer of \$5 million at the end of each month, with permission of the LRC required to use some of this buffer.

#### (d) Market risk

The consolidated entity's activities expose it primarily to the financial risks of changes in interest rates (refer note 34(f)) and, to a lesser degree, foreign currency exchange rates (refer note 34(e)).

At a consolidated entity and company level, market risks are managed through sensitivity analysis and stress scenario analysis.

There has been no change to the consolidated entity's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

#### (e) Foreign currency risk management

##### Foreign currency sensitivity analysis

The consolidated entity does not have any foreign currency exposure.

### 34. Financial instruments (cont'd)

#### (f) Interest rate risk management

The consolidated entity has interest bearing assets and liabilities. Interest rate risk on the assets is managed by investing in an Australian bank, or ADI or a subsidiary of same for a maximum of 12 months on funds which are not required in the short term. All other funds are either held in cash management accounts or 30 day rolling facilities.

Interest bearing liabilities include bank bills and loan facilities, fixed interest securities, and hire purchase facilities. Bank bills and the hire purchase facility are at fixed rates and are not sensitive to market movements; however the fixed interest securities are set at a variable interest rate reliant on the time of investment.

The company and the consolidated entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure of cash and cash equivalent with variable interest rates. A +/- 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's:

- net profit would increase/(decrease) by \$74,715 (2015: increase/(decrease) by \$41,732). These movements are as a result of lower/higher interest income from these financial assets.
- equity would increase/(decrease) by nil (2015: increase/(decrease) by nil).

#### (g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity's credit risks fall into the following categories:

- Cash and other deposits;
- loans; and
- trade and other receivables.

Under the Trust Deed for First Ranking Debenture Stock the consolidated entity can only deposit/invest in one or more of the following:

- An Australian bank, or ADI or a subsidiary of same;
- A public authority;
- Securities, promissory notes and bills of exchange which have a ready market;
- A cash management trust; and
- A cash common fund within the meaning of the Trustee Companies ACT (SA) 1988 or equivalent legislation.

The consolidated entity minimises loan and trade and other receivables risk by only issuing loans on a first mortgage basis with a maximum loan to value ratio of 70% (50% on rural land). By maintaining a maximum loan to value ratio of 70% the risk of recoverability is greatly reduced. Other lending criteria that the Credit Committee takes into consideration before issuing a letter of offer include:

- Maintaining a spread of mortgage investments with conservative lending margins;
- Applying proven and prudent mortgage selection criteria;
- Ensuring that every security property is valued by an independent licensed valuer engaged by the company prior to any advance being approved;
- Requiring building insurance (at replacement cost) to be provided by Certificate of Currency from an approved insurer noting the company's interest as lender on each policy; and
- Weighting the portfolio to take account of geographic and investment spread.

Since the implementation of the Run-Off Proposal, no new lending has occurred.

**34. Financial instruments (cont'd)**

**(g) Credit risk management (cont'd)**

Furthermore the consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

**(h) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework. The consolidated entity manages liquidity risk by maintaining a minimum cash reserve of \$5 million in accordance with the Run-Off Proposal. The consolidated entity continuously monitors forecast and actual cashflows.

**Liquidity and interest risk tables**

The following tables detail the Company's and the consolidated entity's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity can be required to pay.

CONSOLIDATED	Average interest rate %	Less than 1 year \$	1-5 years \$	5 years + \$
<b>2016</b>				
<b>Fixed interest rates</b>				
Trade and other payables	0.00%	2,978,257	-	-
Redeemable Preference Shares (RPS)	9.75%	97,110	1,201,571	-
Fixed interest securities	4.00%	144,920,615	-	-
		147,995,982	1,201,571	-
<b>Variable interest rates</b>				
Portfolio loan	0.00%	-	-	-
Business markets loan	6.22%	1,915,339	6,172,291	-
Bank bills	4.69%	12,341,440	-	-
		14,256,779	6,172,291	-
		162,252,760	7,373,862	-
<b>2015</b>				
<b>Fixed interest rates</b>				
Trade and other payables	0.00%	4,355,073	-	-
Hire purchase	0.00%	-	-	-
Redeemable Preference Shares (RPS)	9.50%	878,987	10,535,897	-
Fixed interest securities	6.94%	186,617,532	47,190,285	-
		191,851,592	57,726,182	-
<b>Variable interest rates</b>				
Portfolio loan	0.00%	-	-	-
Business markets loan	7.90%	2,130,208	6,299,179	-
Bank bills	4.99%	2,520,537	10,533,862	-
		4,650,745	16,833,041	-
		196,502,337	74,559,223	-

**34. Financial instruments (cont'd)**

**(h) Liquidity risk management (cont'd)**

COMPANY	Average interest rate %	Less than 1 year \$	1-5 years \$	5 years + \$
<b>2016</b>				
<b>Fixed interest rates</b>				
Trade and other payables	0.00%	2,306,089	-	-
Redeemable Preference Shares (RPS)	9.75%	97,110	1,201,571	-
Fixed interest securities	4.00%	144,920,615	-	-
		147,323,814	1,201,571	-
<b>Variable interest rates</b>				
Portfolio loan	0.00%	-	-	-
		-	-	-
		147,323,814	1,201,571	-
<b>2015</b>				
<b>Fixed interest rates</b>				
Trade and other payables	0.00%	3,840,840	-	-
Hire purchase	0.00%	-	-	-
Redeemable Preference Shares (RPS)	9.50%	878,987	10,535,897	-
Fixed interest securities	6.94%	186,617,533	47,190,284	-
		191,337,360	57,726,182	-
<b>Variable interest rates</b>				
Portfolio loan	0.00%	-	-	-
		-	-	-
		191,337,360	57,726,182	-

**34. Financial instruments (cont'd)**

**(h) Liquidity risk management (cont'd)**

The following table details the Company's and the consolidated entity's financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets.

Consolidated

	Average interest rate %	Less than 1 year \$	1-5 years \$	5 years + \$
<b>2016</b>				
<b>Fixed interest rates</b>				
Loans	10.50%	100,755,411	-	-
Trade and other receivables	0.00%	21,672,303	-	-
		122,427,714	-	-
<b>Variable interest rates</b>				
Cash	0.78%	1,816,363	-	-
Other cash deposits	1.90%	2,877,513	-	-
		4,693,876	-	-
		127,121,590	-	-
<b>2015</b>				
<b>Fixed interest rates</b>				
Loans	13.37%	163,798,675	4,206,220	-
Trade and other receivables	0.00%	13,244,657	-	-
		177,043,332	4,206,220	-
<b>Variable interest rates</b>				
Cash	0.78%	1,426,794	-	-
Other cash deposits	2.58%	26,543,742	-	-
		27,970,536	-	-
		205,013,868	4,206,220	-

Company

	Average interest rate %	Less than 1 year \$	1-5 years \$	5 years + \$
<b>2016</b>				
<b>Fixed interest rates</b>				
Loans	11.59%	100,241,279	-	-
Trade and other receivables	0.00%	21,109,024	-	-
		121,350,303	-	-
<b>Variable interest rates</b>				
Cash	1.90%	1,515,340	-	-
Other cash deposits	1.90%	2,877,513	-	-
		4,392,853	-	-
		125,743,156	-	-
<b>2015</b>				
<b>Fixed interest rates</b>				
Loans	13.37%	162,902,843	4,206,220	-
Trade and other receivables	0.00%	12,654,066	-	-
		175,556,909	4,206,220	-
<b>Variable interest rates</b>				
Cash	1.90%	1,063,717	-	-
Other cash deposits	2.58%	26,543,742	-	-
		27,607,459	-	-
		203,164,368	4,206,220	-

**35. Key management personnel compensation**

The aggregate compensation made to key management personnel of the company and the consolidated entity is set out below:

	Consolidated		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Short-term employee benefits	678,113	807,773	678,113	807,773
Post-employment benefits	47,463	57,266	47,463	57,266
	<u>725,576</u>	<u>865,039</u>	<u>725,576</u>	<u>865,039</u>

**36. Related party transactions**

Angas Securities Limited is the parent and ultimate controlling party respectively of the consolidated entity.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

**(a) Equity interests in related parties**

Equity interests in subsidiaries

Details of the percentage of units held in subsidiaries are disclosed in note 32 to the financial statements.

**(b) Other transactions with key management personnel of the consolidated entity**

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

	Consolidated	
	2016 \$	2015 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the consolidated entity or their related parties:		
Serviced office	21,388	128,328
Trail commission	823	7,717
	<u>22,211</u>	<u>136,045</u>
Consolidated profit includes the following expenses arising from transactions with key management personnel of the consolidated entity or their related parties:		
Interest expense	-	1,010
Legal consultancy	-	46,998
Management fee	100,083	102,554
	<u>100,083</u>	<u>150,562</u>
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Receivables – Trailing commission	8,470	30,299
	<u>8,470</u>	<u>30,299</u>
Total adjustments to assets arising from transactions pertaining to loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Trade and other receivables	-	-
	<u>-</u>	<u>-</u>

**36. Related party transactions (cont'd)**

**(b) Other transactions with key management personnel of the consolidated entity (cont'd)**

Angas Securities Limited charges a service fee to Hower Corporation Pty Ltd, of which Mr M J Hower is a director, for office space, equipment and services provided. For the 2015/16 financial year \$21,388 (2015: \$128,328) was charged to Hower Corporation Pty Ltd in the form of a service fee. This arrangement ceased on 31 August 2015. The balance of service fees owing from Hower Corporation Pty Ltd as at 30 June 2016 was \$351,896 (2015: \$534,722).

In 2016 the retail lending business received \$823 (2015: \$7,717) in trail commission from FAST in relation to residential home loans held by Andrew Luckhurst-Smith.

Amounts paid to Mr A Luckhurst-Smith for legal consultancy fees for the year were \$NIL (2015: \$ 46,998). Fees were based on standard rates for each service provided and were fully recovered by the consolidated entity from borrowers.

A management fee was paid by Angas Commercial Property Trust ("Trust") to Angas Property Fund Limited (M J Hower and A Luckhurst-Smith are shareholders of this company) of \$100,083 (2015: \$102,554). The management fee related to services provided by Angas Property Fund Limited relating to the management of investment properties held within the Trust.

Included under assets in trade and other receivables (trailing commission receivable) an amount totalling \$8,470 (2015: \$30,299) has been included as trailing commission receivable by the company as a result of home loans between Mr A Luckhurst-Smith and Angas Financial Services; and Mr Paul McCarthy (former director) and Angas Financial Services. The trail commission receivable rate is determined by FAST.

In addition a service fee of \$276,331 (2015: \$276,331) was charged in 2016 to Angas Prime Income Fund for which Angas Securities Limited is the Responsible Entity and a service fee of \$257,448 (2015: \$257,448) was charged to Angas Contributory Mortgage Fund for which Angas Securities Limited is the Responsible Entity.



**36. Related party transactions (cont'd)**

**(c) Subsequent mortgages behind the consolidated entity held by key management personnel**

The following entities related to Directors of Angas hold subsequent mortgages behind current Angas Loans:

Entity	No. of Loans	Total Value of Loans
KWS Capital Pty Ltd	1	921,618
Cardiff Capital Pty Ltd	1	2,066,837
Mortgage Funds Management Pty Ltd	1	42,180,659
Barker Performance Trust 1	2	691,966
Barker Performance Trust 2	5	4,262,494
		50,123,574

Any director of Angas is required to report any actual or potential conflict of interest in the first instance to the Compliance Officer. The Compliance Officer records all matters in the Conflict of Interest Register. The Directors must also report any actual or potential conflict at a Board meeting if the director has an interest in a particular matter under discussion. All loan documentation and draw-downs where Angas and a director are transacting with a common borrower must be signed by an independent director.

Angas does not advance loans to Related Body Corporates.

**37. Remuneration of auditors**

	Consolidated		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Auditor of the parent entity</b>				
Audit or review of the financial report	289,692	397,375	289,692	397,375
(Over)/under provision of prior year audit	27,697	(11,110)	27,697	(11,110)
Professional services	43,905	107,632	43,905	107,632
Taxation services	907	907	907	907
	362,201	494,804	362,201	494,804

The auditor of Angas Securities Limited is Deloitte Touche Tohmatsu.

**38. Disposal of subsidiary**

There was no disposal of a subsidiary during the financial year.

**39. Events after the reporting period**

Refer to "Subsequent Events" section in Directors Report.