

# **ANGAS SECURITIES LIMITED**

ABN 50 091 942 728

Half year report for the half-year ended 31 December 2016

# Financial report for the half-year ended 31 December 2016

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## Directors' report

The directors of Angas Securities Limited ("Angas" or "the Company") submit herewith the financial report for the half-year ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half-year are:

### Name

Mr Andrew Luckhurst-Smith

Mr Matthew John Hower

Mr Clive Thomas Guthrie

### Review of operations

The operating loss of the consolidated group prior to impairment and debenture liability revaluation and amortisation (after income tax and before dividends) for the period was \$770,610 (6 months December 2015 operating profit of \$665,293).

After allowing for impairment and debenture liability revaluation and amortisation, the operating profit of the consolidated group (after income tax and before dividends) for the period amounted to \$5,900,160 (6 months December 2015 operating loss of \$675,186).

Impaired loans continue to be managed. Further impairment expenses of \$19,233,846 (6 months December 2015: \$1,340,479) have been incurred for the six months ended 31 December 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 as they are managed out to discharge, as well as a reduction in the mortgage book size of \$25,255,779 for the six month period.

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. A wholly-owned subsidiary was incorporated during the period and ASIC is currently assessing the application for an Australian Financial Services Licence ("AFSL") to enable the subsidiary to replace Angas as Responsible Entity and manager of ACMF and APIF. The application was lodged in late October 2016 and since that time, ASIC has requested additional information in relation to the application which Angas has provided. The assessment of the application remains in progress.

Further, 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.

The Directors have determined that the Second 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 1 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 has to be accounted for in accordance with the consolidated entity's accounting policies.

The Directors engaged an appropriately qualified advisor to assist them quantify the financial effect of the change being the fair value of the liability. This resulted in the Company restating its Financial Liability to \$105 million resulting in an increment to its result for the period of \$39.92 million. Further details of this are set out in Note 6 to the Financial Statements.

### **Change in state of affairs**

Pursuant to the Run-Off Proposal which was approved by the Federal Court on 14 August 2015, 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 last year 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 Second 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.

In accordance with the Second 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 was 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.

Since 30 June 2016 and up until the signing of this report, the Company has made the following repayments to Debenture Holders:

<u>Date</u>	<u>c/\$</u>	<u>\$</u>
31 August 2016	0.22	490,753
30 September 2016	0.20	435,961
31 October 2016	0.22	488,455
30 November 2016	0.84	1,846,581
31 December 2016	<u>1.10</u>	<u>2,422,101</u>
Total during the period*	2.58	5,683,851

\* In addition to the above totals, \$168,235 for hardship payments approved in accordance with the amended Trust Deed have been paid

Subsequent to period end, the following payments were made by the Company to Debenture Holders:

31 January 2017	0.23	494,607
28 February 2017	0.22	494,039
31 March 2017	0.23	494,039
30 April 2017	0.50	1,089,503
31 May 2017	0.23	494,039
30 June 2017	<u>0.23</u>	<u>494,039</u>
Total subsequent to half year end*	1.64	3,560,266

\* In addition to the above totals, \$22,214 for hardship payments approved in accordance with the amended Trust Deed have been paid

Subsequent to period end, the Directors have determined that it will not be able to meet the repayment obligations contained in the Second Run-Off Proposal by 30 June 2017 and that whilst there is a provision for the LRC to grant an extension to 30 September 2017, such an extension would not enable the repayment obligations to be met.

This has resulted in the Directors concluding that they should seek leave from the Federal Court to seek a further meeting of the Debenture Holders to present them with an amended run-off schedule "Third Run-Off Proposal". The Company through its legal representatives appeared before Justice Beach in the Federal Court on 13 April 2017 and His Honour made orders on the 21st April 2017 setting out the process for proceeding to a third meeting of the Debenture holders. The order also confirmed the LRC had approved an extension of the Second Run-Off Proposal until 30 September 2017 to facilitate the holding of the meeting of the Debenture Holders.

### **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. However, as stated above the Company will be seeking approval from the Debenture Holders of a new Run-Off proposal.

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 continue to become 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 fulfil the Company's obligations under the new 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.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 5 of the half-year report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to be 'A. Luckhurst-Smith', with a long horizontal flourish extending to the right.

**Andrew Luckhurst-Smith**  
Director  
Adelaide, 21 July 2017

21 July 2017

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

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 review of the financial statements of Angas Securities Limited for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



S T Harvey  
Partner  
Chartered Accountants

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

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Angas Securities Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 29.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Angas Securities Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Auditor's Independence Declaration*

In conducting our review, 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 review report.



## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Angas Securities Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

## *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net profit of \$5,900,160, operating cash outflows of \$1,665,632 during the half-year ended 31 December 2016 and its actual performance during this period varied materially from the Second Run-off Proposal. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.



DELOITTE TOUCHE TOHMATSU



Stephen Harvey  
Partner  
Chartered Accountants  
Adelaide, 21 July 2017

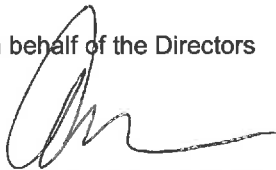
## **Directors' declaration**

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; and
- (b) 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 consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



**Andrew Luckhurst-Smith**  
Director

Adelaide, 21 July 2017

## Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2016

		Consolidated Half-year ending	
	Note	31 December 2016 \$	31 December 2015 \$
Interest revenue		2,004,911	7,922,081
Interest expense		(14,910,360)	(5,561,429)
<b>Net interest (expense)/revenue</b>		<b>(12,905,449)</b>	<b>2,360,652</b>
Non-interest revenue		3,499,710	3,784,135
Gain on derecognition of financial liability	6	39,918,615	-
Marketing expenses		(54,970)	(66,973)
Occupancy expenses		(229,490)	(300,756)
Administration expenses		(4,452,470)	(4,548,280)
Impairment of financial assets		(19,233,846)	(1,340,479)
Other expenses		(641,940)	(563,485)
<b>Profit/(loss) before tax</b>		<b>5,900,160</b>	<b>(675,186)</b>
Income tax benefit/(expense)		-	-
<b>Profit/(loss) for the period</b>		<b>5,900,160</b>	<b>(675,186)</b>
Other comprehensive income		-	-
<b>Total comprehensive income/(loss) for the period</b>		<b>5,900,160</b>	<b>(675,186)</b>
Profit/(Loss) Attributable to:			
Equity holders of the parent		5,905,418	(641,402)
Non-controlling interests		(5,258)	(33,784)
		<b>5,900,160</b>	<b>(675,186)</b>

Notes to the condensed consolidated financial statements are included on pages 13 to 29.

## Condensed consolidated statement of financial position as at 31 December 2016

		Consolidated	
	Note	31 December 2016 \$	30 June 2016 \$
<b>Assets</b>			
Cash and cash equivalents		5,537,118	4,696,078
Trade and other receivables	3	23,749,748	21,672,303
Property held for resale	4	4,206,590	3,613,500
Loans	5	75,499,632	100,755,411
Other financial assets		324,952	424,952
Property, plant and equipment		17,180	31,344
Other assets		878,686	1,725,460
Inventory – property		-	396,000
Investment property		18,491,370	29,354,193
Other intangible assets		7,007	11,006
<b>Total assets</b>		<b>128,712,283</b>	<b>162,680,247</b>
<b>Liabilities</b>			
Trade and other payables		2,178,611	2,978,257
Other financial liabilities		-	-
Interest bearing liabilities	6	125,748,052	165,573,514
Current tax payable		13,448	55,625
Provisions		224,922	212,015
<b>Total liabilities</b>		<b>128,165,033</b>	<b>168,819,411</b>
<b>Net assets</b>		<b>547,250</b>	<b>(6,139,164)</b>
<b>Equity</b>			
Issued capital		17,225,127	17,225,127
Accumulated Losses		(16,800,811)	(23,433,152)
Equity attributable to equity holders of the parent		424,316	(6,208,025)
Non-controlling interests		122,934	68,861
<b>Total equity</b>		<b>547,250</b>	<b>(6,139,164)</b>

Notes to the condensed consolidated financial statements are included on pages 13 to 29.

## Condensed consolidated statement of changes in equity for the half-year ended 31 December 2016

	Issued Capital \$	Accumulated Losses \$	Non- controlling interest \$	Total \$
<b>Balance at 1 July 2015</b>	9,028,067	(14,826,681)	112,067	(5,686,547)
Profit/(loss) for the period	-	(641,402)	(33,784)	(675,186)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	(641,402)	(33,784)	(675,186)
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
Issue of capital – ordinary shares	-	-	-	-
Issue of capital – preference shares	-	-	-	-
Other	-	-	-	-
<b>Balance at 31 December 2015</b>	17,225,127	(15,468,083)	78,283	1,835,327
<b>Balance at 1 July 2016</b>	17,225,127	(23,433,152)	68,861	(6,139,164)
Profit/(loss) for the period	-	5,905,418	(5,258)	5,900,160
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	5,905,418	(5,258)	5,900,160
Payment of dividends – ordinary shares	-	-	-	-
Payment of dividends – preference shares	-	-	-	-
Disposal of interest in subsidiary (Note 9)	-	726,923	59,332	786,255
Conversion of RPS to ordinary shares	-	-	-	-
Issue of capital – ordinary shares	-	-	-	-
RPS Interest Payable derecognised	-	-	-	-
Other	-	-	-	-
<b>Balance at 31 December 2016</b>	17,225,127	(16,800,811)	122,934	547,250

Notes to the condensed consolidated financial statements are included on pages 13 to 29.

## Condensed consolidated statement of cash flows for the half-year ended 31 December 2016

	Consolidated	
	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	2,694,278	4,486,613
Payments to suppliers and employees	(4,425,545)	(2,760,212)
Payments of property investment distributions	(2,597)	(3,920)
Interest received	1,009,651	3,917,383
Interest paid	(899,242)	(7,004,228)
Income tax paid	(42,177)	-
Net cash used in operating activities	(1,665,632)	(1,364,364)
<b>Cash flows from investing activities</b>		
Proceeds from repayment of mortgage loans	5,894,552	36,822,543
Payment for mortgage loans	-	(1,280,128)
Proceeds from property held for sale	6,334,746	1,439,303
Proceeds from financial assets	100,000	-
Payment for investment properties	-	(124,952)
Amounts advanced to subsidiaries	(1,793)	-
Net cash on disposal/(acquisition) of subsidiaries (Note 9)	2,422,000	-
Payment of building and development cost for investment properties	-	(39,502)
Net cash provided by investing activities	14,749,505	36,817,264
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	85,483
Repayment of borrowings	(6,390,746)	15,858
Proceeds from issues of debt securities	-	(144)
Repayment of debt securities	(5,852,086)	(43,930,865)
Net cash used in financing activities	(12,242,832)	(43,829,668)
<b>Net (decrease)/increase in cash and cash equivalents</b>	841,041	(8,376,769)
<b>Cash and cash equivalents at the beginning of the period</b>	4,696,078	27,972,331
<b>Cash and cash equivalents at the end of the period</b>	5,537,118	19,595,562

Notes to the condensed consolidated financial statements are included on pages 13 to 29.

## Notes to the condensed consolidated financial statements

### 1. Significant accounting policies

#### Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation required for certain non-current assets and financial instruments. Cost is based on fair values of the consideration given in exchange of assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2016 annual financial report for the financial year ended 30 June 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 1031 'Materiality' (2013)
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'
- AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: 'Materiality'

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

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

### **Use of Estimates and Assumptions**

Preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the application of accounting policies. The estimates and associated assumptions are based on historical experience, current property market conditions and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a regular and ongoing basis. Areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant are discussed in detail below. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the consolidated entity.

### **Provisions for Impairment of Financial Assets**

Provisions are based primarily on estimates of the realisable value of first mortgage security and other available collateral. Judgment is applied in assessing the value of the security and estimating the timing to realise such security or other collateral. Timing may impact the present value of expected cashflows. The Board meets on a monthly basis with an agenda including consideration and approval of provisions to be made against such loans. Refer Note 5 for further information.

### **Financial Liabilities**

#### **Mortgage Debenture Liability (Fixed Interest Securities)**

The Directors have determined that the Second Run-Off Proposal has given rise to a substantial modification to the terms of the mortgage debenture liabilities. 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 financial liability is then to be amortised over the term of the Second Run-Off Proposal, being to 30 September 2017.



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

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

#### Mortgage Debenture Business

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".

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

Due to deterioration in the property market after the global financial crisis, the value of securities supporting the loans made under the Trust Deed reduced to a point where the Trustee considered there may exist uncertainty as to whether the Company could meet its obligations under the Trust 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 was and remains responsible for the conduct of the Company's business. The Board was and is required to consult with the LRC during the period of the Run-Off. 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 was and 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. The Directors then sought leave from the Federal Court to convene another meeting of Debenture Holders to submit a revised Run-off Proposal (the Second Run-Off Proposal). The meeting was held on 11 August 2016 and the Second Run-Off Proposal was approved by the Debenture Holders.

In accordance with the Second 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 was 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.

Since 30 June 2016 and up until the signing of this report, the Company has made the following repayments to Debenture Holders:

<u>Date</u>	<u>c/\$</u>	<u>\$</u>
31 August 2016	0.22	490,753
30 September 2016	0.20	435,961
31 October 2016	0.22	488,455
30 November 2016	0.84	1,846,581
31 December 2016	<u>1.10</u>	<u>2,422,101</u>
Total during the period*	2.58	5,683,851

\* In addition to the above totals, \$168,235 for hardship payments approved in accordance with the amended Trust Deed have been paid

Subsequent to period end, the following payments were made by the Company to Debenture Holders:

31 January 2017	0.23	494,607
28 February 2017	0.22	494,039
31 March 2017	0.23	494,039
30 April 2017	0.50	1,089,503
31 May 2017	0.23	494,039
30 June 2017	<u>0.23</u>	<u>494,039</u>
Total subsequent to half year end*	1.64	3,560,266

\* In addition to the above totals, \$22,214 for hardship payments approved in accordance with the amended Trust Deed have been paid

Subsequent to period end, the Directors have determined that it will not be able to meet the repayment obligations contained in the Second Run-Off Proposal by 30 June 2017 and that whilst there is a provision for the LRC to grant an extension to 30 September 2017, such an extension would not enable the repayment obligations to be met.

This has resulted in the Directors concluding that they should seek leave from the Federal Court to seek a further meeting of the Debenture Holders to present them with an amended run-off schedule "Third Run-Off Proposal". The Company through its legal representatives appeared before Justice Beach in the Federal Court on 13 April 2017 and His Honour made orders on 21 April 2017 setting out the process for proceeding to a third meeting of the Debenture holders. The order also confirmed the LRC had approved an extension of the Second Run-Off Proposal until 30 September 2017 to facilitate the holding of the meeting of the Debenture Holders.

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

As with the First Run-Off Proposal and the Second Run-Off Proposal, the Third Run-Off Proposal will require 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. They have also taken into account information received directly or indirectly from potential purchasers in relation to each property, particularly around uncertainties relating to planning and environmental considerations. In relation to each loan facility, a revised realisation strategy has been developed to maximise the returns to investors. The Directors also note implicit in each of these strategies in respect of many of the properties, held as collateral for the loan facilities, it is inherently difficult to assess the likely cashflows as they are predominantly development properties which have limited reference to equivalent sales and other proxy references used by valuers. These strategies also contain estimated recoveries against secondary securities and guarantees and other legal claims and actions taken by the Directors to maximise the return to Debenture Holders. These estimated recoveries are inherently difficult to estimate both in quantum and timing, however, the Directors have used their collective experience and sought advice to assist in determining their assumptions.

The strategies that have been adopted by the Directors require a constant assessment of market conditions in relation to the specific attributes of each property, these factors include:

- National, state and local economic outlook and conditions
- Changes in state and local planning laws and regulations
- Impact of foreign exchange rates on international buyers
- Changes to bank regulations that may impact lending capacity of purchasers

The Directors from time to time test the market for buyers for placing properties into an auction process based on advice from its selling agents, including listing 5 properties at an auction on 27 May 2017. None of the properties reached the reserve prices recommended by the Company's agent and approved by the LRC, however negotiations are continuing with a number of interested parties who attended the auction.

This results in 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 it is reasonably possible that there may be a material adjustment to the carrying value of the loan assets of the Consolidated Entity.

### **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.

For the reasons outlined below, there is material uncertainty whether the consolidated entity will continue as a going concern:

- 1) The result for the half year ended 31 December 2016 is a profit after tax of \$5.90M (2015: \$0.68M loss) after a gain of \$39.92M (2015: \$NIL) arising on de-recognition of financial liabilities.
- 2) The net operating cash outflows have increased in the current period to \$1.67M (2015: \$1.36M). Net cash inflows from financing and investing activities were \$2.51M (2015: (\$7.01M)).
- 3) The Company and the Consolidated Entity have loan facilities that 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 committed the Company and the Consolidated Entity to the Second 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 is set out above and has varied materially from the Second Run-off Proposal.
- 4) The Second Run-Off Proposal required 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.

- 5) The Directors and management have spent significant time executing the Second 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, to execute in a manner which they believe will maximise the returns to the investors, this included:
  - During the period and subsequent to period end, the Directors have continued to market the properties for sale in accordance with their obligations as set out in the Second Run-off proposal but in implementing those strategies have found that the overall current economic environment has not been conducive to achieving the results they anticipated when they sought approval from the debenture holders.
  - Subsequent to period end placing a number of properties for auction with a major auction house. Whilst there was interest from a number of potential buyers, no sales were achieved and the Directors concluded from discussions with potential buyers that whilst they had interest in the subject properties they would need to obtain a greater level of assurance that the subject properties would meet important planning and environmental hurdles before they would enter into a contract to buy. The Directors have found that this is a consistent message across many properties in the portfolio and have concluded that it is in the Debenture Holders best interests for the Directors to pursue obtaining various planning and environmental approvals to make the properties more attractive to potential purchasers. Obtaining these approvals is generally a timely and uncertain process.

For the reasons set out above, the Directors have concluded that they will not be able to achieve the repayment of the debenture obligations in accordance with the Second Run-off proposal and as a result have sought leave of the Federal Court to convene a meeting of the Debenture Holders to present an amended Third Run-off Proposal. In the Third Run-off Proposal, as in previous proposals, 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".
- 6) The Third Run-Off proposal has not been finalised but in substance will be seeking an extension to 30 June 2019 and extinguishment of any interest liability.
- 7) The Third Run-Off proposal also still maintains that the plans and strategies for each loan facility and other realisation of other assets will result in the Debenture Holders receiving 100c in the dollar on their original debenture capital. The proposal does acknowledge that there is a material and significant risk that the quantum of the proceeds from executing these strategies may not result in this occurring and that should the Directors and/or the LRC conclude that achieving 100c in the dollar will not be achieved that the Directors will be required to seek leave from the Court to allow them to provide an alternative proposal to the Debenture Holders for consideration.
- 8) Continued losses have resulted in the Company breaching the conditions of its Australian Financial Services Licence (AFSL) which may negatively impact its ability to continue to derive income from its management activities and thereby negatively impacting the Company and the Consolidated Entity's ability to fund its operating cashflows.
- 9) The Trustee has to the date of this report not provided consent to restructure the Responsible Entity of the Managed Investment Scheme business and the Australian Financial Services Licence to enable that business to be sold, if required.

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

- 1) As stated above, the Directors and management spent significant time executing the Second Run-Off Proposal in very difficult market conditions, however, in doing so, the Directors believe their knowledge and experience in the areas of lending and property development and property management combined with advice from appropriately qualified professionals in relation to each loan facility, have enabled the development of an updated realisation strategy which they believe will maximise the returns to the investors. The cash flows used in the preparation of these financial statements form the basis of the Third Run-Off proposal and will continue to be updated as more up to date information becomes available.
- 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 timing of sale and taking into account the estimated selling costs likely to be incurred in the disposal of the property. The 31 December 2016 estimations are based upon the Directors' assessment of the estimated net cash flows arising from the price that they expect they can achieve within the proposed timeframe of the proposed Third Run-off Proposal and is 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 result for the financial period has resulted from the timing effect of discounting of cashflows and the subsequent negative impact of the impairment of certain loans and other assets.
  - 4) The Directors believe that the Company's and the Consolidated Entity's continued focus as a fund manager, the restructuring and streamlining of business operations and overhead structure will ensure the Company and the Consolidated Entity are well placed should the Debenture Holders approve the proposed Third Run-Off proposal and any subsequent proposals should they be required.
  - 5) The continuing ability of the Company and the Consolidated Entity to comply with the Mortgage Debenture Trust Deed and any amendments to the deed approved by the Debenture Holders at the meeting scheduled to be held on 16 August 2017.
  - 6) The Directors are confident that they can rectify the Net Tangible Asset requirement breach of its AFSL. If the Debenture holders approve the proposed Third Run-off Proposal then a significant modification of the Debenture Liability will result in it being derecognised and recognised at its Fair Value. The Directors are of the opinion that this will result in the Company remedying this breach.
  - 7) Obtaining consent from the Trustee and ASIC to restructure the Responsible Entity of the Managed Investment Scheme Business and the Australian Financial Services Licence to enable that business to be sold if required.
  - 8) The Directors believe that their continued focus on maximising returns for Debenture Holders and the previous support they have received for previous Run-off proposals is the reason they are seeking approval from the Debenture Holders for the proposed Third Run-off proposal and believe it will obtain the support necessary for it to be approved.

If the above mitigating factors are not achieved, in particular approval by the Debenture Holders of the Third Run-off Proposal, then there is material uncertainty whether the Consolidated Entity will continue as a going concern and therefore whether it will realise its assets and settle its liabilities in the normal course of business and in line with the proposed Third 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 Consolidated Entity not continue as a going concern.

## 2. 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).

### Segment revenues and results

The following is an analysis of the consolidated entities revenue and results by reportable segment

	Segment Revenue		Segment Profit/(Loss)	
	Half-year ended		Half-year ended	
	31 Dec 2016 \$	31 Dec 2015 \$	31 Dec 2016 \$	31 Dec 2015 \$
Commercial Lending	42,213,435	9,079,621	4,206,266	(1,434,881)
Structured Finance	2,216,727	1,440,338	1,967,472	1,178,385
Commercial Property Investments	350,356	316,978	131,289	(205,372)
Investment Properties	642,718	869,278	(404,867)	(213,318)
	45,423,236	11,706,215	5,900,160	(675,186)
Profit/(Loss) before tax			5,900,160	(675,186)
Income tax expense/(benefit)			-	-
Consolidated segment revenue and loss for the period	45,423,236	11,706,215	5,900,160	(675,186)

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. Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of income tax expenses/benefit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

## 2. Segment information (cont'd)

### Segment assets and liabilities

#### Segment Assets

	31 Dec 2016 \$	30 June 2016 \$
Commercial Lending	104,835,479	127,728,707
Structured Finance	800,039	1,540,726
Commercial Property Investments	8,696,740	12,332,731
Investment Properties	14,380,025	21,078,083
Total segment assets	128,712,283	162,680,247
Unallocated assets	-	-
Total assets	128,712,283	162,680,247

#### Segment Liabilities

	31 Dec 2016 \$	30 June 2016 \$
Commercial Lending	112,302,054	142,089,853
Structured Finance	558,992	1,173,420
Commercial Property Investments	9,511,189	13,414,522
Investment Properties	5,792,798	12,085,990
Total segment liabilities	128,165,033	168,763,786
Unallocated liabilities	-	55,625
Total liabilities	128,165,033	166,819,411

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

	31 Dec 2016 \$	31 Dec 2015 \$
Commercial Lending	17,945	62,504
Structured Finance	219	217
Commercial Property Investments	-	-
Investment Properties	15,366	17,821
Total depreciation and amortisation	33,530	80,542

### 3. Trade and other receivables

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
Trade receivables – Interest	21,664,276	20,796,685
Trade receivables – Fees	4,211,410	3,405,978
Trade receivables – allowance for doubtful debts	(3,489,323)	(3,836,135)
Trailing commission receivables	424,004	424,004
Property sale receivables	9,013,078	9,013,078
Property sale receivable – allowance for doubtful debts	(9,013,078)	(9,013,078)
Other receivables	939,382	881,771
	<b>23,749,748</b>	<b>21,672,303</b>

### 4. Property held for resale

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
Balance at the beginning of the half year	3,613,500	5,052,803
Property sold	-	(1,439,303)
Impairment	-	-
Transfer to other financial assets	(3,613,500)	-
Transfer from investment property	4,206,590	-
Balance at the end of half year	<b>4,206,590</b>	<b>3,613,500</b>

#### Consolidated

The properties summarised in the above table are detailed as follows:

31 December 2016			
	Book Value	Valuation	Valuation Date
107 Reichardt Rd, Winnellie NT (i)	4,206,590	4,250,000	30/06/2014
<b>TOTAL</b>	<b>4,206,590</b>	<b>4,250,000</b>	

30 June 2016			
	Book Value	Valuation	Valuation Date
Lot 101 Adam St Hindmarsh SA	3,613,500	3,650,000	04/02/2013
<b>TOTAL</b>	<b>3,613,500</b>	<b>3,650,000</b>	

- (i) Property sold on 27 January 2017 for \$4,200,000 (inclusive of GST).



## 5. Loans

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
Mortgage Loans	112,768,332	119,372,020
Interest received in advance	-	(17,037)
Fees received in advance	-	-
Allowances for doubtful debts	(37,268,700)	(18,599,572)
	75,499,632	100,755,411
<u>Maturity analysis</u>		
Not longer than 3 months	75,499,632	99,755,411
Longer than 3 months and not longer than 12 months	-	1,000,000
Longer than one year not longer than 5 years	-	-
	75,499,632	100,755,411
<u>Loan by security</u>		
Secured by chattel mortgage	432,653	460,657
Secured by first mortgage	74,800,961	100,028,736
Secured by second mortgage	266,018	266,018
Secured by collateral security	-	-
	75,499,632	100,755,411
<u>Loan by security</u>		
Chattel	432,653	460,657
Commercial property	18,263,443	24,834,317
Rural property	-	-
Residential property	56,803,536	75,460,437
	75,499,632	100,755,411

### Movement in the allowance for doubtful debts

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
Balance at the beginning of the year	18,599,572	9,905,088
Impairment losses recognised on loans	19,378,265	10,422,345
Reversal of impairment losses recognised on loans	-	-
Bad debt write off	(709,137)	(1,727,861)
Balance at the end of the year	37,268,700	18,599,572

## 5. Loans (cont'd)

### Top Five loans to related borrowers as at 31 December 2016

TOTAL LOANS	NO. OF LOANS	COMMENTARY
\$ 28,231,503	4	Primary asset is a prestigious rural/residential property close to Sydney
\$ 14,311,208	4	Perth based builder and property developer with a range of distinct residential, commercial and retail properties providing security
\$ 9,653,269	3	Perth based property developer with security comprising prime commercial, residential and retail sites across WA
\$ 4,075,699	3	Security comprises several retirement villages in Adelaide
\$ 1,334,304	2	Completed residential apartment complex on the fringe on the Adelaide CBD.
<b>\$ 57,605,983</b>		

### 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>		

## 5. Loans (cont'd)

### Top Ten largest loans as at 31 December 2016

CUSTOMER	LOAN AMOUNT	CATEGORY	ASSET STATE	ASSET VALUE*	VALUATION DATE	INTEREST ARREARS
A	\$ 14,983,325	Residential	NSW	\$ 18,753,462	17/06/2014	\$ 4,690,895
A	\$ 10,775,525	Residential	NSW	\$ 18,896,082	17/06/2014	\$ 3,695,013
F	\$ 6,103,138	Residential	WA	\$ 10,680,000	21/05/2015	\$ 1,447,481
E	\$ 5,733,787	Commercial	WA	\$ 5,500,000	14/10/2014	-
L	\$ 5,543,000	Residential	WA	\$ 8,800,000	30/06/2015	\$ 1,052,306
M	\$ 5,530,000	Commercial	WA	\$ 6,580,000	3/10/2014	\$ 1,186,203
O	\$ 3,650,746	Commercial	SA	\$ 7,265,455	8/09/2014	-
K	\$ 2,931,841	Residential	SA	\$ 9,421,000	25/03/2015	\$ 338,344
C	\$ 2,910,630	Residential	WA	\$ 19,165,000	01/03/2014	\$ 2,223,707
N	\$ 2,894,150	Residential	WA	\$ 11,424,999	30/04/2015	\$ 584,208
<b>Total</b>	<b>\$ 61,056,142</b>					

\*Shows only Prime security. For some loans, collateral securities are also held

### Top Ten largest loans as at 30 June 2016

CUSTOMER	LOAN AMOUNT	CATEGORY	ASSET STATE	ASSET VALUE*	VALUATION DATE	INTEREST 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>					

\*Shows only Prime security. For some loans, collateral securities are also held

## 5. Loans (cont'd)

### Expired Loans

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
Expired loans – Fixed interest securities funded	71,056,900	93,612,299
Expired loans – Non-fixed interest securities funded	4,442,731	4,720,150
Total	75,499,632	98,332,449

Expired loans refer to loans which are past the expiry date.

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

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
0 - 1 year	825,000	7,111,755
1 - 2 years	11,400,578	8,191,000
2 - 5 years	-	4,020,030
5+ years	432,653	460,657
Total	12,658,231	19,783,442

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	
	31 December 2016 \$	30 June 2016 \$
0 - 1 year	-	-
1 - 2 years	238,333	4,178,333
2 - 5 years	4,034,380	230,936
5+ years	170,018	170,018
Total	4,442,731	4,579,287

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

## 5. Loans (cont'd)

### Ageing of impaired expired loans – Fixed interest securities funded

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
0 - 1 year	6,759,118	57,764,681
1 - 2 years	40,598,610	8,922,139
2 - 5 years	10,305,942	7,142,037
5+ years	735,000	-
Total	58,398,670	73,828,857

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	
	31 December 2016 \$	30 June 2016 \$
1 - 2 years	-	-
2 - 5 years	-	140,863
Total	-	140,863

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

## 6. Interest bearing liabilities

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
Fixed interest securities (i) (ii)	113,155,332	144,920,615
Redeemable Preference Shares	1,035,698	1,034,594
Bank SA Bank bills	5,713,022	12,047,767
Business market loan	5,844,000	7,570,538
Total	125,748,052	165,573,514

- (i) As was highlighted in the Financial Report for the year ending 30 June 2016, in the event of a substantial modification to a financial liability, the Company is 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. At the time of preparing that Financial Report, the Directors had been unable to accurately quantify the financial effect of the change given the complex nature of the process and that it required them to engage appropriately qualified advisors to assist.

During the current period, it was assessed that the criteria for derecognition of the financial liability had been met and therefore the new financial liability was to be brought to account at fair value.

During the current period, the Directors engaged an independent valuer to assist them quantify the fair value of the mortgage debenture liability. This resulted in the Company recognising the new financial liability of \$105 million, derecognising the original liability of \$144.92 million, resulting in an increment to its result for the period of \$39.92 million. The new financial liability was then amortised during the period resulting in an increment in that liability and a corresponding decrement in the result for the period of \$14.01 million.

- (ii) The carrying value of fixed interest securities of \$113,155,332 as at 31 December 2016 represents the amortised cost of that liability and the fair value of that liability as at that date was \$92,075,000. The principal value of the liability is \$139,068,259.

## 7. Contingent liabilities and contingent assets

### Contingent Liabilities

There is a claim against the Company for Trustee expenses of \$1.95M which remains 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 during the period ending 31 December 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.

### Contingent Assets

There is a claim against Vero Insurance brought by Receivers and Managers appointed by the Company to one of its borrowers. Unspecified damages in excess of \$6.0 million have been sought under an insurance policy for vandalism and property damage caused to the borrower's property during the period of Receivership whilst the property was vacant pending sale. Vero Insurance has denied liability. Legal proceedings are listed for trial in the Federal Court commencing 3 October 2017.

There is a claim against Savills (SA) brought by the Company arising from a valuation of property at Wayville, SA which the Company asserts was misleading and prepared negligently. Unspecified damages and Rules of Court interest could together exceed \$6.0 million. The Company alleges a "No Transaction" case, meaning that, but for the misleading valuation, the loan transaction would not have proceeded and no loss would have been incurred. Liability is denied by the insurer of Savills (SA). Legal proceedings commenced by the Company in the Federal Court are expected to proceed to trial during the next Full Year reporting period.

## 8. Dividends

	Half-year ended 31 December 2016		Half-year ended 31 December 2015	
	Cents per share	Total \$	Cents per share	Total \$
<b><u>Recognised amounts</u></b>				
<b>Fully paid ordinary shares</b>				
Final dividend fully franked at a 30% tax rate	-	-	-	-
<b>Fully paid preference shares</b>				
Interim dividend fully franked at a 30% tax rate	-	-	-	-

## 9. Disposal of interest in subsidiary

Under the "Share and Unit Sale and Purchase Agreement" executed in July 2016, the Company disposed of its 70% interest in Hindmarsh Precinct Developments Pty Ltd. In accordance with the terms of the Agreement, the Company received \$500,000 on 19 July 2016 (held in trust) and the balance of funds in December 2016. The Company received \$2,422,000 in total.

## 10 Events after the reporting period

There are no events to report.

## 11 Related Party Transactions

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	\$ 975,453
Cardiff Capital Pty Ltd	1	\$ 2,136,837
Mortgage Funds Management Pty Ltd	1	\$44,317,310
Barker Performance Trust 1	2	\$ 845,950
Barker Performance Trust 2	6	\$ 4,123,927
		<u>\$52,399,477</u>

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.

## 12 Disclosure of additional 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.

Angas Securities Limited registered office and its principal place of business is as follows:

### Principal Registered Office

Level 14, 26 Flinders Street  
ADELAIDE SA 5000  
TEL: (08) 8410 4343

### Principal Place of Business

Level 14, 26 Flinders Street  
ADELAIDE SA 5000  
TEL: (08) 8410 4343

The entity's principal activity is financial services.