

ANGAS SECURITIES LIMITED

ABN 50 091 942 728

Half year report for the half-year ended 31 December 2017

Financial report for the half-year ended 31 December 2017

	Page
Directors' report	1
Auditor's independence declaration	5
Independent auditor's review report	6
Directors' declaration	8
Condensed consolidated statement of profit or loss and other comprehensive income	9
Condensed consolidated statement of financial position	10
Condensed consolidated statement of changes in equity	11
Condensed consolidated statement of cash flow	12
Notes to the condensed consolidated financial statements	13

Directors' report

The directors of Angas Securities Limited ("the Company" or "Angas") submit herewith the financial report of the company and its subsidiaries ("the consolidated group" or "consolidated entity") for the half-year ended 31 December 2017. 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 remeasurement and amortisation (after income tax and before dividends) for the period was \$4,271,833 (6 months December 2016 operating loss of \$770,610).

After allowing for impairment and debenture liability remeasurement and amortisation, the operating profit of the consolidated group (after income tax and before dividends) for the period amounted to \$20,638,170 (6 months December 2016 operating profit of \$5,900,160).

Impaired loans continue to be managed. Further impairment expenses of \$15,094,528 (6 months December 2016: \$19,233,846) have been incurred for the six months ended 31 December 2017, 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 \$26,211,904 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 Direct, which is a commercial property finance portfolio that is funded externally, and the management of Angas Prime, which is a pooled mortgage trust. The Company is licensed by ASIC to be Responsible Entity for Angas Direct and Angas Prime. 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 of the Angas Direct or Angas Prime portfolios.

At the second meeting of debenture holders held on 11 August 2016, the Company expressed the intention to restructure Angas Direct and Angas Prime by transferring the Responsible Entity and management to a wholly-owned subsidiary (Angas Mortgage Management Ltd ("AMML")) so that both businesses could be sold off (if required) to repay first ranking debentures pursuant to the Run-Off. AMML was incorporated in October 2016 and ASIC has assessed the application for an Australian Financial Services Licence ("AFSL") to enable the subsidiary to replace Angas as Responsible Entity and manager of Angas Direct and Angas Prime. The application was lodged in October 2016 and during this period, no formal decision has been made by ASIC as to whether to grant or refuse the AFSL application. The purpose of the AFSL application was to realise Angas Direct and Angas Prime to generate funds for the Run-Off. The Run-Off is due to expire on 30 June 2019. As Angas is now unable to realise Angas Direct and Angas Prime ahead of 30 June 2019, AMML has withdrawn its application from ASIC. Nothing arising from the AMML application nor its withdrawal impacts on the ability of Angas Securities to continue to conduct its funds management business to generate revenue to support the Run-Off.

The Directors determined that as a consequence of the approval of the Third Run-Off proposal and subsequent ratification by the Federal Court on 1 September 2017, the resultant change in estimates of the

cash flows relating to the Debenture Liability resulted in the application of AASB 139 "Financial Instruments: Recognition and Measurement" paragraph AG8. The impact of the application of AG8 resulted in remeasuring the balance of the Debenture Liability as at 1 September 2017, \$67,816,167, which resulted in the Net Asset position of the Company and the Group becoming positive (this has been explained in detail in Note 1 and Note 5 of the Financial Statements).

Corporate Governance

The Board of Directors is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Management of the Company's business on a day to day basis is delegated by the Board to the Managing Director. The Managing Director is responsible for managing the Company within corporate governance framework established by the Board.

The Company's Corporate Governance Policy can be downloaded from the Angas website at www.angassecurities.com/governance.

Changes in state of affairs

Pursuant to the First 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 First 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 First Run-Off Proposal be put to the debenture holders at a further meeting for their approval. These changes were intended to give effect to the Second Run-Off Proposal and broadly provided for:

- the dates and amounts of the remaining interim payments of Principal Balances to be amended such that Angas would 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 was to be extended from 31 December 2016 to 30 June 2017 or such later date, being no later than 30 September 2017, as was approved by the Loans Realisation Committee;
- interest payments on Debentures were 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 Second 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 11 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 approved by the Federal Court on 19 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, part payments of remaining Principal Balances were to be made at the end of a given month in which the Company held 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 was approved by the LRC.

During the previous financial year, the Company made repayments to Debenture Holders totaling \$9,434,566. Prior to year end, the Directors determined that the Company would not be able to meet the repayment obligations contained in the Second Run-Off Proposal by 30 June 2017 and that whilst there was 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 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 the 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 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.

The Company proposed changes to the Run-Off Proposal be put to the debenture holders at a further meeting for their approval. These changes were intended to give effect to the Third Run-Off Proposal and broadly provided for:

- an extension to the redemption date for Debentures to 30 June 2019;
- interest to stop accruing on Debentures, and Debenture Holders to forgive all interest that has accrued on Debentures since 1 August 2016;
- to transfer the Angas managed investment scheme functions to Angas Mortgage Management Limited, an Angas subsidiary, so they can be more readily realised for the benefit of Debenture Holders and to provide an alternative form of guarantee to the Trustee to the one currently required by the Trust Deed; and
- the circumstances in which the Trustee can claim additional remuneration in priority to Debenture Holders following any appointment of receivers to Angas or defaults by Angas under the Trust Deed.

On 28 July 2017, 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 16 August 2017 at which the debenture holders passed an extraordinary resolution in favour of the Third Run-Off Proposal. The outcome of the meeting was approved by the Federal Court on 1 September 2017 and the Company was then directed to amend the Trust Deed and implement the proposal accordingly.

The Directors have determined as a consequence of the approval of the Third Run-off proposal and subsequent ratification by the Federal Court on 1 September 2017 that the resultant change in estimates of the cash flows relating to the Debenture Liability resulted in the application of AASB 139 "Financial Instruments: Recognition and Measurement" paragraph AG8. The impact of the application of AG8 resulted in remeasuring the balance of the Debenture Liability as at 1 September 2017, \$67,816,167, which resulted in the Net Asset position of the Company and the Group becoming positive.

The Directors also engaged an appropriately qualified advisor to determine the Fair Value of the Debentures in accordance with AASB 139 "Financial Instruments: Recognition and Measurement". Whilst it was concluded that a further Significant Modification of the Debenture Liability did not occur as a result of the amendments approved by the Debenture Holders, the Directors note that the Fair Value Range calculated by the advisor was in the range of \$64.3 million to \$71.3 million.

Subsequent events

In May 2018, the LRC requested Angas to provide a briefing to LRC at the September 2018 meeting concerning the intentions of the directors if it was considered likely to be insufficient time to realise all of the residual assets in the legacy debenture fund by 30 June 2019. This briefing was provided and Angas subsequently compiled a formal written proposal for LRC outlining options being considered by its board and management. Angas directors subsequently met with representatives of Trustco on 30 October 2018 and 14 December 2018. Whilst these discussions will continue, neither Angas nor Trustco favour a further extension of the Run-Off. The preferred course is to develop a mechanism which will preserve the assets for debenture investors whilst retiring Trustco and the financial burden of the Run-Off. A secondary issue is a claim by Trustco for out of pocket fees incurred with external advisers engaged prior to and throughout the Run-Off process.

Meanwhile, there has been a formal report made by Angas to the Federal Court on alternative proposals that have been under consideration. Orders were made by the Honourable Justice Beach on 8 November 2018 setting out a structure by which the parties should conduct their deliberations in good faith. The Orders of

Angas Securities Limited

Directors' report

Justice Beach require each of Angas and the Trustee to consult in good faith with each other and with ASIC. The consultation process is ongoing.

As a result of several settlements occurring post 30 June 2018, the projected cashflow from the Run-off has been adjusted downwards. Angas considers it unlikely that the shortfalls relating to these settlements will be offset by uplift from the sale of other assets. Accordingly, the principal return to debenture holders is now projected to be less than 100 cents in the dollar.

Future developments

In accordance with the Third Run-Off Proposal, the Company is required to run-off its mortgage debenture business by 30 June 2019. As set out above, and in Note 1 of the Financial Statements, the Directors determined that the projected quantum and timing of forecast cash flows contained in the Third Run-Off Proposal would not be achieved and therefore the debenture holders would not receive 100 cents in the dollar.

The Directors have concluded that a restructure proposal is the preferred option and in the best interests of debenture holders. The Trustee has notified Angas and given qualified support to a Scheme of Arrangement in the form of a debt for equity restructure.

Subject to debenture holders supporting the restructure proposal and it being ratified by the Federal Court, then Angas will continue to realise the assets of the legacy debenture business and manage the two mortgage trusts, Angas Prime and Angas Direct.

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



Andrew Luckhurst-Smith

Executive Chairman

Adelaide, 14 March 2019

14 March 2019

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

Dear Board Members

Auditor's Independence Declaration to 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 half year financial report of Angas Securities Limited for the half year ended 31 December 2017, 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


Lee Girolamo
Partner
Chartered Accountants

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

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 2017, 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 34.

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 2017 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 2017 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, as at 31 December 2017, the consolidated entity's liabilities exceeded its assets by \$12,079,812 and the Company is proceeding with their 2019 Restructure Proposal. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Lee Girolamo
Partner
Chartered Accountants
Adelaide, 14 March 2019

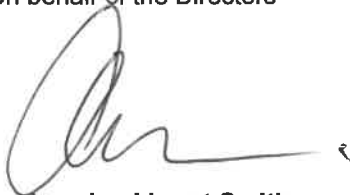
Directors' declaration

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

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

Andrew Luckhurst-Smith
Executive Chairman

Adelaide, 14 March 2019

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2017

	Note	Consolidated Half-year ending	
		31 December 2017 \$	31 December 2016 \$
Interest revenue		64,863	2,004,911
Interest expense		(21,659,357)	(14,910,360)
Net interest expense		(21,594,494)	(12,905,449)
Non-interest revenue		2,092,797	3,499,710
Gain on derecognition of financial liability	1,5	-	39,918,615
Gain on remeasurement of financial liability	1,5	61,514,313	-
Marketing expenses		(50,752)	(54,970)
Occupancy expenses		(205,825)	(229,490)
Administration expenses		(5,751,350)	(4,452,470)
Impairment of financial assets		(15,094,528)	(19,233,846)
Other expenses		(271,991)	(641,940)
Profit before tax		20,638,170	5,900,160
Income tax benefit/(expense)		-	-
Profit for the period		20,638,170	5,900,160
Other comprehensive income		-	-
Total comprehensive income for the period		20,638,170	5,900,160
Profit/(Loss) Attributable to:			
Equity holders of the parent		20,655,682	5,905,418
Non-controlling interests		(17,512)	(5,258)
		20,638,170	5,900,160

Notes to the condensed consolidated financial statements are included on pages 13 to 34.

Condensed consolidated statement of financial position as at 31 December 2017

		Consolidated	
	Note	31 December 2017 \$	30 June 2017 \$
Assets			
Cash and cash equivalents		3,605,102	13,072,422
Trade and other receivables	3	18,909,239	24,074,120
Loans	4	36,265,701	62,477,605
Other financial assets		-	-
Property, plant and equipment		1,297	1,515
Other assets		32,693	48,292
Investment property		7,530,000	9,533,911
Other intangible assets		2	3,074
Total assets		66,344,034	109,210,939
Liabilities			
Trade and other payables		4,244,358	2,110,261
Provisions		201,765	243,431
Interest bearing liabilities	5	73,977,723	139,471,994
Current tax payable		-	13,448
Total liabilities		78,423,846	141,839,134
Net assets		(12,079,812)	(32,628,195)
Equity			
Issued capital		17,225,127	17,225,127
Accumulated losses		(29,306,744)	(49,962,426)
Equity attributable to equity holders of the parent		(12,081,617)	(32,737,299)
Non-controlling interests		1,805	109,104
Total equity		(12,079,812)	(32,628,195)

Notes to the condensed consolidated financial statements are included on pages 13 to 34.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2017

	Issued Capital \$	Accumulated Losses \$	Non- controlling interest \$	Total \$
Balance at 1 July 2016	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	-	726,923	59,332	786,255
RPS Interest Payable derecognised	-	-	-	-
Issue of capital – ordinary shares	-	-	-	-
Issue of capital – preference shares	-	-	-	-
Other	-	-	-	-
Balance at 31 December 2016	17,225,127	(16,800,811)	122,934	547,250
Balance at 1 July 2017	17,225,127	(49,962,426)	109,104	(32,628,195)
Profit/(loss) for the period	-	20,655,682	(17,512)	20,638,170
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	20,655,682	(17,512)	20,638,170
Payment of dividends – ordinary shares	-	-	-	-
Payment of dividends – preference shares	-	-	-	-
Redemption of units in trust	-	-	(89,787)	(89,787)
Issue of capital – ordinary shares	-	-	-	-
RPS Interest Payable derecognised	-	-	-	-
Other	-	-	-	-
Balance at 31 December 2017	17,225,127	(29,306,744)	1,805	(12,079,812)

Notes to the condensed consolidated financial statements are included on pages 13 to 34.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2017

	Consolidated	
	Half-year ended 31 December 2017 \$	Half-year ended 31 December 2016 \$
Cash flows from operating activities		
Receipts from customers	2,288,133	2,694,278
Payments to suppliers and employees	(3,819,991)	(4,425,545)
Cash used in operations	(1,531,858)	(1,731,267)
Payments of property investment distributions	-	(2,597)
Interest received	5,282,836	1,009,651
Interest paid	(149,955)	(899,242)
Income tax paid	(13,448)	(42,177)
Net cash generated by/(used in) operating activities	3,587,575	(1,665,632)
Cash flows from investing activities		
Proceeds from repayment of mortgage loans	12,605,738	5,894,552
Payment for mortgage loans	(80,000)	-
Proceeds from property held for sale	-	6,334,746
Proceeds from financial assets	-	100,000
Amounts advanced to subsidiaries	-	(1,793)
Net cash on disposal of subsidiaries	-	2,422,000
Net cash provided by investing activities	12,525,738	14,749,505
Cash flows from financing activities		
Repayment of borrowings	(1,983,000)	(6,390,746)
Repayment of units redeemed in trust	(89,787)	-
Repayment of debt securities	(23,507,846)	(5,852,086)
Net cash used in financing activities	(25,580,633)	(12,242,832)
Net (decrease)/increase in cash and cash equivalents	(9,467,320)	841,040
Cash and cash equivalents at the beginning of the period	13,072,422	4,696,078
Cash and cash equivalents at the end of the period	3,605,102	5,537,118

Notes to the condensed consolidated financial statements are included on pages 13 to 34.

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 2017 annual financial report for the financial year ended 30 June 2017, 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.

On 28 February 2018, Angas applied to ASIC for relief under section 340 of the *Corporations Act 2001* to dispense with the requirements relating to the review of half year financial report for the period to 31 December 2017. Specifically, Angas sought relief from the requirement for its directors to have the Half Year Report externally reviewed by its auditor. ASIC refused the application which Angas then sought a review of ASIC's refusal which proceeded to a hearing in the Administrative Appeals Tribunal (AAT). This hearing took place in January 2019, whereby the AAT affirmed the decision of ASIC. Consequently, the half-year financial for 31 December 2017 has only recently been reviewed.

The annual report for the year ended 30 June 2018 was issued on 31 January 2019 and the half-year report for the period ended 31 December 2018 was issued on the same date at this half-year financial report. Both contain more recent and up to date information than the financial statements and notes presented in this half-year financial report.

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. 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.

As at the date of this report, AASB 9 *Financial instruments*, AASB 15 *Revenue from contracts with customers* and AASB 16 *Leases* were on issue but not yet effective for this half-year.

The directors have assessed that the application of AASB 9 will change their accounting policies in respect of financial instruments but do not expect any changes to the amounts presented in the accounts.

The directors have assessed that the application of AASB 15 will not have any impact on the financial position and/or financial performance of the Group because the requirements relating to variable revenue are consistent with current requirements.

AASB 16 will require the Group to recognise on balance sheet a Right of Use asset and lease liability in respect of its current operating leases. The Group only has one operating lease, being the lease over their current head office. After transition the ongoing income statement impact will be the finance costs in respect of the lease liability and amortisation of the right of use asset.

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 the Directors and 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 Assets

Recoverable amount of loans

In terms of assessing impairment of 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 based on, but not limited to, the following:

- relevant sales strategy, including expected timing of sale, selling price and selling costs
- assessing information and advice from real estate experts
- impact and cost of development approval requirements
- estimated holding costs
- estimated realisation and timing of loan collateral

The above 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 loans within the next financial year.

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.

Investment Properties

For investment properties, the Directors assess the carrying which is based on cost less accumulated depreciation by various techniques including advice from sales agents for properties listed for sale, and also with reference to historical independent valuations from licensed valuers are commissioned, in assessing recoverable amount and net realisable values.

The recoverable amount for investment 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.

1. Significant accounting policies (cont'd)

Mortgage Debenture Liability (Fixed Interest Securities)

Revised estimates of receipts and payments

The Directors determined that as a consequence of the approval of the Third Run-Off proposal and subsequent ratification by the Federal Court on 1 September 2017, a substantial modification of the debenture liability did not occur and therefore no derecognition applied. When a debenture derecognition does not apply but there is a resultant change in the estimates of the cash flows relating to the Debenture Liability, then the application of AASB 139 "Financial Instruments: Recognition and Measurement" paragraph AG8 is applied. This requires the Company to adjust the carrying amount of the financial liability to reflect the actual and revised estimated cashflows, which is mainly impacted by the extension of the term and no fixed commitment to repay until the end of the revised term. The impact of the application of AG8 resulted in remeasuring the balance of the Debenture Liability as at 1 September 2017, \$67,816,167, and recognising a gain of \$61,514,313, which resulted in the Net Asset position of the Company and the Group becoming positive as at that date.

The Directors also engaged an appropriately qualified advisor to determine the Fair Value of the Debentures in accordance with AASB 139 "Financial Instruments: Recognition and Measurement. Whilst it was concluded that a further Significant Modification of the Debenture Liability did not occur as a result of the amendments approved by the Debenture Holders, the Directors note that the Fair Value Range calculated by the advisor was in the range of \$64.3 million to \$71.3 million.

Determination of Fair Value of new Mortgage Debenture Liabilities

In the previous financial year, the Directors determined that a substantial modification of the mortgage debenture liability had occurred as a result of the August 2016 changes approved by the Debenture Holders.

As a consequence of the substantial modification of the mortgage debenture liabilities, the Directors derecognised the original liability and recognised a new financial liability in respect of the mortgage debentures at fair value. In measuring the fair value of the new financial liability the Directors applied the requirements of AASB 13 Fair Value Measurement. In accordance with AASB 13 when the fair value of a liability is determined, if that liability is held by another party as an asset then the fair value of the liability should be determined with reference to the perspective of a market participant that holds the identical item as an asset at the measurement date. As the mortgage debentures are not traded in an active market and the terms and conditions contained in the Run-Off Proposals result in the timing of the cash flows being linked to the sales of underlying assets, that are also not traded in an active market, the valuation used was an income approach as required by AASB 13. The Directors obtained independent valuation advice in respect of the determining the valuation using this approach. In valuing the mortgage debenture liability the valuer used the following inputs;

- the estimated amount and timing of future cash flows a buyer would apply to the expected amounts relating to the underlying loan assets and other assets of the entity that could be realised
- the estimated cash inflows and outflows from operating activities
- the level of required cash reserves following assumptions
- a discount rate that reflects the credit risk of the consolidated entity

Based on the assessment by the independent valuer the Directors recognised the new mortgage debenture liability at a fair value of \$105,000,000 which forms the basis of amortised cost in respect of which amortisation of interest will be recognised for that liability in accordance with the effective interest rate as required by AASB 139.

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 Angas Securities Limited ("the Company") business involves raising funds from investors under the Trust Deed for the First Ranking Debenture Stock (the "Trust Deed") and then lending those monies to various borrowers secured by first ranking mortgages over real property "(Loan Receivables)". This component is described as the "Mortgage Debenture Business".

The Mortgage Debenture Business is overseen by an Independent Trustee (the "Trustee") who is appointed under the Trust Deed and acts on behalf of the Debenture Holders 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 Loan Receivables 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.

First Run-Off Proposal

Subsequent to a series of negotiations and protracted court proceedings, the Company and the Trustee reached an agreement on 9 June 2015. The agreement required that the Company submit a proposal (the "Run-Off proposal") to the Debenture Holders to amend 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 ("Principal Balances") 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 Receivables 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.

Under the Run-Off proposal, the Board of the Company remained responsible for the conduct of the Company's business. The Board was required to consult with the LRC during the period of the Run-Off Proposal of the mortgage debentures. If the Board desired not to follow any opinions or advice of the LRC in relation to the Loan Receivable realisation process, the Company and the Trustee were required to seek directions from the Federal Court. This arrangement remains in place as at the date of this report.

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 Receivables. 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 Receivables. 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 Receivables, 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.

Second Run-Off Proposal

By 30 June 2016, the Company had made payments to Debenture Holders of 34 cents in the dollar of their Principal Balances. However, 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 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 on 11 August 2016, part payments of remaining Principal Balances were to be made at the end of a given month in which the Company held 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 approved by the LRC.

During the 30 June 2017 financial year, the Company made repayments to Debenture Holders totaling \$9,434,566. During that time, the Directors determined that the Company would not be able to meet the repayment obligations contained in the Second Run-Off Proposal by 30 June 2017. Whilst there was a provision for the LRC to grant an extension to 30 September 2017, such an extension would still not enable the repayment obligations to be met.

Third Run-Off Proposal

This resulted in the directors concluding that they should seek leave from the Federal Court to hold a further meeting of the debenture holders to present them with an amended run-off schedule (the "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.

The Company proposed changes to the Run-Off Proposal be put to the Debenture Holders at a further meeting for their approval. These changes were intended to give effect to the Third Run-Off Proposal and broadly provided for:

- an extension to the redemption date for Debentures to 30 June 2019;
- interest to stop accruing on debentures, and debenture holders to forgive all interest that has accrued on debentures since 1 August 2016;
- the transfer of the Company's managed investment scheme business to Angas Mortgage Management Ltd, a subsidiary of the Company, so that it could be more readily realised for the benefit of debenture holders and to provide an alternative form of guarantee to the Trustee to the one currently required by the Trust Deed; and
- the circumstances in which the Trustee can claim additional remuneration in priority to debenture holders following any appointment of receivers to the Company or defaults by the Company under the Trust Deed.

On 28 July 2017, 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 16 August 2017 at which the Debenture Holders passed an extraordinary resolution in favour of the Third Run-Off Proposal. The outcome of the meeting was approved by the Federal Court on 1 September 2017 and the Company was then directed to amend the Trust Deed and implement the proposal accordingly.

2019 Restructure Proposal

The Third Run-Off Proposal envisaged that the plans and strategies for each Loan Receivable realisation and the realisation of other assets would result in the debenture holders receiving 100.19c in the dollar of their Principal Balances.

The Directors have been closely considering the progress of the Third Run-off Proposal. In particular, they have been considering the possibility that the timeframe for realisation of assets as per the Third Run-off Proposal may not be met and that Debenture Holders may receive less than 100c in the dollar return on their Principal Balances. This was discussed with the LRC on 28 September 2018. At this meeting, the LRC advised the Company's Chairman that the LRC required advice as to the Company's position and was considering its position should the Company not be able to meet its obligations under the Third Run-off Proposal.

The Directors of the Company met on 6 October 2018, and based on the information available to them on the status of all property sales, they concluded that the Company would not be able to meet the payments contained within the Third Run-off Proposal. The Directors then resolved to propose to the LRC that they should approach the Federal Court to seek orders to call a meeting of the debenture holders to seek approval for a restructure of the remaining debenture debt (the "2019 Restructure Proposal"). The 2019 Restructure Proposal considered either a "Fourth Run-off Proposal" or some form of "Scheme of Arrangement". The Directors concluded, that any proposal would require the debenture holders to release the Company from the commitment to pay 100c in the dollar of the Principal Balances.

The 2019 Restructure Proposal, consistent with the First Run-Off Proposal, the Second Run-Off Proposal and the Third Run-Off Proposal, required the Directors of the Company to make significant estimates, judgments and assumptions. These are in relation to the method, quantum and timing of cash flows in respect of the repayments, and refinancing of Loan Receivables and/or the orderly realisation of the securities supporting the Loan Receivables. The Directors 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 preparing these financial statements on a going concern basis, the Directors have assumed that they will be successful in obtaining support from the debenture holders for the 2019 Restructure Proposal. The Directors advised that it is inherently difficult to estimate the likely cash flows of the Loan Receivables as the remaining security assets are predominantly development properties, which have limited reference to equivalent sales and other proxy references used by valuers. In addition, it is also inherently difficult to estimate the likely cash flows from secondary securities held as collateral and guarantees and other legal claims and actions taken by the Company that support the loans to borrowers. Where possible the Directors have used their professional experience and sought advice from appropriately experienced real estate specialists and where relevant, legal advisors to assist in estimating these cash flows.

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
- The impact of foreign exchange rates on international buyers
- Changes to bank regulations that may impact lending capacity of purchasers, in particular the impact of the Financial Services Royal Commission; and
- The impact of state based property taxes and duties.

The Directors have assessed impairment based on the best information available to them. Given the factors set out above, there exists inherent and significant uncertainty in relation to estimates, judgments and assumptions made. If the events and circumstances surrounding each Loan Receivable realisation are not consistent with those estimates, judgments and assumptions. Then it is likely, that there will be further negative material adjustments to the future carrying value of the loan assets and consequently the outcome for Debenture Holders.

The 2019 Restructure Proposal provided to the LRC was either to:

1. extend to a fourth run-off with no commitment to achieve a 100c return of the Principal Balances; or
2. entering into a "scheme of arrangement" whereby the remaining Loan Receivables and other assets forming the security for the debenture holders would be transferred into some form of "Special Purpose Vehicle" to sell down the remaining security assets. The Debenture Holders would also relieve Angas of the obligation to return to the Debenture Holders their outstanding principal in full and by a specified date. The proposal would involve the debenture holders receiving equity in the Company, which would continue as the Responsible Entity for the Angas Prime and Angas Direct [formerly APIF and ACMF]. Debenture Holders would also receive units in the Special Purpose Vehicle.

The Directors resolved to undertake discussions with their advisors on the options for a "Scheme of Arrangement".

The Chairman advised the LRC of this resolution at its meeting dated 26 October 2018. Consequently, the LRC requested that the Company's Directors should meet with the Trustee to discuss the 2019 Restructure Proposal and advised the LRC of the outcome.

Following the meeting with the Trustee:

1. The Trustee agreed in principle with the proposition put forward by the Company and indicated that its preference was for a "Scheme of Arrangement"; and
2. The Trustee agreed in principle that it would consent to the proposal in broad terms when the Company took this matter before the Federal Court.

Pursuant to the above, the Directors of the Company compiled a formal written proposal outlining the various options being considered by the LRC and subsequently discussed this with the Trustee.

Federal Court Orders relating to the 2019 Restructure Proposal

The Company presented affidavit evidence to Justice Beach in the Federal Court setting out the alternative proposals under consideration. Court orders by Consent were made by Justice Beach on 8 November 2018 and then 8 February 2019 setting out a structure by which parties should conduct their deliberations in good faith. Key highlights of the Court orders by Consent were as follows,

- I. Each of the defendant (the Company) and the plaintiff (the Trustee) are to consult in good faith with each other and ASIC to seek to reach an agreed position regarding the Company's proposal to alter the run-off. This consultation required the Trustee to notify the Company in writing of its formal position by 30 November 2018, in relation to the options set out in the Discussion Paper, which is in the form of an Affidavit by Andrew Luckhurst-Smith to the Federal Court dated 1 November 2018. (Note: The Trustee notified Angas of its position by 4 December 2018 and gave qualified support to a Scheme of Arrangement in the form of a debt/equity restructure.)
- II. The Company file and serve its interlocutory application to alter the run-off and any additional supporting affidavit(s) by 21 December 2018. (Note: The Interlocutory Application was not filed due to an agreement between the Company and the Trustee's legal representatives to lodge an amended application to the Federal Court. The amended application is currently in the process of being agreed between the legal representatives of the Company and the Trustee.
- III. The Company prepare a Scheme Booklet, which discloses material information necessary for the Company's creditors (including Debenture Holders) to vote on a Scheme of Arrangement at a Meeting proposed for 30 April 2019, to be sent to the Trustee by 15 March 2019.
- IV. The Company and the Trustee are to consult in good faith with each other regarding the form of the Scheme Booklet.

- V. The Company file and serve an affidavit annexing the proposed final Scheme Booklet, together with the other evidence on which it intends to rely by 1 April 2019.
- VI. The Court will hear and determine the Application, including whether it is appropriate to approve the form of the Scheme Booklet; and make orders that the Scheme Booklet, be communicated to the Company's creditors (including Debenture Holders) by 9 April 2019; and a Scheme meeting be convened on 30 April 2019.

In conclusion, these circumstances lead to material uncertainty around critical estimates, judgments and assumptions that have been used in preparing this financial report.

Going Concern

The financial report has been prepared on a 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 consolidated entity for the half-year ended 31 December 2017 was a profit after tax of \$20,638,170 and the consolidated net liabilities are \$12,079,812.
- 2) The net operating cash inflows for the consolidated entity in the current period were \$3,587,575. Net cash outflows from financing and investing activities were \$13,054,895, resulting in negative net cash flow of \$9,467,320 for the half year.
- 3) The Company has continued to be in breach of the conditions of its Australian Financial Services Licence (AFSL). If the AFSL were to be revoked, it would negatively impact its ability to continue to derive income from its management activities and therefore the ability of the Company and the Consolidated Entity to fund their operating cash flows.
- 4) ASIC has to the date of this report not yet provided consent to a variation to the Company's AFSL to enable the creation of a new managed investment scheme and to appoint the Company as the Responsible Entity of the new managed investment scheme.
- 5) The Company and the Consolidated Entity have Loan Receivables that are non-performing and therefore are not earning interest or fee income. These assets are at a risk of incurring further impairments. The Company and the Consolidated Entity have amended the Trust Deed with the debenture holders as set out above which committed the Company and the Consolidated Entity to the Third Run-Off Proposal. Payments were required be made to Debenture Holders as assets are disposed and other proceeds collected, with a commitment to complete the repayment of the remaining debenture debt by 30 June 2019. Actual performance during the Third Run-Off Proposal period has varied materially from the Third Run-off Proposal as approved.
- 6) The Directors and management have spent significant time executing the First, Second and Third Run-Off Proposals. 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 Receivable, to execute in a manner, which they believe, will maximise the returns to the investors. 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 Receivables and/or orderly realisation of the securities supporting the Loan Receivables. This is explained in more detail in the preceding note entitled "Material Uncertainty around critical estimates, judgments and assumptions".
- 7) The Third Run-Off Proposal contained plans and strategies for each Loan Receivable and other realisation of other assets, which would result in the Debenture Holders receiving 100.19c in the dollar on their original Principal Balances. However, the Third Run-off Proposal did acknowledge that there was a material and significant risk that the quantum and timing of the proceeds from executing these strategies. On 5 October 2018, the Directors resolved that, based on the information available to them on the status of all property sales, that the projected quantum and timing of forecast cash flows contained in the Third Run-off Proposal would not be achieved.

The Directors further resolved that the Company provide the LRC with a proposal that it would be seeking to approach the Federal Court to put an alternative proposal to the debenture holders. This is described above in the "Federal Court Orders relating to the 2019 Restructure Proposal".

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

- 1) A significant portion of the result for the financial period has resulted from the adjustment to the carrying value of financial liabilities and the timing effect of discounting of cash flows and the subsequent negative impact of the impairment of certain Loan Receivables and other assets.
- 2) As stated above, the Directors and management spent significant time executing the First, Second and Third Run-Off Proposals in challenging market conditions. Considering these market conditions and other factors set out above, the Directors have concluded that it is in the best interests of the debenture holders to present them with an amended realisation strategy in the form of the 2019 Restructure Proposal. 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 Receivable, have enabled the development of an updated realisation strategy. This strategy requires Debenture Holders to agree to an extended period of time to maximise the returns from the security assets.
- 3) In relation to Loan Receivables where the Company is realising the value of the underlying security, 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 including an estimated timing of sale. This includes taking into account the estimated selling costs likely to be incurred in the disposal of the property. These estimations are based upon the Directors' assessment of the net cash flows arising from the price that they expect they can achieve within the likely proposed timeframe of the 2019 Restructure Proposal. It 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 that form security for the Loan Receivables.
- 4) The Directors believe that the Company's and the Consolidated Entity's continued focus as a fund manager, the continual restructuring and streamlining of business operations and overhead structure will enable the Company and Consolidated Entity to fund their operating expenditures.
- 5) The continuing ability of the Company and the Consolidated Entity to comply with the Trust Deed and any amendments to the deed approved by the Debenture Holders at the meeting held on 16 August 2017.
- 6) The Directors have determined, therefore, that if the proposed restructure is approved and subsequent ratification is obtained from the Federal Court during 2019, then the resultant change in structure of the Debenture Holders' Interest from a debt instrument to some form of equity instrument, the Company will be able to comply with the conditions of its AFSL, including the net tangible assets test.
- 7) The Directors are of the opinion that they will be able to obtain the support of the debenture holders for 2019 Restructure Proposal in the final form it takes. Throughout all of the three previous run-off proposals, the Directors have maintained regular communication with the debenture holders and have achieved support at all three previous meetings to approve the run-off proposals.
- 8) The Directors believe that their continued focus on maximising returns for debenture holders and the previous support they have received for all three run-off proposals, despite significant changes to the amount and timing of returns and the rights of individual debenture holders, demonstrates the support for the Directors to continue to realise the Company's assets and return principal to the debenture holders.

If the above mitigating factors are not achieved, in particular, if the debenture holders do not support the 2019 Restructure Proposal in the form presented to them by the Company, or if the 2019 Restructure Proposal is not ratified by the Federal Court, then there is material uncertainty whether the Company and the Consolidated Entity will continue as going concerns. If that is the case, it is unlikely they will realise their assets and settle their liabilities in the normal course of business and be able to pay their debts as when they fall due.

If this occurs, it is likely to result in the Company and the Consolidated Entity being placed into 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.

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 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	\$	\$	\$	\$
Commercial Lending	334,872	2,294,820	21,277,772	4,206,266
Structured Finance	1,503,344	2,216,727	1,253,110	1,967,472
Commercial Property Investments	315,365	350,356	(1,419,182)	131,289
Investment Properties	4,079	642,718	(473,530)	(404,867)
	2,157,660	5,504,621	20,638,170	5,900,160
Profit/(Loss) before tax			20,638,170	5,900,160
Income tax expense/(benefit)			-	-
Consolidated segment revenue and loss for the period	2,157,660	5,504,621	20,638,170	5,900,160

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2016: 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 2017 \$	30 June 2017 \$
Commercial Lending	58,270,317	90,718,302
Structured Finance	401,427	385,960
Commercial Property Investments	7,067,021	8,577,375
Investment Properties	605,269	9,529,302
Total segment assets	66,344,034	109,210,939
Unallocated assets	-	-
Total assets	66,344,034	109,210,939

Segment Liabilities

	31 Dec 2017 \$	30 June 2017 \$
Commercial Lending	68,613,196	129,938,973
Structured Finance	551,609	537,589
Commercial Property Investments	9,259,041	9,350,213
Investment Properties	-	1,998,911
Total segment liabilities	78,423,846	141,825,686
Unallocated liabilities	-	13,448
Total liabilities	78,423,846	141,839,134

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 2017 \$	31 Dec 2016 \$
Commercial Lending	3,072	17,945
Structured Finance	219	219
Commercial Property Investments	87,350	-
Investment Properties	-	15,366
Total depreciation and amortisation	90,641	33,530

3. Trade and other receivables

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
Trade receivables – Interest and fees	19,749,644	25,451,072
Trade receivables – allowance for doubtful debts	(3,753,813)	(3,753,813)
	15,995,831	21,697,259
Trailing commission receivables	363,338	363,338
Other receivables	2,550,070	2,013,523
	<u>18,909,239</u>	<u>24,074,120</u>

The carrying value of trade and other receivables of \$18,909,239 as at 31 December 2017 represents the amortised cost of that asset. The amortised cost approximates the fair value.

4. Loans

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
Mortgage Loans	95,640,343	109,313,484
Allowances for doubtful debts	(59,374,642)	(46,835,879)
	36,265,701	62,477,605
<u>Maturity analysis</u>		
Not longer than 3 months	36,265,701	62,477,605
Longer than 3 months and not longer than 12 months	-	-
Longer than one year not longer than 5 years	-	-
	36,265,701	62,477,605
<u>Loan by security</u>		
Secured by first mortgage	36,112,614	62,324,518
Secured by second mortgage	153,087	153,087
Secured by collateral security	-	-
	36,265,701	62,477,605
<u>Loan by security</u>		
Commercial property	8,521,709	12,568,929
Rural property	-	-
Residential property	27,743,992	49,908,676
	36,265,701	62,477,605

The carrying value of loans of \$36,265,701 as at 31 December 2017 represents the amortised cost of that asset. The amortised cost approximates the fair value.

Movement in the allowance for doubtful debts

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
Balance at the beginning of the year	46,835,879	18,599,572
Impairment losses recognised on loans	15,190,666	29,061,457
Reversal of impairment losses recognised on loans	(2,557,523)	-
Bad debt write off	(94,380)	(825,149)
Balance at the end of the year	59,374,642	46,835,879

4. Loans (cont'd)

Top Four loans to related borrowers as at 31 December 2017

TOTAL LOANS	NO. OF LOANS	COMMENTARY
\$ 19,790,977	3	Primary asset is a prestigious rural/residential property close to Sydney
\$ 4,862,748	2	Perth based property developer with security comprising prime commercial, residential and retail sites across WA
\$ 2,460,991	2	Security comprises several retirement villages in Adelaide
\$ 859,145	3	Perth based builder and property developer with a range of distinct residential, commercial and retail properties
\$ 27,973,861		

Top Four loans to related borrowers as at 30 June 2017

TOTAL LOANS	NO. OF LOANS	COMMENTARY
\$ 31,519,806	3	Primary asset is a prestigious rural/residential property close to Sydney
\$ 8,992,940	3	Perth based property developer with security comprising prime commercial, residential and retail sites across WA
\$ 3,939,641	3	Perth based builder and property developer with a range of distinct residential, commercial and retail properties
\$ 3,511,814	3	Security comprises several retirement villages in Adelaide
\$ 47,964,201		

4. Loans (cont'd)

Top Ten largest loans as at 31 December 2017

CUSTOMER	LOAN AMOUNT	CATEGORY	ASSET STATE	ARREARS
A	\$ 10,096,269	Residential Development	NSW	\$2,692,947
A	\$ 7,654,708	Residential Development	NSW	\$1,783,737
E	\$ 4,647,398	Residential Development	WA	-
F	\$ 2,357,634	Residential Development	WA	\$1,447,481
P	\$ 1,524,637	Residential Development	SA	-
O	\$ 1,206,516	Commercial Development	SA	-
R	\$ 990,762	Residential Development	QLD	\$12,505
S	\$ 936,355	Residential	SA	-
T	\$ 737,828	Residential Development	WA	-
M	\$ 671,795	Commercial development	WA	\$1,866,212
Total	\$ 30,823,902			

Top Ten largest loans as at 30 June 2017

CUSTOMER	LOAN AMOUNT	CATEGORY	ASSET STATE	ARREARS
A	\$ 16,843,803	Residential Development	NSW	\$5,147,727
A	\$ 12,636,003	Residential Development	NSW	\$3,753,070
E	\$ 5,733,787	Residential Development	WA	-
F	\$ 4,844,134	Residential Development	WA	\$1,447,481
O	\$ 3,142,016	Commercial Development	SA	-
C	\$ 2,910,630	Residential Development	WA	\$2,244,394
N	\$ 2,233,821	Residential Development	WA	\$604,853
P	\$ 2,004,027	Residential Development	SA	-
M	\$ 671,795	Commercial Development	WA	1,871,252
L	\$ 357,217	Residential Development	WA	\$1,095,266
Total	\$51,377,233			

4. Loans (cont'd)

Expired Loans

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
Expired loans – Fixed interest securities funded	32,268,615	58,480,518
Expired loans – Non-fixed interest securities funded	3,997,086	3,997,087
Total	36,265,701	62,477,605

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 2017 \$	30 June 2017 \$
0 - 1 year	-	-
1 - 2 years	425,000	425,000
2 - 5 years	-	-
5+ years	-	-
Total	425,000	425,000

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 2017 \$	30 June 2017 \$
0 - 1 year	-	-
1 - 2 years	-	-
2 - 5 years	3,940,000	3,940,000
5+ years	10,000	10,000
Total	3,950,000	3,950,000

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.

4. Loans (cont'd)

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

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
0 - 1 year	-	-
1 - 2 years	4,647,398	43,729,914
2 - 5 years	23,744,462	13,945,587
5+ years	3,451,755	380,017
Total	31,843,615	58,055,518

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 2017 \$	30 June 2017 \$
1 - 2 years	-	-
2 - 5 years	47,087	47,087
Total	47,087	47,087

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

5. Interest bearing liabilities

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
Fixed interest securities (i) (ii)	67,191,833	130,704,210
Redeemable Preference Shares	1,037,890	1,036,784
Bank SA Bank bills	-	1,935,000
Business market loan	5,748,000	5,796,000
Total	73,977,723	139,471,994

- (i) The Directors have determined as a consequence of the approval of the Third Run-off proposal and subsequent ratification by the Federal Court on 1 September 2017 that the resultant change in estimates of the cash flows relating to the Debenture Liability resulted in the application of AASB 139 "Financial Instruments: Recognition and Measurement" paragraph AG8. The impact of the application of AG8 resulted in remeasuring the balance of the Debenture Liability as at 1 September 2017, \$67,816,167, which resulted in an increment to results and net assets of the Company and the Group of \$61,514,313.

The remeasured Debenture 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 \$21,509,782. The movement in this account for the year is summarised as follows:

	31 Dec 2017 \$	30 Jun 2017 \$
Opening balance	130,704,210	144,920,615
Less:		
Debenture repayments	(23,507,846)	(9,434,567)
Gain on derecognition of financial liability (Note 1)	-	(39,918,615)
Gain on remeasurement of financial liability (Note 1)	(61,514,313)	-
Add:		
Amortisation of interest expense	<u>21,509,782</u>	<u>35,136,777</u>
Closing balance	<u>67,191,833</u>	<u>130,704,210</u>

- (ii) The carrying value of fixed interest securities of \$67,191,833 as at 31 December 2017 represents the amortised cost of that liability. The principal value of the liability is \$111,978,201.

6. 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. On November 2017, the Full Court awarded costs against the Trustee for an appeal against a costs order which failed. Those costs have not yet been paid but can be offset by the Company against the contingent liability.

During the year, an additional claim for Trustee expenses was lodged. The Company did not expect the additional claim. There had been no disclosure by the Trustee of these additional expenses in the material provided to investors at the third meeting held in August 2017, despite many of the expenses having been incurred before then. The initial claim (incorporating previous claims) was for \$4,397,280.44 although this was later reduced to \$3,858,472.96 (on the same basis). The Company has sought itemization and explanation from the Trustee but remains dissatisfied with the justification provided. Nevertheless, the Financial Statements have booked a further accrual of \$1,900,000 to address the Trustee's further claim.

There is a claim for unspecified damages against the Company in the Supreme Court of South Australia brought in the name of two corporate borrowers (both in receivership) by their directors. The subject matter covers similar claims brought in two earlier proceedings, both of which were dismissed including one which was appealed to the Full Court and dismissed. The Company has been provided with eight versions of a Statement of Claim so far. Several issues agitated in the latest version have been struck out as being barred by the Statute of Limitations. The borrower companies' appeal against the strike out was dismissed by the Full Court on 21 December 2018. Meanwhile, the borrower companies have been directed to provide security for the Company's costs of \$450,000 before the claim can proceed. The borrower companies have been permitted to pay \$250,000 (which has been done) with the balance due should the proceedings be set down for trial.

There is a claim for unspecified damages against the Company in the Supreme Court of New South Wales brought by the purported assignee of a Trust which is a borrower in default. The corporate entity which acted as Trustee was wound up by the ATO in 2009. The assignee has admitted that it is impecunious. An order for security for costs made on 25 November 2016 was complied with on 22 December 2017. No step has been taken in the proceedings since then. The Company is seeking to enforce several costs orders made in the proceedings to date. A Bill of Costs was served on the assignee on 7 December 2018. Formalities are continuing to quantify and recover these costs awarded in favour of the Company.

7. Dividends

	Half-year ended 31 December 2017		Half-year ended 31 December 2016	
	Cents per share	Total \$	Cents per share	Total \$
<u>Recognised amounts</u>				
Fully paid ordinary shares				
Final dividend fully franked at a 30% tax rate	-	-	-	-
Fully paid preference shares				
Interim dividend fully franked at a 30% tax rate	-	-	-	-

8. Events after the reporting period

Refer Subsequent events note in Directors' report.

9. 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	\$ 1,083,123
Cardiff Capital Pty Ltd	1	\$ 2,276,837
Mortgage Funds Management Pty Ltd	1	\$48,606,094
Barker Performance Trust 1	2	\$ 802,188
Barker Performance Trust 2	6	\$ 3,037,450
		<u>\$55,805,692</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.

10. 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.