# ASCF #2 FUND

## ARSN: 616367330

## Financial Report For The Year Ended 30 June 2018

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## Financial Report For The Year Ended 30 June 2018

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# ASCF #2 FUND
# ARSN: 616367330
# DIRECTORS' REPORT
# FOR THE YEAR ENDED 30 JUNE 2018

The directors of Australian Secure Capital Fund Ltd (the 'Responsible Entity'), the Responsible Entity of ASCF #2 (the 'Fund'), submit their report together with the financial report of the Fund for the year ended 30 June 2018.

**Directors**

The names of the directors of the Responsible Entity in office at any time during, or since the end of, the year are:

Richard John Taylor
Kosta Nicholas Giovanos
Filippo Sciacca

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Review of Operations**

Revenue of $1,547,913 less expenses of $712,764 resulted in a distribution to Unitholders of $835,149 (2017: $12,631)

**Significant Changes in the State of Affairs**

No significant changes in the company's state of affairs occurred during the financial year.

**Principal Activities**

The principal activity of the Fund during the year was the provision of regular monthly income through a selection of investments in short-term registered first mortgage loans. Unitholders are provided with a fixed rate, fixed term interest only investment.

**Events Subsequent to the End of the Reporting Period**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

**Likely Developments and Expected Results of Operations**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the fund's constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

**Environmental Regulation**

The Fund's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

**Indemnification of Officers**

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers or Australian Secure Capital Fund Ltd or the auditors of the Fund. So long as the officers of Australian Secure Capital Fund Ltd act in accordance with the Fund constitution and the law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

**Indemnity of Auditors**

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

**Fees paid to and interests held in the Fund by the responsible entity or its associates**

Fees paid to the responsible entity and it associates out of Fund property during the year are disclosed in note 12 of the financial statements.

No fees were paid out of Fund property to the directors of the responsible entity during the year.

The number of interests in the Fund held by the responsible entity or its associates as at the year end are disclosed in note 12 of the financial statements.

**Interests in the Fund**

The movement of units on issue in the Fund during the year are disclosed in note 15 of the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 1 to the financial statements.

**Proceedings on Behalf of the Fund**

No person has applied for leave of court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the Corporations Act 2001 is included in these financial statements.

The directors' report is signed in accordance with a resolution of the Board of Directors:

Director: Richard John Taylor

Dated this 12th day of October 2018

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# Auditor's Independence Declaration

## To the Directors ASCF #2 Fund

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of ASCF #2 Fund for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd
Chartered Accountants

A F Newman
Partner – Audit & Assurance

Brisbane, 12 October 2018

## ASCF #2 FUND
## ARSN: 616367330
## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Revenue** | | | |
| Interest income | | 1,476,788 | 43,007 |
| **Total Revenue** | | 1,476,788 | 43,007 |
| | | | |
| **Other Income** | | | |
| Management Fees | | 71,125 | 19 |
| **Total other income** | | 71,125 | 19 |
| | | | |
| **Total revenue and other income** | | 1,547,913 | 43,026 |
| | | | |
| **Expenses** | | | |
| Legal & Compliance Fees | | (8,358) | (4,803) |
| Performance Fees | | (698,786) | (25,528) |
| Other expenses | | (5,620) | (64) |
| **Total Expenses** | | (712,764) | (30,395) |
| | | | |
| **Operating profit/(loss)** | | 835,149 | 12,631 |
| | | | |
| **Finance Costs Attributed to Unitholders** | | | |
| Distributions to Unit Holders | | (835,149) | (12,631) |
| **Profit/(loss) for the year** | | - | - |
| | | | |
| **Other comprehensive income** | | | |
| **Total other comprehensive income** | | - | - |
| **Total comprehensive income attributable to unitholders** | | - | - |

The accompanying notes form part of these financial statements.

## ASCF #2 FUND
## ARSN: 616367330
## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | 851,273 | 153,765 |
| Loans Receivable | 5 | 20,041,864 | 220,000 |
| Other Receivables | 6 | 21,700 | 3,049 |
| **TOTAL CURRENT ASSETS** | | 20,914,837 | 376,814 |
| **TOTAL ASSETS** | | 20,914,837 | 376,814 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 7 | 636,054 | 36,650 |
| Borrowings | 8 | 9,050 | 5,154 |
| **TOTAL CURRENT LIABILITIES** | | 645,104 | 41,804 |
| **TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)** | | 645,104 | 41,804 |
| **NET ASSETS ATTRIBUTABLE TO UNITHOLDERS - LIABILITY** | | 20,269,733 | 335,010 |

The accompanying notes form part of these financial statements.

**ASCF #2 FUND**
**ARSN: 616367330**
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018**

| | Note | 30 June 2018 | 30 June 2017 |
| --- | --- | --- | --- |
| | | $ | $ |
| **Total equity at the beginning of the period** | | - | - |
| Profit/(loss) for the year | 2 | - | - |
| Other comprehensive income for the period | | - | - |
| Transactions with unitholders in their capacity as owners | | - | - |
| **Total equity at the end of the financial year** | | - | - |

Under Australian Accounting Standards, net assets attributable to unitholders are classifed as a liability rather than equity. As a result there was no equity at the start or end of the period.

The accompanying notes form part of these financial statements.

**ASCF #2 FUND**
**ARSN: 616367330**
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018**

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 17,059 | - |
| Payments for operating expenses | | (570,003) | (7,212) |
| Interest received | | 1,498,488 | 53,444 |
| Loans advanced to Borrowers | | (19,498,632) | (220,000) |
| Net cash provided by operating activities | 10 | (18,553,088) | (173,768) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Distributions paid to Investors | | (672,323) | (12,631) |
| Advances from Responsible Entity | | (11,804) | 5,154 |
| Unitholders Funds Received from Investors | | 34,133,471 | 335,010 |
| Unitholders Funds Redeemed by Investors | | (14,198,748) | - |
| Net cash provided by/(used in) financing activities | | 19,250,596 | 327,533 |
| | | | |
| Net increase/(decrease) in cash held | | 697,508 | 153,765 |
| Cash and cash equivalents at beginning of financial year | | 153,765 | - |
| Cash and cash equivalents at end of financial year | 4 | 851,273 | 153,765 |

The accompanying notes form part of these financial statements.

The financial statements cover the economic entity of ASCF #2 Fund. The Fund is an Australian Registered Scheme and was constituted on the 22nd December 2016. Australian Secure Capital Fund Ltd (the 'Responsible Entity' for the Fund) is incorporated and domiciled in Australia and acts as the manager of the Fund.

The financial statements were authorised for issue on 12th Ocotber 2018 by the directors of the Responsible Entity.

The registered office of the Responsible Entity is Unit 6, 33 Park Road, Milton, QLD, 4064.

## Note 1 Summary of Significant Accounting Policies

### Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Fund is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for the cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

### (a) Fair Value of Assets and Liabilities

The Fund measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Fund would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

### (b) Financial Instruments

### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Fund commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are recognised as expenses in profit or loss immediately.

**Classification and subsequent measurement**

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method.*

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

**(i) Loans and receivables**

Loans and advances are recognised at the recoverable amount, after assessing required provisions for Impairment. Directors assess the recoverability of loans based on loan serviceability and underlying security values on loan approval. Secured assets are assessed at the time of the loan approval or upon renewal/rollover of the applicable loan or at year end.

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the profit and loss account. The provision for impairment is calculated as a specific provision against a loan, where full repayment is uncertain.

**(ii) Financial liabilities**

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Impairment**

At the end of each reporting period, the directors assess whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Fund recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**Derecognition**

Financial assets are derecognised when the contractual right to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

**(d) Revenue and Other Income**

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax.

**(e) Goods and Services Tax (GST)**

Management fees and other expenses are recognised net of the amount of Goods and Services Tax (GST) recoverable from the Australian Tax Office (ATO) as a Reduced Input Tax Credit (RITC) at a rate of 75% of GST.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in payments for operating expenses.

**(f) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(g) Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Fund.

**Key estimates**

*(i) Impairment*

The directors assess impairment at the end of each reporting period by evaluating the conditions and events specific to the Fund that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations, which incorporate various key assumptions.

No impairment has been recognised in respect of loans receivable for the period ended 30 June 2018.

**(h) Redeemable Units**

All redeemable units issued by the Fund provide investors with the right to require redemption for cash. The Funds obligation to redeem units is set out in the Product Disclosure Statement.

**(i) Capital Management**

The responsible entity managed its net assets attributable to unitholders as capital. The amount of net assets attributable to unit holders can change on a daily basis in accordance with the provisions of the Product Disclosure Statement.

The Fund is not subject to any externally imposed capital requirements.

**(j) Net assets attributable to unitholders**

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income, in accordance with the Fund's constitution.

The units can be put back to the Fund based in line with the requirements outlined in the Product Disclosure Statement of the Fund.

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the unit back to the Fund.

**(k) Expenses**

All expenses, including responsible entity's fees, are recognised in profit and loss on an accrual basis.

**(l) Income Tax**

Under current legislation, the Fund is not subject to income tax as unit holders are presently entitled to the income of the fund.

**(m) Distributions**

The Fund distributes its distributable income, in accordance with the Fund's constitution, to unitholders by cash or reinvestment. The distributions are recognised in profit and loss as finance costs attributable to unitholders.

**(n) Increase/decrease in net assets attributable to unitholders**

Income not distributed is included in net assets attributable to unit holders. Movements in net assets attributable to unitholders are recognised in profit and loss as finance costs.

**(o) New And Amended Standards Adopted By The Fund**

There are no standards, interpretations or amendments to existing standards that are effect for the first time for the financial year beginning 1 July 2017 that have a material impact on the Fund.

The amendments to AASB 107 have been early adopted. The Fund has elected to adopt the amendments made by AASB 2016 Amendments to Australian Accounting Standard - Disclosure Initiative: Amendments to AASB 107 early. This amendment required disclosure of changes in liabilities arising from financing activities.

**(p) New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, some of which are relevant to the Fund. The Directors have decided not to early adopt any of the new and amended pronouncements. Their assessment of the pronouncements that are relevant to the company but applicable in future reporting periods is set out below:

− AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

  The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments, and simplified requirements for hedge accounting.

  The key changes that may affect the Fund on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the Fund elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

AASB 9 introduces, among other changes, revised rules around impairment. Impairment of assets is now based on expected losses which requires entities to measure:

− the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or

− full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument.

The impact of the changes to impairment from the adoption of AASB 9 has not yet been determined by the directors of the Responsible Entity. However as the fund does not hedge its financial instruments, and based on past experience the change is not expected to be material.

− AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards − Effective Date of AASB 15*).

  The Fund's main source of income is interest on financial instruments held at fair value. These are outside of the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

**Note 2 Unitholders' Distributions**

Distributions paid and payable by the Fund for the year are:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Distributions paid during the period | 835,149 | 12,631 |
| | 835,149 | 12,631 |

**Note 3 Auditor's Remuneration**

| | 2018 $ | 2017 $ |
|---|---|---|
| Remuneration of the auditor of the Fund for: | | |
| - auditing or reviewing the financial statements | 7,500 | 6,500 |
| - Audit of Compliance Plan | 2,050 | 4,000 |
| | 9,550 | 10,500 |

**Note 4 Cash and Cash Equivalents**

| | 2018 $ | 2017 $ |
|---|---|---|
| CURRENT | | |
| Cash at bank | 851,273 | 153,765 |
| | 851,273 | 153,765 |

Cash at bank is restricted, as the Funds are either investor Funds not yet invested in a mortgage or borrowers Funds held in Fund.

Reconciliation of cash

Cash at end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash at bank | 851,273 | 153,765 |
| | 851,273 | 153,765 |

**Note 5 Loans Receivable**

| | 2018 $ | 2017 $ |
|---|---|---|
| CURRENT | | |
| Loans Recievable | 19,718,632 | 220,000 |
| Sundry Receivables | - | - |
| Loan Management Fees Receivable | 69,915 | - |
| Loan Interest Receivable | 237,617 | - |
| Loan - ASCF #1 Fund | 15,700 | - |
| Net Loans Receivable | 20,041,864 | 220,000 |

**a. Financial Commitments**

The Fund has the following undrawn Loans Receivable commitments

| | | |
|---|---|---|
| Approved Loans Receivable | 21,738,632 | 220,000 |
| Less: Loans Receivable Drawn Down | (19,718,632) | (220,000) |
| Undrawn Loan Commitment | 2,020,000 | - |

**b. Credit risk**

The Fund has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note Performance Fees in Advance. The main source of credit risk to the Fund is considered to relate to the class of assets described as "loans receivable".

A breakdown of the quality of the registered mortgages held as security is as follows:

| | 2018 No. | 2018 $ | 2017 No. | 2017 $ |
|---|---|---|---|---|
| Loan to Valuation Ratio 70 - 80% | 15 | 10,374,702 | - | - |
| Loan to Valuation Ratio 61 - 70% | 9 | 6,421,500 | 1 | 115,000 |
| Loan to Valuation Ratio 51 - 60% | 4 | 1,142,500 | - | - |
| Loan to Valuation Ratio 41 - 50% | 3 | 555,000 | 1 | 55,000 |
| Loan to Valuation Ratio 25 - 40% | 7 | 1,174,930 | - | - |
| Loan to Valuation Ratio <25% | 1 | 50,000 | 1 | 50,000 |
| | 39 | 19,718,632 | 3 | 220,000 |

**c. Impairment of Financial Assets**

There were no loans receivable where the interest or principal was past due. Therefore no impairment has been calculated.

**d. Collateral Held as Security**

All loans receivable are secured with registered mortgages against residential property.

**e. Collateral Pledged**

No trade and other receivable balances have been pledged as collateral.

**f. Fair Value**

Loans receivable are expected to be recovered within a short term and fair value is therefore equivalent to carrying amount.

## Note 6 Other Receivables

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **CURRENT** | | | |
| Sundry | | - | 20 |
| GST Receivable | | 21,700 | 3,029 |
| | | 21,700 | 3,049 |

## Note 7 Trade and Other Payables

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| CURRENT | | | |
| Sundry payables | | 4,782 | - |
| Unpaid unitholder distributions | | 158,025 | - |
| Income in Advance | | 278,992 | 10,438 |
| Performance Fees Payable | | 194,255 | 26,212 |
| | 7a | 636,054 | 36,650 |

a. Financial liabilities at amortised cost classified as trade and other payables:

| | 2018 $ | 2017 $ |
|---|---|---|
| Trade and other payables | | |
| - Total current | 636,054 | 36,650 |

b. The fair value of financial liabilities (including trade and other payables) is equivalent to their carrying amount.

**Note 8 Borrowings**

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| CURRENT | | | |
| Unsecured liabilities | | | |
| Loan - Australian Secure Capital Fund Ltd | | 9,050 | 5,154 |
| TOTAL BORROWINGS | | 9,050 | 5,154 |

**Note 9 Issued Units**

**a. Units on Issue**

The Fund has authorised 20,269,733 (2017: 335,010) units on issue at $1 each amounting to $20,269,733 (2017: $335,010).

| | 2018 No. | 2017 No. |
|---|---|---|
| **Number of fully paid units** | | |
| At beginning of the reporting period | 335,010 | - |
| Units issued during the year | 34,133,471 | 335,010 |
| Units redeemed during the year | (14,198,748) | - |
| At the end of the reporting period | 20,269,733 | 335,010 |

Units are of equal value and unit holders are entitled to share in the income of ASCF #2 Fund in proportion to their unit holding. Upon liquidation each unit holder is entitled to a pro rata share of the Fund's net assets.

**b. Capital Management**

Management controls the capital of the Fund to ensure that adequate cash flows are generated to Fund its lending portfolio programs and that returns from investments are maximised. The board ensures that the overall risk management strategy is in line with this objective.

As a result of the ability to issue and redeem units, the capital of the Fund can vary depending on the demand for redemptions and applications to the Fund. The Fund is not subject to externally imposed capital requirements and issues and redeems units in accordance with the constitution and product disclosure statement.

The Fund's objectives for managing capital, being net assets attributable to unitholders is to manage the recoverability of the loans in consultation with unitholders and borrowers such that capital value of unitholders Funds is not compromised.

The board operates under policies approved by it. Risk management policies are approved and reviewed by the board on an annual basis. The include credit risk policies and future cash flow requirements. The Fund's capital consists of financial liabilities, supported by financial assets.

**Note 10 Cash Flow Information**

| | 2018 $ | 2017 $ |
|---|---|---|
| **Reconciliation of profit/(loss) attributable to unitholders with net cash provided by operating activities** | | |
| – Profit/(loss) for the year | 835,149 | 12,631 |
| – (increase)/decrease in income in advance | 259,316 | 10,418 |
| – increase/(decrease) in trade creditors | 168,042 | 26,212 |
| – increase/(decrease) in GST | (25,281) | - |
| – increase/(decrease) in Income Receivable | (291,682) | (3,029) |
| – (increase)/decrease in Funds Advanced | (19,498,632) | (220,000) |
| Net cash provided by operating activities | (18,553,088) | (173,768) |

**Note 11 Events After the Reporting Period**

There have been no matters or circumstances since year end not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.

## Note 12 Related Party Transactions

The Fund's main related parties are as follows:

**a. Responsible Entity**

The Responsible Entity of ASCF #2 Fund is Australian Secure Capital Fund Ltd.

**b. Key Management Personnel:**

The directors of the Responsible Entity at Note 12(a) are considered to be Key Management Personnel of the Fund. The following directors of the Responsible Entity were in office during the period and up to the date of the report:

Richard John Taylor

Kosta Nicholas Giovanos

Filippo Sciacca

**c. Other related parties**

Other related parties include close family members of KMP and entities that are controlled or jointly controlled by those KMP, individually or collectively with their close family members.

**Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

**Other related parties**

Performance Fees are paid to the Responsible Entity for the management of the Loans and Investors. The performance fee is calculated and payable monthly in arrears. The Performance Fee is calculated as the balance of the Fund's returns after the payment of all Fixed Interest Payments to investors and other expenses of the Fund. The Performance Fees for the period ended 30th June 2018 is $698,786

There is an unsecured loan from the Responsible Entity for $9,050 (2017: $5,154) in relation to Legal and Compliance fees paid by the Responsible Entity at 30th June.

There is an unsecured loan to ASCF #1 Fund for $15,700 (2017: Nil) in relation to loan repayments & fees repaid by borrowers (2017: Nil).

## Note 13 Key Management Personnel Unitholdings

Associates of Key Management Personnel held units in the Fund as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Opening Investments by Related Parties | 300,000.00 | - |
| Investments Placed by Related Parties During the Year | 5,958,023.00 | 300,000.00 |
| Redemptions Paid to Related Parties During the Year | (498,000.00) | - |
| Investments in the Fund at Balance Date | 5,760,023.00 | 300,000.00 |
| Distributions Received by Related Parties from the Fund | 392,737.00 | 12,033.00 |

Except as disclosed above, no key management personnel have entered into any transactions with the Fund during the period and there were no material balances involving key management personnel's interests outstanding at period end.

## Note 14 Financial Risk Management

### Introduction

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

### Risk Management Structure

The Funds Responsible Entity is responsible for identifying and controlling risks. The Board of Directors supervises the Responsible Entity and is ultimately responsible for the overall risk management approach within the Fund.

### Risk Measurement and Reporting System

Monitoring and controlling risks is primarily performed based on policies established by the Responsible Entity. These policies reflect the business strategy and market environment of the Fund, as well as the level of risk the Fund is willing to accept.

### Risk Mitigation

The Fund has developed investment guidelines as part of its overall business strategies and its general risk management.

### Excessive Risk

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or loans and advances are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions

In order to avoid excessive concentration of risk, the Funds policies and procedures include guidelines to focus on maintaining a diversified portfolio. The board will manage excessive risk concentrations when they arise.

### Market Risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Fund is not exposed to currency risk and other price risk; and the Fund does not trade in the financial instruments it holds on its books.

The Fund is not materially exposed to movements in interest rates as Loans Receivable and Unitholders Funds are on fixed interest terms, with only minimal cash and cash equivalents on variable interest rates.

### Credit Risk - Loans

Credit risk is the risk that a borrower will cause a financial loss for the Fund, by failing to discharge an obligation (loan default). The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The compliance plan only allows loans to borrowers at a maximum loan to valuation ratio of 80%. Valuers are selected from a panel approved by the board of directors of the Responsible Entity that meet strict criteria.

The Fund minimises concentrations of credit risk in relation to Loans Receivable by undertaking transaction with a large number of customers with in the specified category.

The maximum exposure to credit risk before any credit enhancements a the end of each reporting period is the carrying amount of the financial assets. Non of these assets are impaired nor past due but not impaired.

**Liquidity Risk**

Liquidity risk is the risk that the Fund will not be able to meet its short-term payment commitments as they fall due.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at

| As at June 2017 | Less than 1 month | 1-6 Months | 6-12 months | 1-2 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Withholding Tax Payable | - | - | - | - |
| Secured liabilities | 26,212 | - | 5,154 | - |
| Net assets attributable to unitholders | 35,000 | 300,000 | - | - |
| | 61,212 | 300,000 | 5,154 | - |

| As at June 2018 | Less than 1 month | 1-6 Months | 6-12 months | 1-2 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Withholding Tax Payable | - | 4,782 | - | - |
| Secured liabilities | - | 9,050 | - | - |
| Unpaid Unitholder Distributions | 158,025 | - | - | - |
| Net assets attributable to unitholders | - | 11,434,723 | 3,336,000 | 5,499,000 |
| | 158,025 | 11,448,555 | 3,336,000 | 5,499,000 |

## Note 15 Fair Value Measurements

**Fair value hierarchy**

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

| Level 1 | Level 2 | Level 3 |
|---|---|---|
| Measurements based on quoted prices | Measurements based on inputs other than | Measurements based on unobservable |

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

*Valuation techniques*

The Fund selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Fund are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Fund gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

**Loans and Receivables**

The carrying value less impairment provision of Loans Receivable is a reasonable approximation of their fair values. The fair value is assessed each reporting period by Directors as disclosed at note 1.

Due to the short-term nature of the financial assets and financial liabilities, they are recorded at amortised cost and the carrying amounts of those financial instruments approximate their fair value.

The Responsible Entity of the Fund has a control framework in place to monitor the measurement of fair value, particularly in relation to Level 3 instruments. The principles of this control framework are based on the following activities:

- Compliance Committee Meeting;
- Compliance Plan guidelines to determine appointment and engagement of approved registered valuers;
- Compliance Monitoring;
- Review of the Fund's Strategy; and
- Due diligence over new loans and rollover of loan facilities.

## Note 16 Net Assets Attributable to Unitholders

Movements in the number of units and net assets attributable to unitholders during the period were as follows:

| | 2018<br># | 2018<br>$ | 30 June 2017<br># | 30 June 2017<br>$ |
|---|---|---|---|---|
| Opening Balance | 335,010 | 335,010 | - | - |
| Applications | 34,133,471 | 34,133,471 | 335,010 | 335,010 |
| Redemptions | (14,198,748) | (14,198,748) | - | - |
| Closing Balance | 20,269,733 | 20,269,733 | 335,010 | 335,010 |

As stipulated within the fund's constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes on units and each unit has the same rights attaching to it as all other units of the Fund.

Units are redeemed at the end of the investment term inline with the product disclosure statement, however, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

**ASCF #2 FUND**
**ARSN: 616367330**
**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of ASCF #2 Fund, the directors of the Responsible Entity declare that:

1. the financial statements and notes, as set out on pages present fairly the Fund's financial position as at 30 June 2018 and its performance for the year ended on that date in accordance with Australian Accounting Standards; and
2. in the director's opinion there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
3. Note 1 confirms that the financial statements comply with international Financial Reporting Standards as issued by the International Accounting Standards Board.

Director

Richard John Taylor

Dated this 12th day of October 2018

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# Independent Auditor's Report

## To the Members of ASCF #2 Fund

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of ASCF #2 Fund (the Scheme), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

#### Information other than the financial report and auditor's report thereon

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Scheme's report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

### Responsibilities of the Directors of the Responsible Entity for the financial report

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

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

### Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A F Newman
Partner – Audit & Assurance

Brisbane, 12 October 2018