


**THE GUARDIAN INVESTMENT FUND
AND ITS CONTROLLED ENTITIES
ARSN 168 048 057**

**ANNUAL FINANCIAL REPORT INCLUDING FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

This is annexure A of 35 pages referred to in form 388 "Copy of financial statements and reports"

A handwritten signature in black ink, appearing to read 'Guy Hasenkam', written over a horizontal line.

Guy Hasenkam
Director

27th September 2018
Gold Coast

**THE GUARDIAN INVESTMENT FUND
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**DIRECTORS' REPORT
30 June 2018**

The directors of Guardian Securities Limited (the "Responsible Entity"), the Responsible Entity of The Guardian Investment Fund (referred to hereafter as the "Fund"), present their annual report together with the financial statements of the consolidated entity (referred to hereafter as the "Consolidated Entity"), consisting of the unit trust and the special purpose vehicles it controlled for the year ended 30 June 2018, and the auditor's report thereon.

Directors

The following persons were directors of Guardian Securities Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Guy Hasenkam
Christopher Wilson
Errol Jackson

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia and was formed to invest in the commercial, industrial, retail and residential property sectors on behalf of the Fund's investors. The Fund invests through special purpose vehicles established for each investment opportunity, each of which form part of the Consolidated Entity.

During the financial year, the Fund issued new Product Disclosure Statements resulting in additional investments in the property sectors being made.

The Consolidated Entity did not have any employees during the period.

Scheme information

The Fund is a registered managed investment scheme under the Corporations Act 2001. The Fund was registered on 28 February 2014 and will terminate in accordance with the Constitution.

The registered office and principal place of business of the Responsible Entity and the Fund is suite 45, Level 4, HQ Building, 58 Riverwalk Avenue, Gold Coast, 4226.

Review of operations

The net loss from ordinary activities after income tax for the year ended 30 June 2018 amounting to \$10,268,839 (2017: \$2,132,211). The increase in the net loss for the financial year is largely attributable to the impairment of \$9,798,650 which relates to two related sub-funds with one respective investor each, whereby the sub-funds provided funding to a developer in Brisbane. Refer to note 9 for further information.

Scheme assets

At 30 June 2018, the Consolidated Entity had total assets of \$27,561,513 (2017: \$19,869,837), which were primarily invested in preference shares, various residential and commercial development properties in Australia, bank deposits and shares in an unlisted start up company. The Consolidated Entity had 419 investors at 30 June 2018 (2017: 200) through various classes of units.

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**DIRECTORS' REPORT
30 June 2018**

Review of operations (cont'd)

Responsible entity

The following fees were paid to Guardian Securities Limited out of the Consolidated Entity's property during the financial year:

	2018	2017
	\$	\$
Management fees paid directly by the Consolidated Entity	455,383	278,642

The Responsible Entity and its associates had no funds invested in the Consolidated Entity at balance date.

Distributions

Distributions paid or payable by the Fund since the end of the previous financial year were \$1,570,673 (2017: \$1,143,977).

Investor Funds

The Consolidated Entity received \$17,799,139 (2017: \$6,878,200) of investor funds during the year. The net balance attributable to investors as at 30 June 2018 is \$27,150,777 (2017: \$19,620,477).

Significant changes in the state of affairs

In the opinion of the Responsible Entity, there were no significant changes in the state of affairs of the Consolidated Entity that occurred during the year under review other than as disclosed in the review and results of operations.

Matters subsequent to the end of the financial year

A new Part 1 Product Disclosure Statement for the Fund was issued on 13 September 2018.

No other matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments

The Consolidated Entity will continue to pursue its policy of increasing returns through active investment selection.

Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

Environmental regulations

The Consolidated Entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

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**DIRECTORS' REPORT
30 June 2018**

Indemnities and insurance premiums for officers or auditors

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

- a. any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person's favour, or in which the person is acquitted, or in connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- b. a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The amount of the premium is, under the terms of the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

The Consolidated Entity has not indemnified or insured directors or officers.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the board,



Guy Hasenkam
Director

27th September 2018
Gold Coast

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GUARDIAN SECURITIES LIMITED AS RESPONSIBLE ENTITY FOR
THE GUARDIAN INVESTMENT FUND**

I declare to the best of my knowledge and belief, in relation to the audit of the financial report of The Guardian Investment Fund and its controlled entities for the year ended 30 June 2018, there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF
PKF


William Grant Chatham
Partner

27th September 2018
Gold Coast

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PKF (Gold Coast) is a member of the PKF International Limited network of legally independent member firms. PKF (Gold Coast) is also a member of the PKF Australia Limited national network of legally independent firms each trading as PKF. PKF (Gold Coast) does not accept responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.

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General information

The financial report covers The Guardian Investment Fund as a Consolidated Entity consisting of Full Luck Fund Pty Ltd, SJQ Investments Pty Ltd, Development Income Fund and Fundus Trust No. 1. The financial report is presented in Australian dollars, which is the Consolidated Entity's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

		Consolidated	
	Note	2018	2017
		\$	\$
Revenue from ordinary operations			
Interest income	5	2,055,085	1,388,858
Total revenue from ordinary operations		2,055,085	1,388,858
Expenses from ordinary operations			
Management fees	18	(455,383)	(278,642)
Professional fees		(492,010)	(161,745)
Impairment loss	9	(9,798,650)	(1,937,843)
Other expenses		(7,208)	(9,570)
Total expenses from ordinary operations		(10,753,251)	(2,387,800)
Loss before finance costs and income tax attributable to unitholders		(8,698,166)	(998,942)
Income tax benefit	6	-	10,708
Loss after income tax expense and before finance costs attributable to unitholders		(8,698,166)	(988,234)
Finance costs attributable to unitholders			
Distributions paid to investors	14	(1,570,673)	(1,143,977)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income		-	-
Change in net assets attributable to unitholders		(10,268,839)	(2,132,211)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

**THE GUARDIAN INVESTMENT FUND
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

		Consolidated	
	Note	2018	2017
		\$	\$
Assets			
Cash and cash equivalents	7	171,842	1,423,946
Trade and other receivables	8	211,735	150,461
Loans receivable	9	950,000	-
Inventories - Work in Progress	10	1,867,840	-
Other financial assets	11	24,360,096	8,496,780
Investment properties	12	-	9,798,650
Total assets		<u>27,561,513</u>	<u>19,869,837</u>
Liabilities			
Financial liabilities measured at amortised cost:			
Trade and other payables	13	<u>410,736</u>	<u>249,360</u>
Total liabilities (excluding net assets attributable to investors)		<u>410,736</u>	<u>249,360</u>
Net assets attributable to investors – liability		<u>27,150,777</u>	<u>19,620,477</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

**THE GUARDIAN INVESTMENT FUND
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**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED 30 JUNE 2018**

Consolidated	Notes	Units on Issue No.	Net Assets Attributable to Unitholders \$
Balance at 1 July 2017		21,972,535	19,620,477
Issue of units		18,064,392	18,064,392
Application funds received but not yet issued		-	34,747
Redemption of units	15	(2,340,756)	(300,000)
Increase in net assets attributable to unitholders from transactions in units		15,723,636	17,799,139
Change in net assets attributable to unitholders			(10,268,839)
Balance at 30 June 2018		37,696,171	27,150,777
Balance at 1 July 2016		15,858,535	15,577,929
Issue of units		7,114,000	6,876,776
Application funds received but not yet issued		-	1,424
Redemption of units		(1,000,000)	(703,441)
Increase in net assets attributable to unitholders from transactions in units		6,114,000	6,174,759
Change in net assets attributable to unitholders			(2,132,211)
Balance at 30 June 2017		21,972,535	19,620,477

The above consolidated statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes

**THE GUARDIAN INVESTMENT FUND
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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

		Consolidated	
	Note	2018	2017
		\$	\$
Cash flows from operating activities			
Interest received – cash and cash equivalents		1,993,811	1,266,800
Management fees paid		(421,062)	(209,339)
Distribution expense paid		(1,407,043)	(983,942)
Other operating costs paid		(535,793)	(244,952)
Net cash flows used in operating activities	25	<u>(370,087)</u>	<u>(171,433)</u>
Cash flows from investing activities			
Payment for investment in preference shares		(13,489,326)	(6,294,000)
Proceeds from redemption of preference shares		715,000	615,000
Payment for shares in an unlisted company		(3,088,990)	-
Advances to borrowers		(950,000)	-
Payment for inventories		(1,867,840)	-
Net cash flows from/(used in) investing activities		<u>(18,681,156)</u>	<u>(5,679,000)</u>
Cash flows from financing activities			
Proceeds from issue of units and application funds		18,099,139	6,878,200
Proceeds from issue of units and application funds		(300,000)	-
Net cash flows from/(used in) financing activities		<u>17,799,139</u>	<u>6,878,200</u>
Net increase/(decrease) in cash and cash equivalents		(1,252,104)	1,027,767
Cash and cash equivalents at the beginning of the financial year		1,423,946	396,179
Cash and cash equivalents at the end of the financial year	7	<u>171,842</u>	<u>1,423,946</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

1 GENERAL INFORMATION

The Guardian Investment Fund ("the Fund" or "The Consolidated Entity") is a registered managed investment scheme domiciled in Australia and was formed to invest financial products and assets including in the commercial, industrial, retail and residential property sectors on behalf of the Fund's investors in accordance with its Product Disclosure Statement. The Fund mainly invests through special purpose vehicles established for each investment opportunity, and directly into financial instruments through sub-trusts, each of which form part of the Consolidated Entity.

The financial report covers The Guardian Investment Fund as a Consolidated Entity consisting of The Guardian Investment Fund (the Master Fund) and its controlled Sub Fund investments, being Full Luck Fund Pty Ltd, SJQ Investments Pty Ltd, Development Income Fund and Fundus Trust No. 1. The Responsible Entity of the The Guardian Investment Fund is Guardian Securities Limited (Responsible Entity). The Responsible Entity's registered address is suite 45, Level 4, HQ Building, 58 Riverwalk Avenue, Gold Coast, 4226.

The financial report was authorised for issue, in accordance with a resolution of directors of the Responsible Entity, on 27th September 2018.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for the Consolidated Entity, a for-profit oriented entity. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for financial assets. The amount expected to be recovered or settled within 12 months in relation to these balances cannot be reliably determined.

The financial report has also been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

In the case of net assets attributable to unitholders, the units are only redeemable in accordance with the terms of the relevant Supplementary Product Disclosure Statement. The amount expected to be settled within 12 months cannot be reliably determined. Each class of unit is associated with its own sub-fund where investors have certain rights discrete from investors who hold other unit classes.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New, revised or amending Accounting Standards and Interpretations adopted

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

Master Fund information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the masterfund is disclosed in note 23.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Guardian Investment Fund ('Fund' or 'Master Fund' or 'Unit Trust') as at 30 June 2018 and the results of all subsidiaries for the year then ended. The Guardian Investment Fund and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Consolidated Entity's functional currency.

Revenue Recognition - Investment Income

Revenue is recognised when it is probable that the economic benefit will flow to the Consolidated Entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue Recognition - Investment Income (cont'd)

Interest income

Interest income and expense is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income is recognised on a gross basis, including withholding tax, if any.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Distributions

Distributions are payable as set out in the Fund's product disclosure statement. Such distributions are determined by the responsible entity of the Fund. Distributable income includes capital gains arising from the disposal of financial assets and liabilities held for trading. Unrealised gains and losses on financial assets and liabilities held for trading that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholder. Where the Fund's units are classified as liabilities, movements in net assets attributable to unitholders are recognised in profit or loss as finance costs.

Financial instruments

Classification

Financial assets that are classified as loans and receivables include balances due from accounts receivable and first registered mortgaged loans receivable. Other financial assets that are measured at amortised cost include cash and cash equivalents, preference shares and shares in unlisted companies.

Financial liabilities that are not at fair value through profit or loss include balances due to the Responsible Entity and other accounts payable.

Recognition

The Consolidated Entity recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Investments are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Measurement

Financial instruments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities are amortised over the life of the asset or liability using the effective interest method.

Specific instruments - loans and receivables

Financial assets classified as loans and receivables are carried at amortised costs using the effective interest rate method, less impairment losses, if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

Specific instruments - loans and receivables (cont'd)

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

Specific instruments - cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Specific instruments - other financial assets

Other financial assets that represent preference and ordinary shares in various special purpose vehicles and are measured at cost as they do not have a quoted market price and as such cost is the best representative of the fair value. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial liabilities are measured at amortised cost using the effective interest rate.

Financial liabilities arising from investor funds are carried at the redemption amount representing the investors' right to a residual interest in the Consolidated Entity's assets at reporting date.

Impairment

The Consolidated Entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Inventories

Inventories of the Consolidated Entity represent work in progress for the property developments. Inventories are measured at the lower of cost and net realisable value. Cost includes the cost of acquisition, and for development properties also includes development and costs of conversion incurred from the commencement of construction until the point of time that construction of the property is completed and the property is ready for sale. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investment properties

Investment properties, comprising strata title residential property, are held to generate long-term rental yields. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is carried at cost less any accumulated depreciation and any accumulated impairment loss. Accumulated depreciation commences when the properties are ready for use and title has passed.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Units issued, applications and redemptions

All redeemable units issued by the Fund provide the investors with the right to redemption for cash and give rise to a financial liability. In accordance with the Product Disclosure Statement the Fund is contractually obliged to redeem units at the redemption price, however redemption is subject to the availability of surplus liquidity and at the approval of the Responsible Entity.

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The reduction of a liability to an investor as a result of an impairment loss recorded in the statement of comprehensive income is recorded as an extinguishment of liabilities – other income in the statement of comprehensive income.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goods and services tax

Management fees, custody fees and other expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC). Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows are included in the statement of cash flow on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 30 June 2018. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Consolidated Entity will adopt this standard from 1 July 2018 but the impact of its adoption are currently being assessed by the directors of the Responsible Entity, specifically around the fair value measurement of preference and ordinary share investments in unlisted companies.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New accounting standards and interpretations not yet mandatory or early adopted (cont'd)

AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Fund's main source of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. Additionally, revenue recognition for sale of inventories are not expected to materially change under the new standard. As consequence, the directors of the Responsible Entity 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of other financial assets

The Consolidated Entity assesses impairment of other financial assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. The directors of the Responsible Entity have considered the carrying values of its redeemable preference shares and shares in unlisted company at 30 June 2018 and have determined that no indications of impairment exist. Refer to note 11 for further details.

Provision for impairment of investment properties

The Consolidated Entity carries its investment property at cost less any accumulated depreciation and any accumulated impairment losses. At the end of each reporting period, the directors update their assessment of the value of each property, taking into account the most recent independent valuations, recent sales and other market research. The directors of the Responsible Entity have considered the current status of properties and due to the circumstances outlined in note 9, they have determined to reclassify the asset to loans receivable as at 30 June 2018. Additionally, due to these circumstances, the directors have determined to fully impair the assets as at 30 June 2018 which has resulted in an impairment loss of \$9,798,650 during the financial year.

Provision for impairment of inventories

The provision for impairment of inventories assessment required a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the estimated costs to complete and other factors that affect net realisable value. The directors of the Responsible Entity have assessed that as at 30 June 2018, the expected net realisable value exceeds cost for all items of inventory and therefore no write downs of inventory are required. Refer to note 10 for further details.

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Provision for impairment of receivables (including trade receivables and loans receivable)

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position. The directors of the Responsible Entity have considered the recoverability of trade receivables and loans receivable as at 30 June 2018 and are satisfied that no indications of impairment exist. Refer to notes 8 and 9 for further details.

Income tax

The Consolidated Entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity recognises liabilities for anticipated tax audit issues based on the Consolidated Entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

4 NET ASSETS ATTRIBUTABLE TO INVESTORS – LIABILITY

Quantitative information about the Consolidated Entity's net assets attributable to unitholders is provided in the Statement of Changes in Net Assets Attributable to Unitholders.

The Consolidated Entity manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

Investors within the Consolidated Entity are issued classes of units which correspond with the particular investment the investors are investing in. Classes of units are issued with a fixed term and no withdrawal rights. Investors in a class of units will have a proportional beneficial interest in the property corresponding to that class of units. Investors will not have a beneficial interest in a property corresponding to another class of units.

5 INTEREST INCOME	Consolidated 2018			Consolidated 2017		
	Balance	Interest income	Average rate	Balance	Interest income	Average rate
	\$	\$	%	\$	\$	%
Cash and cash equivalents	171,842	6,345	3.69%	1,423,946	3,896	0.27%
Interest bearing investments	22,221,106	2,048,740	9.22%	18,295,430	1,384,962	7.57%

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6 INCOME TAX

	Consolidated	
	2018	2017
	\$	\$
<i>Income tax expense</i>		
Current tax	-	10,708
Aggregate income tax expense	-	10,708
<i>Numerical reconciliation of income tax expenses and tax at the statutory rate</i>		
Loss before income tax expense	(8,698,166)	(998,942)
Tax at the statutory tax rate of 27.5% (2017: 27.5%)	(2,391,996)	(274,709)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Temporary differences not recognised	2,391,996	274,709
Over provided from prior year	-	(10,708)
Aggregate income tax expense	-	(10,708)

Deferred tax asset in respect of tax losses and other temporary differences have not been brought to account. These will be brought to account only if the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised, the Consolidated Entity continues to comply with deductibility conditions imposed by tax legislation and no changes in tax legislation adversely affects the Consolidated in realising the benefit.

7 CASH AND CASH EQUIVALENTS

Cash held with banks	171,842	1,423,946
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Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	171,842	1,423,946
Balance as per statement of cash flows	171,842	1,423,946

8 TRADE AND OTHER RECEIVABLES

Distributions receivable	197,268	86,618
Other receivables	14,467	63,843
	211,735	150,461

Trade and other receivables are current and are considered fully collectable by the directors of the Responsible Entity. As such, no provision for impairment has been provided as at 30 June 2018 (2017: \$nil).

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9 LOAN RECEIVABLE

		Consolidated	
		2018	2017
		\$	\$
Loan receivable		950,000	1,937,843
Loan receivable - transferred from investment property	note 12	9,798,650	-
Less: provision for impairment		(9,798,650)	(1,937,843)
		<u>950,000</u>	<u>-</u>

During the financial year, Fundus Trust No.1 provided loan funding amounting to \$950,000 to Wattlebird Park Estate Pty Ltd. The loan is for 6 months maturing on 21 December 2018, incurs interest at 12% per annum payable monthly in advance and holds a first registered mortgage and general security deed over the underlying property.

The loan receivable is current and is considered fully collectable by the directors of the Responsible Entity. As such, no provision for impairment has been provided as at 30 June 2018.

During the financial year, investment properties relating to Full Luck Fund Pty Ltd and SJQ Investments Pty Ltd amounting to \$9,798,650 were re-classified to loans receivable following the decision to substitute the underlying security originally agreed to from a number of apartments in a residential complex to a select number of apartments in a yet to be constructed residential complex. There are currently uncertainties with respect to the existence and ownership of the new security as at the date of this report. In addition, the Investment Manager and its associated developer have ceased paying the agreed returns to the relevant sub-funds in accordance with the requirements under the Product Disclosure Statements. Given the uncertainty with respect to the underlying security and the default status of the borrower's payment obligations, management have decided to fully impair both the loan principal and interest due from the Investment Manager and its associated developer. The amount of the impaired loan is \$9,798,650. Should the Investment Manager and developer start paying interest owing by them and an adequate replacement security be put in place, the impairment provision would most likely be reversed.

During the half-year to 30 June 2017, the investors in the Investment Samaritan Class of Units redeemed their units in the Fund. The loan receivable amounting to \$1,937,843 was fully impaired as at 30 June 2017 and has been de-consolidated from the financial statements as a result of the investor redemption completed in September 2017. Refer to note 15 for further details.

10 INVENTORIES

Work in progress

Opening balance	-	-
Acquisitions	1,867,840	-
Closing balance	<u>1,867,840</u>	<u>-</u>

Work in progress pertains to two developments in Queensland being undertaken by Fundus Trust No. 1. The following table presents the individual properties owned as at balance date:

2018	Title	Acquisition date	Book value 30 June
			\$
10-12 Leonard Street, Yamanto	Freehold	13 Feb 2018	975,862
16-18 Todds Road, Lawnton	Freehold	26 Jul 17	891,978
			<u>1,867,840</u>

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11 OTHER FINANCIAL ASSETS

	Consolidated	
	2018	2017
	\$	\$
Preference shares	21,271,106	8,496,780
Investment in unlisted company	3,088,990	-
	<u>24,360,096</u>	<u>8,496,780</u>

Preference shares

Preference shares are held in private companies, of which \$19,061,106 (2017: \$8,496,780) are associated to a related managed investment scheme called SMSF Property Fund, and are invested through the Development Income Fund Class of Units. The preference shares are interest bearing at 12% per annum, are redeemable at the later of 12 months from the date of issue or at the time the underlying developments in the private companies are completed and sold, and have priority repayment security. Refer to note 19 for further information.

The balance of preference shares amounting to \$2,210,000 (2017: \$nil) are held in a private company undertaking property development and are invested through the Burnaby Terrace Class of Units. The preference shares are interest bearing at an indicative rates of between 20% to 30% which is payable at completion and sale of the development. The interest is dependent on the net realisable value of the sales being sufficient enough to cover external liabilities of the company prior to any distribution to preference shareholders being made. Refer to note 16 for further information.

The directors of the Responsible Entity are satisfied that the preference shares are not impaired as at 30 June 2018 based on information provided by the management of the private companies regarding the status and net realisable value of the underlying developments.

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	8,496,780	2,817,780
Additions	13,489,326	6,294,000
Disposals	(715,000)	(615,000)
Closing fair value	<u>21,271,106</u>	<u>8,496,780</u>

Investment in unlisted company

The investment represents 1,947,230 shares subscribed for at \$1.50 per share in an unrelated private unlisted company, Molecular Mediation Pty Ltd. The total investment is comprised of \$2,927,410 advanced to the company as at 30 June 2018 and \$161,580 held back in cash as part of a liquidity reserve requested by the Investment Manager.

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	-	-
Additions	3,088,990	-
Disposals	-	-
Closing fair value	<u>3,088,990</u>	<u>-</u>

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12 INVESTMENT PROPERTIES

	Consolidated	
	2018	2017
	\$	\$
Investment properties	-	9,798,650

Investment properties have been reclassified as loans receivable as at 30 June 2018 (30 June 2017: \$9,798,650), refer to note 9 for further details.

13 TRADE AND OTHER PAYABLES

Trade creditors	256,138	104,247
Other payables	154,598	145,113
	<u>410,736</u>	<u>249,360</u>

Trade payables includes investor distributions amounting to \$163,630 (2017: \$160,035).

Other payables includes loans amounting to \$65,545 (2017: \$nil) payable to a related party of the Consolidated Entity. The loans are interest free and are unsecured. Refer to note 19 for further details.

14 DISTRIBUTIONS PAID AND PAYABLE

Distributions paid to investors		1,407,043	983,942
Distributions payable to investors	Note 13	163,630	160,035
Total distributions to investors		<u>1,570,673</u>	<u>1,143,977</u>

15 DISPOSAL OR LOSS OF CONTROL OVER A SUBSIDIARY

During the financial year, two classes of investor units were fully redeemed which resulted in the Fund losing control over the following two subsidiaries.

Investment Samaritan Class of Units and associated special purpose vehicle Investment Samaritan Lending Pty Ltd

In September 2017, it was agreed that the investors in the Investment Samaritan Class of Units would redeem their units in the Fund. As at 30 June 2018, the Fund extinguished all liabilities associated with these investors and resolved to wind up the Unit Class.

Details of the extinguishment are below:

	Fair Value of the Assets and Liabilities At Disposal Date
Cash	11,331
Loan receivable *	-
Trade and other payables	<u>(11,331)</u>
	<u>-</u>
Original investor funds received - liability	2,040,756
Accumulated losses	<u>(2,040,756)</u>
	<u>-</u>

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15 DISPOSAL OR LOSS OF CONTROL OVER A SUBSIDIARY (CONT'D)

* Loan receivable amounting to \$1,937,843 was fully impaired during the prior financial year based on management's assessment of collectability following the cessation of interest income from 1 January 2017.

SB Trading B-Class of Units and associated special purpose vehicle SB Trading Pty Ltd

On 30 June 2018, it was agreed that the investors in the SB Trading B-Class of Units would redeem their units in the Fund in exchange for taking control over the special purpose vehicle, SB Trading Pty Ltd which held the asset and liabilities associated with their Class of Units. As at 30 June 2018, the Fund extinguished all liabilities associated to these investors and resolved to wind up the Units Class.

Details of the extinguishment are below:

Details of the extinguishment are below:

**Fair Value of the Assets
and Liabilities At Disposal
Date**

Cash	8,028
Loan receivable	300,000
Trade and other payables	(6,523)
	<u>301,505</u>
Original investor funds received - liability	300,000
Current year earnings	1,505
	<u>301,505</u>

16 FINANCIAL INSTRUMENTS

The Fund's assets principally consist of financial assets, loans receivable, and work in progress inventories. It holds these investment assets at the discretion of the Responsible Entity and Investment Committee in accordance with the Fund's constitution and the relevant Product Disclosure Statements.

The allocation of assets between the various types of assets described above is determined by the Fund's Manager and Investment Committee who manage the Fund's portfolio of assets to achieve the Consolidated Entity's investment objectives.

The Consolidated Entity's investing activities expose it to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

The nature and extent of the financial instruments employed by the Fund are discussed below. This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risks.

The Board of Directors of the Responsible Entity and Investment Committee has overall responsibility for the establishment and oversight of the Fund's risk management framework.

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16 FINANCIAL INSTRUMENTS (CONT'D)

The Board and Investment Committee is responsible for developing and monitoring the Fund's risk management policies, including those related to its investment activities. The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, including those risks managed by the Responsible Entity and Investment Committee, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Board and Investment Committee monitors compliance with the Fund's risk management strategies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and property values will affect the Fund's income. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is managed by the Board of Directors and Investment Committee.

Property value risk

The majority of the Fund's assets are in investment vehicles which participate in property development, or have property backed assets. As a result, the Fund is subject to property value risk from fluctuations in the prevailing levels of market property values. Changes in property values could have an effect on the net realisable value of the properties which would in turn impact the underlying value of the investments and hence unitholders funds. The Fund's exposure to property is restricted to residential and commercial property in Queensland which has shown signs of stability in recent times.

Interest rate risk

A significant portion of the Fund's financial assets and financial liabilities are interest-bearing. Interest-bearing financial assets and financial liabilities have variable interest rates and/or mature in the short-term. As a result, the Fund is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash is invested in an interest-bearing deposit account with an Australian regulated banking institution. The Fund's interest rate risk is monitored on a monthly basis by the Board of Directors and Investment Committee.

Interest rate profile

At reporting date the interest rate profile of the Fund's interest-bearing financial instruments was:

Fixed and variable rate instruments

	Consolidated	
	2018	2017
Financial assets:	\$	\$
Cash and cash equivalents	171,842	1,423,946
Trade and other receivables	211,735	150,461
Loans receivable	950,000	-
Other financial assets	24,360,096	8,496,780
	<u>25,693,673</u>	<u>10,071,187</u>
Financial liabilities:		
Trade and other payables	410,736	249,360
	<u>410,736</u>	<u>249,360</u>
Unitholders' funds	<u>27,150,777</u>	<u>19,620,477</u>

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16 FINANCIAL INSTRUMENTS (CONT'D)

Market risk (cont'd)

Interest rate sensitivity

The variable rate instruments amount to \$2,210,000 (2017: \$nil). The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk.

	Interest rate risk	
	+75bps	-75bps
Impact on net assets attributable to unitholders	\$	\$
30 June 2018	165,000	(165,000)
30 June 2017	-	-

The Consolidated Entity holds fixed rate instruments amounting to \$20,011,106 (2017: \$18,295,430) as the rates of return are specified under the various Product Disclosure Statements and agreements. The directors manage the interest rate risk through these fixed rate instruments.

Credit risk

Credit risk is the risk that a counterparty to a financial instruments will fail to discharge an obligation or commitment that it has entered into with the Fund. The Responsible Entity and Investment Committee manage the exposure to credit risk on an ongoing basis.

	Consolidated	
	2018	2017
	\$	\$
The Consolidated Entity's maximum exposure to credit risk at the reporting date was:		
Cash and cash equivalents	171,842	1,423,946
Trade and other receivables	211,735	150,461
Loans receivable	950,000	-
Other financial assets	24,360,096	8,496,780
	<u>25,693,673</u>	<u>10,071,187</u>

a. All of the cash held by the Consolidated Entity is held by Australian regulated banks. As such, the Responsible Entity and Investment Committee consider the credit risk to be low.

b. The Fund is exposed to credit risk on all other investments. As at 30 June 2018, the carrying value of \$25,693,673 (2017: \$10,071,187) is net of impairment for those assets considered impaired or past due, and represents the maximum exposure to credit risk.

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16 FINANCIAL INSTRUMENTS (CONT'D)

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

In accordance with the Product Disclosure Statement the Fund is contractually obliged to redeem units at the redemption price, however redemption is subject to the availability of surplus liquidity and at the approval of the Responsible Entity. All classes of units are issued in accordance with the relevant Product Disclosure Statements with a fixed term and no withdrawal rights.

The Fund's liquidity risk is managed on a monthly basis by the Board of Directors and Investment Committee in accordance with the policies and procedures in place.

The following are the contractual maturities of financial liabilities, excluding interest payments and excluding the impact of netting agreements:

Consolidated 2018	Carrying value \$	Contractual cash flows \$	0-6 Months \$	6- 12 Months \$	1-2 years \$	More than 2 years \$
Accounts payable	410,736	410,736	410,736	-	-	-
Investors funds	27,150,777	27,150,777	2,249,750	10,234,000	8,538,037	6,128,990
	<u>27,561,513</u>	<u>27,561,513</u>	<u>2,660,486</u>	<u>10,234,000</u>	<u>8,538,037</u>	<u>6,128,990</u>
Consolidated 2017	Carrying value \$	Contractual cash flows \$	0-6 Months \$	6- 12 Months \$	1-2 years \$	More than 2 years \$
Accounts payable	249,360	249,360	249,360	-	-	-
Investors funds	19,620,477	19,620,477	-	5,724,488	13,895,989	-
	<u>19,869,837</u>	<u>19,869,837</u>	<u>249,360</u>	<u>5,724,488</u>	<u>13,895,989</u>	<u>-</u>

The preference shares underlying the Development Income Fund's investor funds, have a Redemption Date of 12 months from the date of issue or upon sale of the assets by the issuer, whichever occurs earlier. Should the issuers project remain incomplete, unsold or otherwise unable to generate sufficient funds to redeem the Preference Shares at the Redemption Date, then the issuer will have right to automatically extend the term until sufficient profits are achieved in order for them to redeem the Preference Shares. The cashflow above is based on the expected timeframe of achieving sufficient profits.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The objective of the Responsible Entity and Investment Committee is to manage operational risk so as to balance the avoidance of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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16 FINANCIAL INSTRUMENTS (CONT'D)

Operational risk (cont'd)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Responsible Entity and Investment Committee. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

17 FAIR VALUE

Fair value hierarchy

The following tables detail the Consolidated Entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Other financial assets	-		24,360,096	24,360,096
	-	-	24,360,096	24,360,096
Consolidated 2017				
Other financial assets	-		8,496,780	8,496,780
	-	-	8,496,780	8,496,780

Other financial assets represent preference and ordinary shares in various special purpose vehicles and are measured at cost as they do not have a quoted market price and as such cost is the best representative of the fair value.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

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18 KEY MANAGEMENT PERSONNEL DISCLOSURES

The Directors of Guardian Securities Limited are considered to be Key Management Personnel of the Consolidated Entity. The Directors of the Responsible Entity in office during the year and up to the date of the report are:

Guy Hasenkam
Christopher Wilson
Errol Jackson

In addition to the Directors noted above, Guardian Securities Limited, the Responsible Entity of the Consolidated Entity, is considered to be Key Management Personnel with the authority for the strategic direction and management of the Consolidated Entity.

Compensation

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

Guardian Securities Limited provides management services to the Consolidated Entity. Transactions between the Consolidated Entity and the Responsible Entity Limited result from normal dealings with that Entity as the Consolidated Entity's Responsible Entity in accordance with the requirements of the relevant Product Disclosure Statements. Guardian Securities Limited is an Australian Financial Services License holder.

Guardian Securities Limited receives all management fees that have been paid by the Consolidated Entity during the year. The Consolidated Entity paid the following fees to the Responsible Entity during the financial year:

	Consolidated	
	2018	2017
	\$	\$
Management fees paid to Guardian Securities Limited	421,062	209,339
Management fees payable to Guardian Securities Limited	34,321	69,303
	<u>455,383</u>	<u>278,642</u>

Other

The Consolidated Entity has not made, guaranteed or secured, either directly or indirectly, any loans to the Directors and Key Management Personnel of the Responsible Entity, or their personally related entities, at any time during the financial year.

No Directors and Key Management Personnel of the Responsible Entity, or their personally related entities, have entered into a material contract with the Consolidated Entity.

19 RELATED PARTIES

Parent entity

The Guardian Investment Fund is the master fund of the Consolidated Group.

Subsidiaries

Interests in subsidiaries are set out in note 24.

Key management personnel

Disclosures relating to key management personnel are set out in note 18.

**THE GUARDIAN INVESTMENT FUND
AND ITS CONTROLLED ENTITIES
ARSN 168 048 057**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

19 RELATED PARTIES (CONT'D)

	Consolidated	
	2018	2017
	\$	\$

Transactions with related parties

The following transactions occurred with related parties:

Interest income	1,623,034	777,309
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Interest income has been received from SMSF Property Fund which is a registered scheme of which Guardian Securities Limited also acts as Responsible Entity for. The preference shares are interest bearing at 12% per annum, are redeemable at the later of 12 months from the date of issue or at the time the underlying developments in the private companies are completed and sold, and have priority repayment security.

There are no other transactions with related parties during the financial year ended 30 June 2018 (2017: \$nil).

Investments, receivables from and payables to related parties

Preference shares	19,061,106	8,496,780
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These investments are within SMSF Property Fund, a registered scheme of which Guardian Securities Limited also acts as Responsible Entity. The preference shares relate to shares held in various special purpose property development companies established as part of the SMSF Property Fund group.

Trade receivables	197,268	86,617
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Trade receivables are from SMSF Property Fund, a registered scheme of which Guardian Securities Limited also acts as Responsible Entity and relate to interest income receivable on the preference shares.

Trade payables	76,731	80,669
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Trade payables are to Guardian Securities Limited and GSL Services Pty Ltd, both related entities of the Fund, and are connection with fees under the Product Disclosure Statements and recharges of costs to the Consolidated Entity.

Loans payable	65,545	-
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Loans payable are to GSL Services Pty Ltd, are interest free and are unsecured. The purpose of the loans was to provide funding required to pay Fund expenditure during the financial year.

There are no other receivables from or payables to related parties as at 30 June 2018 (2017: \$nil).

Related party investments held by the Consolidated Entity

Apart from those noted above, the Consolidated Entity has no investment in related parties as at 30 June 2018 (2017: \$nil).

Related party investing activities

There are no related parties have investments in the Consolidated Entity as at 30 June 2018 (2017: \$nil).

**THE GUARDIAN INVESTMENT FUND
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ARSN 168 048 057**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

20 AUDITORS REMUNERATION

	Consolidated	
	2018	2017
	\$	\$
During the financial year, the following fees were payable for services provided by Auditors. A related party, GSL Services Pty Ltd has agreed to pay the following fees, for services provided by PKF (Gold Coast), the auditor of the Consolidated Entity:		
<i>Audit services – PKF (Gold Coast)</i>		
Annual audit of the financial statements	14,500	10,500
Half-year review of the financial statements	10,000	10,000
Audit of the compliance plan	6,750	4,500
	31,250	25,000
<i>Other services – PKF (Gold Coast)</i>		
Preparation of the tax return	17,800	9,000
	49,050	34,000

21 CONTINGENT LIABILITIES

The Consolidated Entity did not have any contingent liabilities as at 30 June 2018 (2017:\$nil).

22 COMMITMENTS

There are no commitments, either capital, operating or finance, as at 30 June 2018 (2017:\$nil).

23 PARENT ENTITY INFORMATION

The Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by regulation 2M.3.01 which requires the following limited disclosure in regards to the parent entity, The Guardian Investment Fund. The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in Note 2.

Total assets	27,924,844	19,929,217
Total liabilities	242,025	11,365
Net assets attributable to investors – liability	27,682,819	19,917,852
Change in net assets attributable to investors	-	-

Guarantees

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contractual commitments

The parent entity has no commitments of as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity has no contingent liabilities as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 2, except for investments in subsidiaries which are accounted for at cost, less any impairment, in the parent entity.

**THE GUARDIAN INVESTMENT FUND
AND ITS CONTROLLED ENTITIES
ARSN 168 048 057**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

24 SUBSIDIARIES

The consolidated financial statements incorporates the assets, liabilities and results of the following sub funds in accordance with the accounting policy described in note 2.

Name of entity	Country of	Holding	
		2018 %	2017 %
Full Luck Fund Pty Ltd	Australia	100	100
SJQ Investments Pty Ltd	Australia	100	100
Development Income Fund	Australia	100	100
Fundus Trust No. 1	Australia	100	100
Investment Samaritan Lending Pty Ltd	Australia	-	100

The consolidated financial statements include the Development Income Fund which is a separate class of units within the master fund and is not a separate legal incorporated company.

25 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2018 \$	2017 \$
Profit/(loss) from operating activities after distributions	(10,268,839)	(2,132,211)
<i>Non-cash items</i>		
Provision for impairment	9,798,650	1,937,843
<i>Movements in working capital:</i>		
Decrease/(increase) in accounts receivables	(61,274)	(122,058)
Increase/(decrease) in accounts payables	161,376	155,701
Increase/(decrease) in provision for income tax	-	(10,708)
Cash flows from operating activities	<u>(370,087)</u>	<u>(171,433)</u>

26 EVENTS SUBSEQUENT TO REPORTING DATE

A new Part 1 Product Disclosure Statement for the Fund was issued on 13 September 2018.

No other matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

**THE GUARDIAN INVESTMENT FUND
AND ITS CONTROLLED ENTITIES
ARSN 168 048 057**

**DIRECTORS' DECLARATION
30 June 2018**

In the opinion of the directors of Guardian Securities Limited, Responsible Entity of The Guardian Investment Fund and its Consolidated Entity:

- a. the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- b. the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- c. the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- d. there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors,



Guy Hasenkam
Director

27th September 2018
Gold Coast

**THE GUARDIAN INVESTMENT FUND
AND ITS CONTROLLED ENTITIES
ARSN 168 048 057**

**DIRECTORS' DECLARATION
30 June 2018**

In the opinion of the directors of Guardian Securities Limited, Responsible Entity of The Guardian Investment Fund and its Consolidated Entity:

- a. the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- b. the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- c. the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- d. there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors,

Guy Hasenkam
Director

27th September 2018
Gold Coast

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF THE GUARDIAN INVESTMENT FUND

Report on the financial statements

Auditor's opinion

We have audited the accompanying financial statements of The Guardian Investment Fund and its Consolidated Entities ("the Fund"), which comprises the Consolidated Statement of Financial Position as at 30 June 2018, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Net Assets Attributable to Unitholders and Consolidated Statement of Cash Flows for the financial year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

In our opinion:

- (a) The financial statements of The Guardian Investment Fund is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) The financial statements also comply with International Financial Reporting Standards as disclosed in note 2.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the Fund 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 statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Other Information

The Directors of Guardian Securities Limited ("the Responsible Entity") are responsible for the other information. The other information comprises the information included in the Fund's annual report, but does not include the financial statement and our auditor's report thereon.

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

In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement 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.

Directors' responsibility for the financial statements

The directors of the Guardian Securities Limited ("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* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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

The directors of the Responsible Entity are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. Our objectives are to obtain reasonable assurance about whether the financial statement 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statement that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the financial statement.

We conclude on the appropriateness of the directors' of the Responsible Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the financial statement. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


PKF
William Grant Chatham
Partner

27th September 2018
Gold Coast