Pacific First Mortgage Fund

ARSN 088 139 477

Annual Financial Report - 30 June 2019

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Directors' report
30 June 2019

The Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of the Pacific First Mortgage Fund (Scheme), present their report together with the financial statements of the Scheme for the year ended 30 June 2019.

Responsible Entity

The Responsible Entity is incorporated and domiciled in Australia. The registered office and principal place of business of the Responsible Entity and the Scheme is Level 23, 10 Eagle Street, Brisbane, QLD, 4000.

Directors

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

Name and qualifications	*Age*	*Experience and special responsibilities*
Robert M Willcocks Independent Non-Executive Chairman BA, LL.B, LL.M	70	Member of the Audit Committee Former partner with Mallesons Stephen Jaques (now King & Wood Mallesons) Mr Willcocks has been a non-executive director (sometimes Chairman) of a number of listed companies and is currently such a director of two such companies Chairman - Responsible Entity since 9 October 2009
Rodger I Bacon Executive Deputy Chairman BCom(Merit), AICD, SFFin	73	Member of the Audit Committee Former executive director of Challenger International Limited Mr Bacon is a former director of several companies including, Financial Services Institute of Australasia. Director – Responsible Entity since 9 July 2004
John C Barry Executive Director BA, FCA	67	Chairman of the Audit Committee Former executive director of Challenger International Limited Mr Barry is a director of several companies, including former Chairman of Westpac RE Limited Director – Responsible Entity since 9 July 2004
Philip A Ryan Executive Director and Company Secretary LL.B, Grad Dip Leg Prac, FTIA, FFIN	58	Member of the Compliance Committee Mr Ryan is a solicitor and member of the Queensland Law Society Inc. Former partner of a Brisbane law firm Mr Ryan is a director of several companies Director – Responsible Entity since 13 October 1997
Rohan C Butcher Non-Executive Director Grad Dip PM, BASc(QS), Registered Builder, Licensed Real Estate Agent	49	Member of the Audit Committee Member of the Lending Committee Consultant to several major companies providing development management services Director – Responsible Entity since 29 July 2008

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Principal activities

The Scheme is a registered managed investment scheme domiciled in Australia. Following the sale of the last remaining security property held by the Scheme over its mortgage loans in May 2015, the Scheme's principal activity during the financial year has been to continue with the ongoing litigation involving the Scheme (refer Litigation and contingent liabilities section below). The Scheme did not have any employees during the year.

Review of operations and results

The net profit attributable to unitholders for the year ended 30 June 2019 totalled $418,946 (2018: loss $190,847). The profit for the year is primarily attributable to recoveries from receivers over securities held by the Scheme.

Total assets of the Scheme totalled $15,097,736 as at 30 June 2019 (2018: $18,813,213). The Scheme's total asset position will continue to reduce as the litigation matters detailed in the Litigation and contingent liabilities section below are finalised and net Scheme assets are returned to unitholders.

Income distributions to unitholders were suspended by the Directors of City Pacific Limited (Former Responsible Entity), the previous responsible entity of the Scheme, in July 2008. Consequently no income distributions were paid or payable to unitholders during the financial year (2018: nil).

Non-liquid Scheme

The Directors of the Former Responsible Entity resolved on 13 October 2008 that the Scheme was a non-liquid registered managed investment scheme in accordance with the Constitution and the Corporations Act 2001.

The Responsible Entity processed a return of capital to all ordinary unit holders who held units on 6 July 2018 in the amount of $0.005 per unit.

Units on issue

During the year no units were issued (2018: nil), or redeemed from the Scheme (2018: nil). The Scheme had 879,122,759 ordinary units on issue as at 30 June 2019 (2018: 879,122,759).

Litigation recovery right (LRR)

All unitholders were issued a LRR, for nil value, for each ordinary unit held in the Scheme on 15 March 2011. The LRR is a separate and transferrable entitlement that has been created to ensure all unitholders retain the right to their pro rata share of any net proceeds, after allowing for any costs borne by the ordinary unitholders, resulting from successful litigation undertaken. The Scheme had on issue 887,040,412 LRR units as at 30 June 2019 (2018: 887,040,412), and no further LRR units were issued during the year (2018: nil), nor were any redeemed (2018: nil).

Indirect cost ratio (ICR)

The ICR is the ratio of the Scheme's management costs over the Scheme's average net assets for the year, expressed as a percentage.

The ICR for the Scheme for the year ended 30 June 2019 is 5.28% p.a. (2018: 3.99% p.a.).

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Review of operations and results (continued)

Interests of the Responsible Entity

The following fees were paid to the Responsible Entity and its associates out of the Scheme property during the financial year (refer Note 12(c)).

	2019	2018
	$	$
Expenses		
Responsible Entity management fees - gross (i)	**219,794**	291,319
Registry fees (ii)	**316,037**	315,924
Expenses reimbursed (iii)	**135,587**	72,329
	671,418	679,572

(i) The Responsible Entity is entitled to a management fee of 1.50% p.a. (plus GST less RITC) calculated on the monthly gross asset value of the Scheme.

(ii) The Responsible Entity incurs costs on behalf of the Scheme for which it is reimbursed in accordance with the Constitution.

The Responsible Entity (including its associates) does not hold any units in the Scheme as at 30 June 2019 (2018: nil).

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 Scheme that occurred during the period.

Events subsequent to the end of the reporting year

Return of Capital

The Responsible Entity intends to pay a return of capital to all ordinary unitholders who held units in October 2019 in the amount of $0.005 per unit.

Other than the item noted above and those described in the Litigation and contingent liabilities section below, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Litigation and contingent liabilities

Claim against former directors and officers of City Pacific Limited

Following judgment entered against certain directors of City Pacific Limited, the Responsible Entity reports as follows:

Stephen McCormick (now a resident of New Zealand) is now bankrupt and his affairs are being administered by the Insolvency Trustees NZ.

Thomas Swan is now bankrupt, and his affairs are being administered by Gerald Collins (BDO Business Restructuring Pty Ltd).

The estate of Ian Donaldson (dec'd) is now bankrupt and his affairs are being administered by Gerald Collins (BDO).

Litigation and contingent liabilities (continued)

Claim against former directors and officers of City Pacific Limited (continued)

Philip Sullivan is now bankrupt, following a creditors meeting on 19 September 2018. Messrs Jason Cronin and Terry van de Velde of SV Partners were appointed trustees of his estate. Mr Sullivan subsequently instituted proceedings to remove Messrs Cronin and van de Velde as trustees and to replace them with David Clout (his previous trustee). The matter was taken to court and thereafter settled with the appointment of Mr Anthony Castley of William Buck to administer the estate.

Other proceedings

While the Responsible Entity has not been served with new proceedings during the period in relation to the Scheme, directors note that litigation may still arise, particularly from interests associated with former directors of City Pacific Limited and also former borrowers of the Scheme.

Likely developments and expected results of operations

As the Scheme's remaining mortgage security properties have now been sold it is the intention of the Responsible Entity to return the net proceeds to unitholders once the bankruptcy and further litigation matters have been dealt with.

Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

Options

No options were:

(i) Granted over unissued units in the Scheme during or since the end of the financial year; or
(ii) Granted to the Responsible Entity.

No unissued units in the Scheme were under option as at the date on which this report is made.

No units were issued in the Scheme during or since the end of the financial year as a result of the exercise of an option over unissued units in the Scheme.

Indemnification of officers

Indemnification

Under the Scheme constitution the Responsible Entity is required 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 the 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.

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Indemnification of officers (continued)

Insurance premiums

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 Scheme has not indemnified any auditor of the Scheme.

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 page 6.

This report is made in accordance with a resolution of the Directors of the Responsible Entity.

Philip A Ryan	Rodger I Bacon
Managing Director	Executive Deputy Chairman
30 September 2019	30 September 2019
Brisbane	Brisbane

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DECLARATION OF INDEPENDENCE BY P A GALLAGHER TO THE DIRECTORS OF TRILOGY FUNDS MANAGEMENT LIMITED AS RESPONSIBLE ENTITY FOR PACIFIC FIRST MORTGAGE FUND

As lead auditor for the audit of Pacific First Mortgage Fund for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

P A Gallagher
Director

BDO Audit Pty Ltd

Brisbane, 30 September 2019

Pacific First Mortgage Fund
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Revenue and other income			
Interest revenue - cash and cash equivalents		**266,480**	374,520
Other income	6	**14,251**	144,282
		280,731	518,802
Expenses			
Auditor's remuneration	4	**(17,204)**	(17,699)
Impairment gains			
• Mortgage loans	5	**1,368,006**	335,014
Other expenses		**(992,793)**	(735,645)
Responsible Entity management fees	12(c)	**(219,794)**	(291,319)
		138,215	(709,649)
Profit/(loss) for the year before finance costs		**418,946**	(190,847)
Finance costs:			
• Interest expense		**-**	-
Profit/(loss) for the year attributable to unitholders		**418,946**	(190,847)
Other comprehensive income			
Other comprehensive income		**-**	-
Total comprehensive income for the year attributable to unitholders		**418,946**	(190,847)

Pacific First Mortgage Fund
Statement of financial position
As at 30 June 2019

	Note	2019 $	2018 $
Assets			
Cash and cash equivalents	7	**15,094,337**	18,809,491
Trade and other receivables	8	**3,399**	3,722
Total assets		**15,097,736**	18,813,213
Liabilities			
Trade and other payables	9	**1,526,730**	1,265,539
Total liabilities (excluding liabilities attributable to unitholders)		**1,526,730**	1,265,539
Net assets attributable to unitholders	10	**13,571,006**	17,547,674

In accordance with AASB 132 *Financial Instruments: Presentation* , Unitholders' Funds are classified as a liability and accordingly the Fund has no equity for financial statement purposes.

Pacific First Mortgage Fund
Statement of cash flows
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Interest received - cash and cash equivalents		**266,480**	377,882
Other income received		**14,251**	144,282
Responsible entity management fees and reimbursements		**(666,127)**	(689,067)
Other costs paid		**(362,949)**	(383,632)
Net cash used in operating activities	11	**(748,345)**	(550,535)
Cash flows from investing activities			
Mortgage loan funds repaid		**1,368,006**	335,014
Net cash provided by investing activities		**1,368,006**	335,014
Cash flows from financing activities			
Payments for return of capital to unitholders		**(4,334,815)**	(78,164)
Net cash used in financing activities		**(4,334,815)**	(78,164)
Net decrease in cash and cash equivalents		**(3,715,154)**	(293,685)
Cash at beginning of the reporting period		**18,809,491**	19,103,176
Cash and cash equivalents at end of financial year	7	**15,094,337**	18,809,491

Note 1 Reporting entity

Pacific First Mortgage Fund (Scheme) is a registered managed investment scheme under the Corporations Act 2001 (Act). The financial statements of the Scheme are for the year ended 30 June 2019, and have been prepared on a wind-up basis rather than on a going concern basis. Under the wind-up basis of reporting, assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. The Scheme is a for-profit entity.

The Scheme was constituted on 23 June 1998 and will terminate on 23 June 2078, unless terminated in accordance with the Scheme's Constitution. At this time, the Scheme is to realise all assets and satisfy all liabilities, with surplus funds being distributed to unitholders.

Note 2 Basis of preparation

(a) Statement of compliance

The remaining mortgage loans held by the Scheme were realised during the financial year ended 30 June 2015. As a result, it is the intention of Trilogy Funds Management Limited (Responsible Entity) to wind-up the Scheme once all standing consequences of litigation have been resolved (refer Note 15).

The financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board and the Act. The financial statements of the Scheme comply with International Financial Reporting Standards and interpretations in their entirety.

In adopting the wind-up basis of reporting, the assets are stated at their anticipated settlement amounts. The estimated net residual value of the asset represents the Responsible Entity's best estimate of the recoverable value of assets, net of selling expenses. Given the uncertainties in valuing assets on a wind-up basis, it is likely that the valuation of assets included in these financial statements may differ from actual values on realisation.

The financial statements were approved by the Board of Directors of Trilogy Funds Management Limited on 30 September 2019.

(b) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Scheme’s functional currency.

(c) Key assumptions and sources of estimation

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised are disclosed in:

- Note 13(a): Financial risk management (credit risk)

Note 3 Significant accounting policies

AASB 9 became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilties and replaces the multiple classification and measurement models in AASB 139.

Classification and measurement of financial assets and financial liabilities
Loans and receivables are classified and measured at amortised cost. The Scheme holds these financial assets in order to collect the contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal amount outstanding.

AASB 9 requires that all financial liabilities be subsequently classified at amortised cost, except in certain circumstances. None of these circumstances apply to the Scheme and accordingly there is no change to the classification of the Scheme's payables and borrowings on adoption of AASB 9.

Impairment of financial assets
AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI), but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139. The Scheme has assessed the impact of the adoption of an ECL model under AASB 9 and no adjustment to the opening balance has been recognised. See section (iii) 'Recoverability of loans and receivables' section below for details on how ECL amounts are determined.

Accounting policies
AASB 9 contains three principal classification categories for financial assets:

a) measured at amortised cost;
b) fair value through other comprehensive income (FVOCI); and
c) fair value through profit and loss (FVTPL).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets held at amortised cost

Loans and receivables
Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method less any allowance under the ECL model.

Recoverability of loans and receivables
At each reporting date, The Scheme is required to assess whether financial assets carried at amortised cost are 'credit-impaired'. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Scheme recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Note 3 Significant accounting policies (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivable and are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Scheme in accordance with the contract and the cash flows that the Scheme expects to receive).

The Scheme analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL. Debts that are known to be uncollectable are written off when identified.

(ii) AASB 15 Revenue from Contracts with Customers
The requirements of AASB 15 replace AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statements with more informative and relevant disclosures.

Classification and measurement of revenue
Revenue is recognised over time if:

a) the customer simultaneously receives and consumes the benefits as the entity performs;
b) the customer controls the asset as the entity creates or enhances it; or
c) the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

Changes in accounting policies resulting from the adoption of AASB 15 have been applied retrospectively. There has been no impact on the Scheme's previously reported financial position as a result of the adoption of AASB 15.

(a) Revenue and income recognition
Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised.

(i) Interest revenue - mortgage loans and interest revenue
Revenue is recognised as the interest accrues (using the effective interest rate method) to the net carrying amount of the financial asset. All revenue is stated net of the amount of goods and services tax (GST).

(ii) Changes in the fair value of investments
Net gains or losses on investments held for trading or designated as at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses, but does not include interest or dividend revenue.

(b) Expenses
All expenses, including management fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Note 3 Significant accounting policies (continued)

(c) Taxation

Under current legislation the Scheme is not subject to income tax as its taxable income including assessable realised capital gains is distributed in full to the unitholders. The Scheme fully distributes its distributable income, calculated in accordance with the Scheme's constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceeds realised capital losses the excess is distributed to the unitholders.

(d) Unit prices

The unit price is based on unit price accounting outlined in the Scheme's Constitution and Product Disclosure Statement (PDS).

(e) Terms and conditions of units on issue

Each unit confers upon the unitholder an equal interest in the Scheme and is of equal value. A unit does not confer an interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income and capital distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

The Scheme is not required to complete a statement of changes in equity as all unitholder funds have been classified as a financial liability.

(f) Increase/decrease in net assets attributable to unitholders

Non-distributable income is transferred directly to net assets attributable to unitholders. This balance represents unrealised gains and losses due to the change in the fair value of investments. These gains and losses have been recognised in the statement of profit or loss and other comprehensive income in either the current or a previous period, and have not been distributed to unitholders.

Once the gains and losses have been realised, these items are distributed to unitholders. Income recognition differences consist of accrued income not yet assessable, expenses provided or accrued which are not yet deductible, net capital losses and tax free or tax deferred income.

(g) Issued units

Ordinary units

Units issued to unitholders represent a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme.

Litigation recovery right (LRR)

The LRR is a separate and transferrable entitlement that has been created to ensure all unitholders retain the right to their pro rata share of any net proceeds resulting from successful litigation undertaken.

Note 3 Significant accounting policies (continued)

(h) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(i) Trade and other receivables
Receivables are recorded at amortised cost less impairment and may include amounts for distributions and interest. Distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(j) Goods and services tax
Rental income, management fees, custody fees and other expenses are recognised net of the amount of 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 GST recoverable from the ATO is included in trade and other receivables, while GST payable to the ATO is included in trade and other payables, both of which are presented in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

(k) Trade and other payables
Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Scheme during the reporting period, which remains unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(l) Impairment of non-financial assets
At the end of each reporting period, the Responsible Entity assesses whether there is any indication that an asset may be impaired. The assessment will include considering external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset to its carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Responsible Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

Note 3 Significant accounting policies (continued)

(n) New standards and interpretations not yet adopted

Certain new Accounting Standards and Interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Scheme. The Scheme's assessment of the impact of these new Standards and Interpretations is set out below.

Note 3 Significant accounting policies (continued)

(i) AASB 16 Leases

Nature of change	When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117 Leases and related Interpretations. AASB 16 introduces a single lease accounting model that eliminates the requirement for leases to be classified as operating or finance leases.
Application date	Mandatory for financial years commencing on or after 1 July 2019. At this stage, the Trust does not intend to adopt the standard before its effective date. The Trust intends to apply the simplified transition approach and will likely not restate comparative amounts for the year prior to first adoption.
Impact to the Scheme	The adoption of the new standard will have no material impact to the Trust.

Note 4 Auditor's remuneration

During the period the following fees were paid or payable for services provided by the auditor of the Scheme, BDO Audit Pty Ltd:

	2019	2018
	$	$
Audit and other assurance services		
• Audit and review of the financial statements	**11,704**	11,374
• Audit of the compliance plan	**5,500**	6,325
Total remuneration for audit and other services	**17,204**	17,699

Note 5 Impairment gains

	2019	2018
	$	$
Impairment gains		
• Mortgage loans (i)	**1,368,006**	335,014
	1,368,006	335,014

(i) Various payments were received relating to mortgage loans whose underlying security property had been sold previously, with the balance of provision for impairment losses having been previously cleared from the statement of financial position.

Note 6 Other income

	2019	2018
	$	$
Litigation settlement proceeds (i)	**14,251**	144,282

(i) Various litigation claims pursued by the Scheme were settled during the current and prior financial years, resulting in settlement proceeds being paid to the Scheme by the defendants.

Note 7 Cash and cash equivalents

	2019	2018
	$	$
Cash at bank	**15,094,337**	18,809,491
Cash liquidity of the Scheme (i)	**99.98%**	99.98%

(i) Cash liquidity is calculated by dividing cash and cash equivalents by the total assets of the Scheme.

Note 8 Trade and other receivables

	2019	2018
	$	$
Other receivables	**3,399**	3,722

Note 9 Trade and other payables

	2019	2018
	$	$
Trade payables	**68,557**	56,796
Unpaid return of capital (i)	**1,243,160**	1,182,363
Accrued audit and taxation fees	**18,512**	16,380
Other payables	**196,501**	10,000
	1,526,730	1,265,539

(i) Return of capital monies remain outstanding for a number of unitholders due to necessary banking details being unavailable at the time of processing, thus preventing the payments from being made. The Responsible Entity will continue to process sporadic payments as updated banking details are obtained.

Note 10 Net assets attributable to unitholders

	2019			2018		
	Ordinary units	**Contributed capital**	**Accumulated profits**	Ordinary units	Contributed capital	Accumulated profits
	No	**$**	**$**	No	$	$
Balance - 1 July	**879,122,759**	**735,401,384**	**17,547,674**	879,122,759	735,401,384	17,738,521
Units issued	**-**	**-**	**-**	-	-	-
Units redeemed	**-**	**-**	**-**	-	-	-
Return of capital	**-**	**(4,395,614)**	**(4,395,614)**	-	-	-
TCI* for the year	**-**	**-**	**418,946**	-	-	(190,847)
Balance - 30 June	**879,122,759**	**731,005,770**	**13,571,006**	879,122,759	735,401,384	17,547,674

* TCI = Total comprehensive income

Net asset value per unit	**2019**	2018
Cents per unit	**$ 0.0154**	$ 0.0200

Units in the Scheme entitle the unitholder to participate in distributions and proceeds on the winding up of the Scheme in proportion to the number of units held.

On a show of hands each unitholder present at a meeting in person or by proxy is entitled to one vote, and on a poll each member has one vote for each dollar of the value of the total units they have in the Scheme.

Note 10 Net assets attributable to unitholders (continued)

Litigation recovery right (LRR)

All unitholders were issued a LRR, for nil value, for each ordinary unit held in the Scheme on 15 March 2011. The LRR is a separate and transferrable entitlement that has been created to ensure all unitholders retain the right to their pro rata share of any net proceeds, after allowing for any costs borne by the ordinary unitholders, resulting from successful litigation undertaken. The Scheme had on issue 887,040,412 LRR units as at 30 June 2019 (2018: 887,040,412), and no further LRR units were issued during the year (2018: nil), nor were any redeemed (2018: nil).

Note 11 Reconciliation of cash flows from operating activities

	2019	2018
	$	$
Profit/(loss) for the year attributable to unitholders	**418,946**	(190,847)
Adjustments for:		
Net gain on fair value adjustments	**(1,368,006)**	(335,014)
Changes in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**323**	3,413
(Decrease)/increase in trade and other payables	**200,393**	(28,087)
Net cash used in operating activities	**(748,344)**	(550,535)

Note 12 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Pacific First Mortgage Fund is Trilogy Funds Management Limited ABN 59 080 383 679. City Pacific Limited ceased to act as Responsible Entity of the Scheme on 7 July 2009.

(b) Key management personnel

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme. The Executive Directors of the Responsible Entity are key personnel of that entity and their names are Rodger I Bacon, John C Barry and Philip A Ryan. The Responsible Entity also has two Non-Executive Directors being Robert M Willcocks and Rohan C Butcher.

The Responsible Entity is entitled to a management fee which is calculated as a proportion of total gross assets of the Scheme.

No compensation is paid to the Directors of the Responsible Entity or to the key personnel of the Responsible Entity by the Scheme.

(c) 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:

Note 12 Related party transactions (continued)
(c) Transactions with related parties (continued)

i. Transactions recorded in the statement of profit or loss and other comprehensive income

	2019	2018
	$	$
Expenses		
Responsible Entity management fees - gross (i)	**219,794**	291,319
Registry fees (ii)	**316,037**	315,924
Expenses reimbursed (ii)	**135,587**	72,329
	671,418	679,572

ii. Balances recorded in the statement of financial position

	2019	2018
	$	$
Trade and other payables (i)(ii)	**49,974**	54,595

(i) The Responsible Entity is entitled to a management fee of 1.50% p.a. (plus GST less RITC) calculated on the monthly gross asset value of the Scheme.

(ii) The Responsible Entity incurs costs on behalf of the Scheme for which it is reimbursed in accordance with the Constitution.

(d) Related party investments held by the Scheme

The Scheme has no investment in the Responsible Entity or its associates (2018: nil).

(e) Key management personnel loan disclosures

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(f) Other transactions within the Scheme

Apart from those details disclosed in this note, no Director has entered into a material contract with the Scheme from inception to the end of the financial year and there were no material contracts involving Directors' interests subsisting at year end.

Note 13 Financial risk management

Overview

The Scheme's assets principally consist of investments in cash. The Scheme previously also held loans secured by registered first mortgages over real property, however all such loans were realised during the 2015 financial year. It holds these investment assets at the discretion of the Responsible Entity in accordance with the Scheme's Constitution and PDS.

Specific financial risk exposures and management

The main risks the Scheme is exposed to through its financial instruments are credit risk, liquidity risk, operational risk and market risk relating to interest rate risk.

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

Note 13 Financial risk management (continued)

Specific financial risk exposures and management (continued)

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

The Board is responsible for developing and monitoring the Scheme's risk management policies. The Responsible Entity's risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Responsible Entity, 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 Scheme's activities.

The Responsible Entity's Compliance Committee and its Audit Committee oversees how management monitors compliance with the Scheme's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Scheme.

(a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme and cause a loss. The Responsible Entity manages the exposure to credit risk on an ongoing basis.

The carrying amount of the Scheme's financial assets represents the maximum credit exposure. The Scheme's maximum exposure to credit risk at the reporting date is as follows:

	Note	2019	2018
		$	$
Financial assets			
Cash and cash equivalents	7	**15,094,337**	18,809,491
Trade and other receivables	8	**3,399**	3,722
Total financial assets		**15,097,736**	18,813,213

This risk is minimised by regularly reviewing the Scheme's trade and other receivables. The ageing of trade receivables at the reporting date are all current with no amounts past due or impaired.

(b) Liquidity risk

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

	Carrying amount	Contractual cash flows	< 3 months	3-6 months	6-12 months
	$	**$**	**$**	**$**	**$**
2019					
Financial liabilities					
Unitholder funds	13,571,006	13,571,006	-	-	13,571,006
Trade and other payables	1,526,730	1,526,730	1,526,730	-	-
	15,097,736	15,097,736	1,526,730	-	13,571,006
2018					
Financial liabilities					
Unitholder funds	17,547,674	17,547,674	-	-	17,547,674
Trade and other payables	1,265,539	1,265,539	1,265,539	-	-
	18,813,213	18,813,213	1,265,539	-	17,547,674

Note 13 Financial risk management (continued)

(c) Capital management

The Scheme's capital management strategy seeks to maximise the return of capital to unitholders through optimising the level and use of capital resources and the mix of debt funding.

The Scheme's capital management objectives aim to:

- ensure that the Scheme complies with capital and distribution requirements of its Constitution and PDS; and
- ensure sufficient capital resources to support the Scheme's operational requirements.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Scheme's income or the value of its holdings of financial instruments. 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.

The Scheme's objective was designed to provide investors with regular income from a pool of high yielding mortgage loans secured by registered first and second mortgages over real property and in certain circumstances collateral security. However given, amongst other things, the default by developers, the reduction in the market values and the inability to sell assets at reasonable prices, the Scheme was forced to suspend distributions to investors and subsequently commence liquidation of all Scheme assets in order to return capital to unitholders.

i. *Interest rate risk*

The Scheme has no financial liabilities as at 30 June 2019 (2018: nil) and therefore has no exposure to interest rate risk.

Interest rate sensitivity analysis

The Scheme's financial assets are subject to variable interest rates. The following table indicates the impact on how profit and equity values reported at the end of the financial year would have been affected by a 1.00% increase/decrease in interest rates during the year.

	Profit / (loss) $	Unitholder funds $
2019		
Financial assets*		
+1.00% in interest rates	169,519	169,519
-1.00% in interest rates	(169,519)	(169,519)
2018		
Financial assets*		
+1.00% in interest rates	189,563	189,563
-1.00% in interest rates	(189,563)	(189,563)

(e) Fair value estimation

The fair values of financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

The aggregate fair values and carrying amounts of financial assets and liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Note 14 Custodian of the Scheme

The Scheme's custodian is The Trust Company (Australia) Limited. The custodian holds title to the assets of the Scheme in its name on behalf of the Scheme. The total value of assets held by the custodian at cost as at 30 June 2019 totals $15,097,736 (2018: $18,813,213).

The custodian is entitled to an annual administration fee of $15,000 (plus GST) (2018: $15,000 (plus GST)), which is paid by the Scheme.

The relationship between the custodian and Responsible Entity is set out in the Custodial Agreement.

Note 15 Litigation and contingent liabilities

Claim against former directors and officers of City Pacific Limited
Following judgment entered against certain directors of City Pacific Limited, the Responsible Entity reports as follows:

Stephen McCormick (now a resident of New Zealand) is now bankrupt and his affairs are being administered by the Insolvency Trustees NZ.

Thomas Swan is now bankrupt, and his affairs are being administered by Gerald Collins (BDO Business Restructuring Pty Ltd).

The estate of Ian Donaldson (dec'd) is now bankrupt and his affairs are being administered by Gerald Collins (BDO).

Philip Sullivan is now bankrupt, following a creditors meeting on 19 September 2018. Messrs Jason Cronin and Terry van de Velde of SV Partners were appointed trustees of his estate. Mr Sullivan subsequently instituted proceedings to remove Messrs Cronin and van de Velde as trustees and to replace them with David Clout (his previous trustee). The matter was taken to court and thereafter settled with the appointment of Mr Anthony Castley of William Buck to administer the estate.

Other proceedings
While the Responsible Entity has not been served with new proceedings during the period in relation to the Scheme, directors note that litigation may still arise, particularly from interests associated with former directors of City Pacific Limited and also former borrowers of the Scheme.

Note 16 Events subsequent to reporting date

Return of Capital
The Responsible Entity intends to pay a return of capital to all ordinary unitholders who held units in October 2019 in the amount of $0.005 per unit.

Other than the item noted above and those described in the Litigation and contingent liabilities section below, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Pacific First Mortgage Fund
Directors' declaration

In the opinion of the Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of Pacific First Mortgage Fund (Scheme):

(a) The financial statements and notes, as set out on pages 7 to 21 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Scheme's financial position as at 30 June 2019 and of its performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and

(c) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.

Philip A Ryan	Rodger I Bacon
Managing Director	Executive Deputy Chairman
30 September 2019	30 September 2019
Brisbane	Brisbane

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INDEPENDENT AUDITOR'S REPORT

To the unitholders of Pacific First Mortgage Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pacific First Mortgage Fund (the Registered Scheme), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of Pacific First Mortgage Fund, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

(ii) 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 Company 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of matter- Basis of preparation

We draw attention to matter set out in Note 2 of the financial report which indicates that the directors of the Responsible Entity will commence the wind up of the Registered Scheme once all standing consequences of litigation have been resolved. Accordingly, the financial report has been prepared on a wind up basis. Our opinion is not modified in respect of this matter.

Other information

The directors of Trilogy Funds Management Limited, as Responsible Entity of Pacific First Mortgage Fund, are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors report, 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 on the other information obtained prior to the date of this auditor's report, 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 for the Financial Report

The directors of Trilogy Funds Management Limited, as responsible entity of Pacific First Mortgage Fund, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company'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 Company or to cease operations, or has 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 (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

Paul Gallagher

P A Gallagher
Director

Brisbane, 30 September 2019