

DomaCom Fund
ARSN 167 020 626

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

DomaCom Fund

ARSN 167 020 626

Annual Financial Report

For the year ended 30 June 2018

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The Responsible Entity of the Fund is Melbourne Securities Corporation Limited ("the Responsible Entity") (ABN 57 160 326 545) (AFSL No. 428289).

Directors' Report

The Directors of Melbourne Securities Corporation Limited (ABN 57 160 326 545, AFSL 428289), the Responsible Entity of DomaCom Fund, present their report together with the financial statements of the Fund for the year ended 30 June 2018 and the auditor's report thereon.

1 Directors

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

Michael Fleming

Matthew Fletcher

Andrew Georgiou

Melbourne Securities Corporation Limited was appointed Responsible Entity on 29 November 2017 replacing Perpetual Trust Services Limited (ABN 48 000 142 049, AFSL 236648) ("Perpetual").

| | |
|--------------------------------------|--|
| Christopher Green (Perpetual) | Director Appointed 1 October 2008 |
| Michael Henry Vainauskas (Perpetual) | Director Appointed 2 March 2015 |
| Glenn Stephen Foster (Perpetual) | Director Appointed Director 27 July 2015 |
| Andrew Cannane (Perpetual) | Director Appointed 28 August 2015 |
| Rodney Garth Ellwood (Perpetual) | Alternate (for Christopher Green and Andrew Cannane) Appointed 7 December 2015 |
| Vicki Riggio (Perpetual) | Alternate Director (for Andrew Cannane) Appointed 1 November 2016 |
| Andrew McIver (Perpetual) | Alternate Director (for Michael Vainauskas) Appointed 13 January 2017 |
| Gillian Larkins (Perpetual) | Alternate Director (for Glenn Stephen Foster) Appointed 14 July 2017 |

2 Principal activities

The principal activity of the Fund is fractional investment in real estate (residential and commercial), for the purpose of earning revenue in the form of rent. The Fund seeks to offer a stable, tax effective income investment stream coupled with growth potential over the longer term for its investors.

3 Review and results of operations

There have been no significant changes to the operations of the Fund since the previous financial period. The Fund continued to invest funds in accordance with the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

| | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|--|-------------------------------------|-------------------------------------|
| Net operating profit/(loss) before financing costs attributable to unitholders | (336,643) | (136,448) |
| Distribution paid and payable | 421,299 | 350,233 |

Directors' Report (continued)

4 Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review.

5 After Balance Date Events

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

6 Environmental Issues

The Fund complied with all environmental regulations during the course of the year.

7 Indemnification and insurance of Officers and Auditors

During or since the end of the year, the Fund has not indemnified or agreed to indemnify, nor paid insurance premiums to insure any of the directors or officers of the Responsible Entity. The auditors of the Fund are not indemnified out of the assets of the Fund. Grant Thornton Audit Pty Ltd. continues to be the auditor in office.

8 Options

No options over issued units or interests in the Fund were granted during or since the end of the year and there were no options outstanding at the date of this report. The directors and executives of the Responsible Entity hold no options over interests in the Fund.

9 Proceedings on Behalf of the Fund

No person has applied for leave of court to bring proceedings on behalf of the Fund, or intervene in any proceedings to which the Fund is a party, for the purpose of taking responsibility on behalf of the Fund for all or any part of their proceedings. The Fund was not a party to any such proceedings during the half-year.

10 Fees, Commissions or other charges by the Responsible Entity or Related Parties of the Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 12 to the financial statements.

11 Buy Back Arrangements

As detailed in the Fund's Constitution the Responsible Entity is not under any obligation to buy back, purchase or redeem units from unitholders.

12 Value of Fund Assets

The total value of the Fund's assets at the end of the reporting period is \$35,361,678 (2017: \$22,754,016).

13 Number of Interests on Issue

At 30 June 2018 the number of units issued in the Fund was 44,281,707 (2017: 25,529,331). During the year 6,749,304 units were redeemed (2017: 5,557,565).

A copy of the auditors' independence declaration as required by section 307C of the Corporations Act 2001 is set out on page 4.

Signed in accordance with a resolution of the Board of Directors of Melbourne Securities Corporation Limited.



Director
Melbourne Securities Corporation Limited

Melbourne
19 September 2018

Auditor's Independence Declaration

To the Directors of the DomaCom Fund

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

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 19th September 2018

Statement of Profit or Loss and Other Comprehensive Income

| | Note | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|---|-----------|-------------------------------------|-------------------------------------|
| Revenue and other income | | | |
| Rental and other property income | | 484,096 | 235,663 |
| Interest income | | 217,777 | 272,472 |
| Change in fair value of investment properties | 3 (a), 10 | (499,451) | (293,307) |
| Total revenue and other income | | 202,422 | 214,828 |
| Expenses | | | |
| Property outgoings | | 190,340 | 125,644 |
| Management fees | 12 | 173,931 | 82,109 |
| Legal and professional fees | | 25,297 | 7,008 |
| Taxes | | 55,476 | - |
| Finance Costs | | 94,021 | 136,515 |
| Total expenses | | 539,065 | 351,276 |
| Operating profit/(loss) for the year | | (336,643) | (136,448) |
| Finance costs attributable to unit holders | | | |
| Distributions to unitholders | 11 | (421,299) | (350,233) |
| Decrease/(increase) in net assets attributable to unitholders | 9 | 757,942 | 486,681 |
| Operating profit/(loss) for the year | | - | - |
| Other comprehensive income | | - | - |
| Total comprehensive income/(loss) for the year attributable to unitholders | | - | - |

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

| | Note | As at 30 June 2018 \$ | As at 30 June 2017 \$ |
|--|------|--------------------------------|--------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 13,563,743 | 10,260,401 |
| Trade and other receivables | 5 | 2,769 | 5,312 |
| Other assets | | 147,227 | 87,540 |
| Total current assets | | 13,713,739 | 10,353,253 |
| Non-current assets | | | |
| Loan Receivable | 8 | 948,000 | - |
| Inventory on development assets | | 3,866,457 | 3,370,172 |
| Investment properties | 6 | 16,833,482 | 9,030,591 |
| Total non-current assets | | 21,647,939 | 12,400,763 |
| Total assets | | 35,361,678 | 22,754,016 |
| Liabilities | | | |
| Current liabilities | | | |
| Distributions payable | 11 | 13,891 | 8,129 |
| Trade and other payables | 7 | 98,753 | 15,897 |
| Loan payable | 8 | 394,640 | - |
| Total current liabilities | | 507,284 | 24,026 |
| Non-current liabilities | | | |
| Loan payable | 8 | 948,000 | - |
| Total non-current liabilities | | 948,000 | - |
| Total liabilities | | 1,455,284 | 24,026 |
| Net assets attributable to unit holders - liability | 9 | 33,906,394 | 22,729,990 |
| Liabilities attributable to unit holders | | (33,906,394) | (22,729,990) |
| Net assets | | - | - |

The above condensed interim statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Net Assets Attributable to Unitholders

| | Note | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|--|------|-------------------------------------|-------------------------------------|
| Beginning balance | | 22,729,990 | 13,578,453 |
| <i>Transactions with unitholders in their capacity as unitholders:</i> | | | |
| Applications / Reinvestments | 9 | 18,683,650 | 15,195,783 |
| Redemptions | 9 | (6,749,304) | (5,557,565) |
| Decrease in net assets attributable to unitholders | 9 | (757,942) | (486,681) |
| Total net assets attributable to unitholders at the end of the period | 9 | 33,906,394 | 22,729,990 |

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

Statement of Cash Flows

| | | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|---|----|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | | |
| Rental and other property income received | | 480,279 | 235,221 |
| Interest received | | 217,777 | 272,472 |
| Property outgoings paid | | (188,446) | (58,802) |
| Interest Paid | | (17,314) | - |
| Other expenses paid | | (244,067) | (287,760) |
| Net cash provided by operating activities | 10 | <u>248,229</u> | <u>161,131</u> |
| Cash flows from investing activities | | | |
| Payments for purchase of investment properties | | (8,933,337) | (10,760,480) |
| Receipts from disposal of investment properties | | 75,000 | - |
| Net cash used in investing activities | | <u>(8,858,337)</u> | <u>(10,760,480)</u> |
| Cash flows from financing activities | | | |
| Proceeds from applications by unitholders | | 18,683,651 | 15,253,894 |
| Proceeds from borrowings | | 394,640 | - |
| Payments for redemptions by unitholders | | (6,749,304) | (5,557,565) |
| Distributions to unitholders | | (415,537) | (358,399) |
| Net cash provided by financing activities | | <u>11,913,450</u> | <u>9,337,930</u> |
| Net increase in cash and cash equivalents | | 3,303,342 | (1,261,419) |
| Cash and cash equivalents at the beginning of the year | | <u>10,260,401</u> | <u>11,521,820</u> |
| Cash and cash equivalents at the end of the year | 4 | <u>13,563,743</u> | <u>10,260,401</u> |

The above condensed interim statement of cash flows should be read in conjunction with the accompanying notes.

1 Significant accounting policies

Reporting Entity

The financial statements are for the entity The DomaCom Fund ('the Fund') as an individual entity. The Fund is an unlisted registered scheme established and domiciled in Australia and operates as a for profit entity. The Responsible Entity ('RE') of the Fund is Melbourne Securities Corporation Limited. The Fund was registered on 13 December 2013.

The Fund has a limited life under its constitution, such that it must terminate no later than 2094.

Basis of preparation

The financial statements are a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001.

The financial statements have been prepared on an accruals basis and on the historical cost basis except for investment property, non-current assets classified as held for sale, financial assets at fair value through profit or loss. Cost is based on the fair values of the consideration given in exchange for assets.

The Scheme is a for-profit entity for the purpose of preparing financial statements.

The functional and presentation currency of the Fund is Australian dollars.

Compliance with IFRSs

The financial statements and Notes of the Fund also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Significant accounting policies

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

(a) Investment properties

Investment property is property which is held to earn rental income and capital appreciation.

Investment properties are carried at fair value determined either by the directors or independent valuers. Changes to fair value are recorded in profit or loss.

The fair value of investment properties excludes any accrued operating lease income or lease incentives recognised as a receivable in accordance with AASB 117 Leases.

Property purchases are recognised when the Fund has entered into an unconditional purchase contract, and the majority of the significant risks and rewards of ownership have been transferred to the Fund. Property disposals are recorded when the Fund has entered into an unconditional sales contract, and the majority of the significant risks and rewards of ownership have been transferred to the buyer. Transfers of risks and rewards vary depending on the individual terms of the contracts.

(b) Inventories

Property development

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of sales in the ordinary course of business. Expenses of marketing, selling and distribution to customers are estimated and deducted to establish net realisable value. Where the net realisable value of inventory is less than cost, an impairment expense is recognised in the consolidated statement of profit or loss and other comprehensive income. Reversals of previously recognised impairment charges are recognised in the statement of profit or loss and other comprehensive income such that the inventory is always carried at the lower of cost and net realisable value. Cost includes the purchase consideration, development costs and holding costs such as borrowing costs, rates and taxes.

1 Significant accounting policies (continued)

(c) Revenue

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. The difference between the lease income recognised and actual lease payments received is included in receivables.

Lease incentives provided by the Fund to lessees are excluded from the measurement of fair value of investment property and are included in receivables. The amounts are recognised over the lease periods as rental income.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, including CPI linked rental increases and turnover rents, and are only recognised when contractually due.

Interest income is recognised in profit or loss on a time basis using the effective interest rate method.

Distribution income is recognised when the right to receive a distribution has been established.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of the amount of goods and services tax (GST).

(d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(e) Receivables and payables

Rental debtors are recognised at original invoice amount less a provision for any uncollected debts. Collectability of rental debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance for doubtful debts is made when there is objective evidence that the Fund will not be able to collect the debts. Examples of this evidence include, but are not limited to: rent being more than 30 days overdue, significant financial difficulties of the debtor, and the probability that the debtor will be placed under administration or bankruptcy. In this latter case tenants will be subjected to close monitoring and alternative arrangements.

The debtor's circumstances relating to the default in payment are considered, and in some cases alternative payment arrangements may apply. If the debtor defaults on the terms of these arrangements, the debt will be recognised as doubtful.

The amount of the doubtful debt is recognised in the statement of profit or loss and other comprehensive income within bad and doubtful debts expense. When a rental debtor that had been recognised as a doubtful debt becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against bad and doubtful debts in the statement of profit or loss and other comprehensive income.

Payables represent liabilities for goods and services provided to the Fund prior to the end of the financial year which are unpaid.

Normal commercial terms and conditions are applied to receivables and payables.

(f) Income tax

Under current legislation the Fund is not liable for income tax provided its taxable income is fully distributed to unitholders.

The Fund elected to enter the Attribution Managed Investment Trust (AMIT) Regime under Division 276 of the Income Tax Assessment Act 1997, effective 1 July 2015. The purpose of this election was to ensure that the tax treatment of the distributions paid to each unitholder accurately reflects the nature of the profits generated by the portion of that Fund's assets in which the unitholder has an economic interest.

1 Significant accounting policies (continued)

(g) Distributions

In accordance with the Fund's Constitution, the Fund distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of profit or loss and other comprehensive income as finance costs attributable to unitholders.

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

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

(i) Functional currency

The Fund has a functional currency of Australian dollars.

(j) Critical judgements and significant accounting estimates

The preparation of financial statements requires the directors of the Responsible Entity 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 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 periods affected.

(i) Fair value estimation

Investments in securities that are unlisted, and investment properties, are carried at values that are based on assumptions and estimates. If any of these assumptions or estimates were not correct this could have a material impact on the carrying amounts in the statement of financial position.

(ii) Recognition of unconditional property purchases and disposals

Property purchases, including associated acquisition costs (stamp duty and RE acquisition fees), are recognised when the Fund has entered into an unconditional purchase contract, and the majority of the significant risks and rewards of ownership have been transferred to the Fund.

Property disposals, including associated disposal costs (legal and RE disposal fees), are recorded when the Fund has entered into an unconditional sales contract, and the majority of the significant risks and rewards of ownership have been transferred to the buyer.

Transfers of risks and rewards vary depending on the individual terms of the contracts.

(k) New and amended standards adopted by the Fund

There are no new 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 Fund.

1 Significant accounting policies (continued)

(I) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

- AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 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 sources of income are rental, interest, and gains on investment properties held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of AASB 15 to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

- AASB 16 *Leases* (effective from 1 January 2019)

AASB 16 replaces AASB 117 *Leases* and some lease-related Interpretations. AASB 16

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

Based on a detailed assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will not have a material impact on the transactions and balances recognised in the financial statements .

2 Financial risk management

(a) Objectives, strategies, policies and processes

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The management of these risks is conducted by the Fund's Manager who manages the Fund's assets in accordance with its investment objectives.

A financial risk management framework has been established by the Fund's Investment Manager who conducts regular assessment processes in order to ensure that procedures and controls are adequately managing the risks arising from the Fund's investment activities.

This framework includes:

- Integrated computer systems and processes with checks and balances;
- Policies and procedures covering operations;
- Post-trade investment compliance monitoring;
- Segregation of the dealing and investment management function from the administration and settlement function; and
- An independent service provider for the valuation of securities.

The Responsible Entity also has in place a framework to identify, control, report and manage compliance and business obligations, and to ensure that the interests of unitholders in the Fund are protected.

Compliance is integrated into the day to day operations of the Responsible Entity.

2 Financial risk management (continued)

(a) Objectives, strategies, policies and processes (continued)

This framework includes:

- Policies and procedures,
- Committee and board reporting,
- Staff training,
- Formal service provider agreements,
- Compliance reporting by the Investment Manager, Investment Administrator and Custodian (the "Service Providers"),
- Regular monitoring visits of Service Providers, and
- Monitoring of compliance in accordance with program.

The Responsible Entity is ultimately responsible for compliance monitoring.

The Responsible Entity has established a Compliance Committee which is responsible for developing and monitoring the Fund's compliance monitoring policies, including those related to its activities. Compliance monitoring policies and systems are reviewed periodically to reflect changes in market conditions and the Fund's activities.

The Responsible Entity undertakes periodic on-site monitoring reviews of the Fund's service providers, focusing on the general control environment and investment management, administration and custodial functions as provided to the Responsible Entity of the Fund. This is conducted to ensure that the service providers continue to satisfy their obligations as detailed within the relevant service agreement entered into with the Responsible Entity.

(b) Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and other price risk. The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund's market risk is managed on a daily basis by the Investment Manager in accordance with the investment guidelines as outlined in the Fund's Constitution.

(c) Credit risk

Credit risk is the risk that a party to the financial instrument will cause a financial loss to the Fund by failing to discharge an obligation.

Tenants for each of the properties held by the Fund are assessed for creditworthiness before commencing a lease, and if necessary rental guarantees are sought before tenancy is approved. The Investment Manager also performs a detailed review of both related and other parties before approving investments / advancement of funds. This is performed to ensure that they will be able to meet quoted distributions, as well as interest and principal repayments.

All receivables are monitored by the Fund Manager on a monthly basis. If any amounts owing are overdue these are followed up and if necessary, allowances are made for debts that are doubtful.

At reporting date, there are no issues with the credit quality of financial assets that are neither past due or impaired, and all amounts are expected to be received in full.

(d) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial liabilities as they fall due.

The Fund manages liquidity risk by managing its holding cash in its operating account to meet creditors' claims as they fall due.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

The following table sets out the maturity analysis that shows the remaining contractual maturities.

| As at 30 June 2018 | Less than 6 months \$ | 6 months to a year \$ | 1-5 years \$ | 5+ years \$ |
|-------------------------|-----------------------------|-----------------------------|-----------------|----------------|
| Distributions payable | 13,891 | - | - | - |
| Management fees payable | 19,815 | - | - | - |
| Other payable | 78,938 | - | - | - |
| Loan Payable | 394,640 | - | - | 948,000 |
| Total | 507,284 | - | - | 948,000 |

| As at 30 June 2017 | Less than 6 months \$ | 6 months to a year \$ | 1-5 years \$ | 5+ years \$ |
|-------------------------|-----------------------------|-----------------------------|-----------------|----------------|
| Distributions payable | 8,129 | - | - | - |
| Management fees payable | 10,858 | - | - | - |
| Other payable | 5,039 | - | - | - |
| Total | 24,026 | - | - | - |

3 Fair value measurement

(a) Recognised fair value measurements

The Fund measures and recognises assets and liabilities at fair value on a recurring basis.

To provide an indication about the reliability of inputs used in determining fair value, the Fund classifies its assets and liabilities at fair value into three levels prescribed under the accounting standards. An explanation of each level is set out below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3 Fair value measurement (continued)

(a) Recognised fair value measurements (continued)

Financial assets and liabilities not carried at fair value have carrying values that reasonably approximate their fair values and are categorised within the fair value hierarchy as follows:

- Cash and cash equivalents - Level 1; and
- All other financial assets and liabilities - Level 2

The following table presents the Fund's non-financials assets measured and recognised at fair value:

| At 30 June 2018 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------|---------|-------------------|-------------------|
| Non-financial assets | | | | |
| Investment properties | - | - | 16,833,482 | 16,833,482 |
| Total assets | - | - | 16,833,482 | 16,833,482 |
| | | | | |
| At 30 June 2017 | Level 1 | Level 2 | Level 3 | Total |
| Non-financial assets | | | | |
| Investment properties | - | - | 9,030,591 | 9,030,591 |
| Total assets | - | - | 9,030,591 | 9,030,591 |

There were no transfers between levels of fair value measurement during the half-year and there were no other financial assets or liabilities that were measured and recognised at fair value and classified as Level 1 or Level 3.

The policy of the Fund is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

The Fund did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2018

The following table presents the movement in level 3 assets for the year ended 30 June 2018 by class of financial asset.

| | Investment properties | |
|---|----------------------------|----------------------------|
| | Year ended 30 June 2018 | Year ended 30 June 2017 |
| Opening balance | 9,030,591 | 2,006,000 |
| Acquisitions/ additions | 8,376,723 | 7,317,898 |
| Disposals | (74,381) | - |
| Gains and losses recognised in profit or loss | (499,451) | (293,307) |
| Closing balance | 16,833,482 | 9,030,591 |

(b) Valuation process

The Responsible Entity through the Fund's Manager conducts an investment property valuation process on a rolling 12 month basis. All independent valuations are performed by independent professionally qualified external valuers.

Existing properties

On an ongoing basis, the Responsible Entity through the Fund's Manager, assesses whether there has been a material change in the value of a property. External valuations are obtained within 2 months after the management form a view that there is a likelihood that there has been a material change in the valuation of the property.

3 Fair value measurement (continued)

(b) Valuation process (continued)

To make this assessment, the following steps are performed by the Fund's Manager:

- 1 perform desktop assessments of current values through discussions with external valuers and by using external market data feeds to gauge the current market situation;
- 2 compare the initial assessment of current value to the most recent book value and determine the percentage movement; and
- 3 if the property has been acquired in the last 12 months, the valuation on acquisition may still be valid but is reviewed against comparable sales/market data.

Development properties

The total cost of a development property is generally capitalised to its carrying value until development is complete. At the commencement of a development project, an estimated valuation on completion is obtained and the capitalised costs during the project are monitored against this initial valuation.

At each reporting date, the carrying values of development properties are reviewed to determine whether they are in excess of their fair value. Where appropriate, a write-down is made to reflect fair value.

(c) Sensitivity analysis

The following table shows the impact of a 10% increase or 10% decrease in market prices on the investment property portfolio, with all other factors impacting market valuation remaining unchanged.

| Significant input | Fair value measurement sensitivity to significant movement in input | Fair value measurement sensitivity to significant movement in input |
|----------------------|---|---|
| | 30 June 2018 \$ | 30 June 2017 \$ |
| Market price (+10%) | 1,683,348 | 903,059 |
| Market price (- 10%) | (1,683,348) | (903,059) |

4 Cash and cash equivalents

| | As at 30 June 2018 \$ | As at 30 June 2017 \$ |
|--------------|--------------------------------|--------------------------------|
| Cash at bank | 13,563,743 | 10,260,401 |
| | 13,563,743 | 10,260,401 |

5 Trade and other receivables

| | As at 30 June 2018 \$ | As at 30 June 2017 \$ |
|----------------------------|--------------------------------|--------------------------------|
| Prepayments | 2,375 | 1,894 |
| Rent and other receivables | 394 | 3,418 |
| | 2,769 | 5,312 |

6 Non-current assets - investment properties

Below is the list of properties fully owned by the Fund:

| | As at 30 June 2018 \$ | As at 30 June 2017 \$ |
|---|--------------------------------|--------------------------------|
| 811/127-133 Leicester Street, Carlton VIC 3053 | 160,000 | 160,000 |
| 806/127-133 Leicester Street, Carlton VIC 3053 | 165,000 | 165,000 |
| 803/127-133 Leicester Street, Carlton VIC 3053 | 165,000 | 160,000 |
| 808/127-133 Leicester Street, Carlton VIC 3053 | 165,000 | 160,000 |
| 606/127-133 Leicester Street, Carlton VIC 3053 | 160,000 | 165,000 |
| 14 Ceres Street, Wulkuraka QLD 4305 | 425,000 | 425,000 |
| 158/251-255A Clarence Street, Sydney NSW 2000 | 80,000 | 74,880 |
| 222/251-255A Clarence Street, Sydney NSW 2000 | 77,000 | 74,880 |
| 1/388-390 Burwood Highway, Burwood VIC 3125 | 120,000 | 120,000 |
| 229/251-255A Clarence Street, Sydney NSW 2000 | - | 74,381 |
| Lot 42 Parkfield Loop, Paralowie SA 5108 | 320,000 | 324,800 |
| Lot 43 Parkfield Loop, Paralowie SA 5108 | 320,000 | 324,800 |
| 604/127-133 Leicester Street, Carlton VIC 3053 | 160,000 | 165,000 |
| 6/18 Workshops Street, Brassall QLD 4305 | 310,000 | 329,000 |
| 5 Prospect Street, Silkstone QLD 4304 | 360,000 | 345,000 |
| Lot 45 Parkfield Loop, Paralowie SA 5108 | 320,000 | 324,750 |
| 15 Pommer Street, Brassall QLD 4305 | 385,000 | 389,000 |
| Lot 18 Fazzolari Circuit, Paralowie SA 5110 | 320,000 | 330,500 |
| 202/51-53 Gaffney Street, COBURG VIC 3058 | 410,000 | 410,000 |
| Lot 44 Parkfield Loop, Paralowie SA 5108 | 320,000 | 330,500 |
| 106/35 Hall Street, Moonee Ponds VIC 3039 | 38,760 | 38,760 |
| 602/35 Hall Street, Moonee Ponds VIC 3039 | 77,520 | 77,520 |
| 801/35 Hall Street, Moonee Ponds VIC 3039 | 67,320 | 67,320 |
| Lot 47 Parkfield Loop, Paralowie SA 5108 | 320,000 | 313,400 |
| Lot 56 Parkfield Loop, Paralowie SA 5108 | 320,000 | 313,400 |
| Lot 20 Stacey Court, Munno Para West SA 5115 | 260,000 | 161,600 |
| 117/36 Queen Victoria Street, Fremantle WA 6160 | 690,000 | 700,000 |
| Lot 40/33 Junction Drive, Redbank Plains QLD 4301 | 300,000 | 349,500 |
| Lot 15/225 Sutton Street, Warragul VIC 3820 | 350,000 | 345,000 |
| Lot 64 Athena Drive, Risdon Vale TAS 7016 | 340,000 | 121,450 |
| 7/37 Wildey Street, Raceview QLD 4305 | 270,000 | 289,000 |
| Lot 27 Isla Court, Munno Para West SA 5115 | 260,000 | 119,150 |
| 421/6 Aqua Street, Southport QLD 4215 | 425,000 | 425,000 |
| "Doyles", Lower Coleraine Road, Muntham VIC 3315 | 980,000 | 857,000 |
| Lot 821 Celestial Way, Coomera QLD 4209 | 434,167 | - |
| Lot 47/21 Springfield Parkway, Springfield QLD 4300 | 394,398 | - |
| Lot 66 Athena Drive, Risdon Vale TAS 7016 | 306,911 | - |
| Unit 8/37 Wildey Street, Raceview QLD 4305 | 289,539 | - |
| Lot 21 Chellaston Road, Munno Para West SA 5115 | 167,246 | - |
| Lot 440 Fernbrooke NA, Redbank Plains QLD 4301 | 352,206 | - |
| Lot 123/64 Devonshire Road, Rossmore NSW 2557 | 3,549,240 | - |
| Unit 18/37 Wildey Street, Raceview QLD 4305 | 289,174 | - |
| 66 Beaconsfield Parade, Northcote VIC 3070 | 1,610,000 | - |
| | 16,833,482 | 9,030,591 |

Reconciliation

Reconciliation of the carrying amounts of the investment properties at the beginning and end of the current financial year are set out below:

| | As at 30 June 2018 \$ | As at 30 June 2017 \$ |
|---|--------------------------------|--------------------------------|
| Beginning balance | 9,030,591 | 2,006,000 |
| Acquisitions | 8,376,723 | 7,317,898 |
| Disposals | (74,381) | - |
| Net gains/(losses) from fair value | (499,451) | (293,307) |
| Adjusted carrying amount at year end | 16,833,482 | 9,030,591 |

7 Trade and other payables

| | As at 30 June 2018 \$ | As at 30 June 2017 \$ |
|-------------------------|--------------------------------|--------------------------------|
| Management fees payable | 19,815 | 10,858 |
| Other payables | 78,938 | 5,039 |
| | 98,753 | 15,897 |

8 Loans Receivable and Payable

| | | |
|--|------------------|---|
| Loans receivable | | |
| 66 Beaconsfield Parade, Northcote VIC 3070 | 948,000 | - |
| Loans payable | | |
| 66 Beaconsfield Parade, Northcote VIC 3070 | 948,000 | - |
| Lot 15 Avery Lane, Clifftleigh, NSW 2321 | 394,640 | - |
| | 1,342,640 | - |

Property sub-fund 66, Beaconsfield Parade entered into a loan agreement with DomaCom Loan Fund with an rate of interest of 5.5% and term of 5 years. The DomaCom Loan Fund is separate to the DomaCom Fund and was set up solely to enable loans between sub-Funds of the DomaCom Fund. The DomaCom Loan Fund separately entered into a loan with the Loan sub-fund 66, Beaconsfield Parade with a rate of interest of 5.5% and term of 5 years.

Property sub-Fund Lot 15 Avery Lane entered into a loan with a 3rd party with an interest rate of 9.75% and a term of 9 months. The loans payable are secured only on the respective assets above.

9 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unit holders during the year were as follows:

| | Year ended 30 June 2018 | | Year ended 30 June 2017 | |
|--|----------------------------|-------------------|----------------------------|-------------------|
| | Units | \$ | Units | \$ |
| Opening balance | 25,529,331 | 22,729,990 | 13,784,593 | 13,578,453 |
| Applications and unit class conversion | 25,398,457 | 18,619,093 | 17,116,721 | 15,010,201 |
| Redemptions | (6,749,304) | (6,749,304) | (5,557,565) | (5,557,565) |
| Units issued upon reinvestment of distributions | 103,223 | 64,557 | 185,582 | 185,582 |
| Increase/(decrease) in net assets attributable to unit holders | - | (757,942) | - | (486,681) |
| Closing balance | 44,281,707 | 33,906,394 | 25,529,331 | 22,729,990 |

10 Reconciliation of net profit to net cash provided by operating activities

| | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|--|-------------------------------------|-------------------------------------|
| Profit/(loss) for the year | - | - |
| Decrease in net assets attributable to unitholders | (757,942) | (486,681) |
| Distributions to unitholders | 421,299 | 350,233 |
| Change in fair value of investment properties | 499,451 | 293,307 |
| Net change in receivables and accrued income | (1,274) | (1,728) |
| Net change in accounts payable and accrued liabilities | 86,695 | 6,000 |
| Net cash provided by operating activities | 248,229 | 161,131 |

11 Distributions

Distributions paid/payable to unitholders

The distributions for the period were:

| | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|-----------------------|-------------------------------------|-------------------------------------|
| Distributions paid | 407,408 | 342,104 |
| Distributions payable | 13,891 | 8,129 |
| | <u>421,299</u> | <u>350,233</u> |

12 Related party transactions

Responsible Entity

The Responsible Entity of The DomaCom Fund is Melbourne Securities Corporation Limited.

Investment Manager DomaCom Australia Limited (formerly DomaCom Limited) has been appointed to promote, administer, invest and manage the assets of the DomaCom Fund and to perform various services pursuant to the Investment Management Agreement.

Responsible Entity's fees and other transactions

Under the terms of the Constitution, the Responsible Entity is entitled to receive fees in accordance with the Fund's Constitution.

| | Year ended 30 June 2018 \$ | Year ended 30 June 2017 \$ |
|---|-------------------------------------|-------------------------------------|
| Management fees expense during the year | 173,931 | 82,109 |
| Management fees payable as at year end | 19,815 | 10,858 |

The Responsible Entity fees are paid by the Investment Manager.

Key management personnel

The Fund does not employ personnel in its own right. However, it has an incorporated Responsible Entity, Melbourne Securities Corporation Limited, to manage the activities of the Fund. The directors of the Responsible Entity are key management personnel of that entity and their names are:

Michael Fleming

Matthew Fletcher

Andrew Georgiou

Melbourne Securities Corporation Limited was appointed Responsible Entity on 29 November 2017 replacing Perpetual Trust Services Limited (ABN 48 000 142 049, AFSL 236648) ("Perpetual").

| | |
|--------------------------------------|--|
| Christopher Green (Perpetual) | Director Appointed 1 October 2008 |
| Michael Henry Vainauskas (Perpetual) | Director Appointed 2 March 2015 |
| Glenn Stephen Foster (Perpetual) | Director Appointed Director 27 July 2015 |
| Andrew Cannane (Perpetual) | Director Appointed 28 August 2015 |
| Rodney Garth Ellwood (Perpetual) | Alternate (for Christopher Green and Andrew Cannane) Appointed 7 December 2015 |
| Vicki Riggio (Perpetual) | Alternate Director (for Andrew Cannane) Appointed 1 November 2016 |
| Andrew McIver (Perpetual) | Alternate Director (for Michael Vainauskas) Appointed 13 January |
| Gillian Larkins (Perpetual) | Alternate Director (for Glenn Stephen Foster) Appointed 14 July 2017 |

12 Related party transactions (continued)

Unit holdings

No units in the Fund were held during the year by directors and other key management personnel of the Responsible Entity, including their personally related parties. There were no units granted during the reporting period as compensation.

13 Remuneration of auditor

The remuneration of auditor for the year ended 30 June 2018 has been incurred by the DomaCom Fund and paid for by DomaCom Australia Ltd for the amount of \$19,500 (2017: \$19,000).

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2018 and 30 June 2017.

15 Events subsequent to reporting date

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

16 Responsible Entity details

The registered office and the principal place of business of the Responsible Entity is Level 2, Professional Chambers, 120 Collins Street, Melbourne VIC 3000.

Directors' declaration

The Directors of Melbourne Securities Corporation Limited, the Responsible Entity of DomaCom Fund, declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standard AASB 134 Interim Financial Reporting and giving a true and fair view of the financial position as at 30 June 2018 and performance of the Fund for the year ended on that date.

This declaration is made in accordance with a resolution of the directors, made pursuant to Section 303(5) of the *Corporations Act 2001*.



Director
Melbourne Securities Corporation Limited

Melbourne
19 September 2018

Independent Auditor's Report

To the Members of DomaCom Fund

Report on the audit of the financial report

Opinion

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

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

- a giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

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

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

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

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

Responsibilities of the Directors' for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 19th September 2018