

**The Direct Mortgage Managed
Investment Scheme
ARSN 095 540 659**

**ANNUAL FINANCIAL REPORT
for the year ended 30 June 2018**

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for the year ended 30 June 2018**

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Responsible Entity's Directors' Report

The Directors of Tidswell Financial Services Ltd (ABN 55 010 810 607), the Responsible Entity of The Direct Mortgage Managed Investment Scheme (**the Scheme**), submit their report for the Scheme, the annual financial statements and the auditor's report for the year ended 30 June 2018.

RESPONSIBLE ENTITY

The Directors of the Responsible Entity during or since the end of the financial year are:

| | | |
|------------------------|-----------------------------------|---|
| Michael John Terlet AO | Non-Executive Director - Chairman | Appointed 19 April 1991 |
| Ronald Peter Beard | Executive Director | Appointed 20 August 2012 |
| Stephen John Heath | Non-Executive Director | Appointed 14 May 1999 resigned 29 September 2017 |
| Jeffrey Keith Tidswell | Executive Director | Appointed 11 May 1988 resigned 29 September 2017 |
| Christine Haido Liosis | Executive Director | Appointed 1 October 2016 resigned 29 September 2017 |
| Michael Gerard O'Neill | Non-Executive Director | Appointed 1 October 2016 resigned 29 September 2017 |
| Susan Zabłud | Non-Executive Director | Appointed 28 October 2016 resigned 20 March 2018 |
| Fiona McNabb | Non-Executive Director | Appointed 29 September 2017 |
| Tony O'Grady | Non-Executive Director | Appointed 29 September 2017 – resigned 8 November 2017 |
| Stephen Merlicek | Non-Executive Director | Appointed 29 September 2017 – resigned 23 January 2018 |
| Stephen Miller | Non-Executive Director | Appointed 29 September 2017 |
| Andrew Peterson | Executive Director | Appointed 20 March 2018 |

PRINCIPAL ACTIVITIES

The Direct Mortgage Managed Investment Scheme is an authorised investment of The Tidswell Investment Plan (**the Plan**) and has been established as a separate registered Managed Investment Scheme pursuant to the requirements of the Australian Securities & Investments Commission (**ASIC**) and is domiciled in Australia.

The Scheme is open to participants of The Tidswell Investment Plan only as at the date of the constitution. To become an Underlying Participant in the Scheme, an applicant must first become a participant of the Plan. The Scheme may be offered to other participants in the future.

In the Direct Mortgage Managed Investment Scheme, investors choose the underlying mortgage investments they wish to participate in by viewing a Supplementary Product Disclosure Statement.

The investment objective of the Scheme is to provide a fixed rate of interest over a fixed term. The Scheme invests in loans that are secured by First Mortgages registered with the relevant state land titles office over the security property offered for the loan.

The Scheme did not have any employees during the year.

There has been no significant change in the nature of those activities during the financial year.

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REVIEW AND RESULTS OF OPERATION

Due to the nature of the Scheme, whereby Participants have their own specific allocation of investments, the results of each participant are reported individually. The overall return of the Scheme as a whole returned 9.36% (2017: 8.31%), calculated as the net income earned by all participants as a percentage of the total average daily balance of all participant accounts, for the operating period.

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DISTRIBUTIONS

It is the normal practice of the Scheme to distribute the interest received for specific mortgages in the month following receipt to the underlying participant accounts within the Tidswell Investment Plan.

Distributions paid or payable by the Scheme in respect of the financial year were:

| | 2018 (\$) |
|---|-------------------------|
| Distributions paid during July | 104,321 |
| Distributions paid during August | 103,090 |
| Distributions paid during September | 98,624 |
| Distributions paid during October | 102,605 |
| Distributions paid during November | 114,885 |
| Distributions paid during December | 109,736 |
| Distributions paid during January | 105,241 |
| Distributions paid during February | 90,472 |
| Distributions paid during March | 79,890 |
| Distributions paid during April | 118,855 |
| Distributions paid during May | 123,606 |
| Distributions paid and payable for June | 118,655 |
| Total | <u>1,269,980</u> |

UNITS ON ISSUE

Underlying Participants are not allocated Scheme units. Entitlements are instead calculated using each participant holding of a specific mortgage investment as a proportion of total mortgage investment. Contributions to the Scheme during the financial year totalled \$18,638,000 (2017: \$13,374,700), while withdrawals totalled \$15,501,025 (2017: \$6,709,700). The closing balance of the Underlying Participants accounts as at 30 June 2018 was \$16,588,975 (2017: \$13,452,000). The Scheme had total assets valued at \$17,150,752 as at 30 June 2018 (2017: \$14,185,378). The basis for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

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 financial year under review.

LIKELY DEVELOPMENTS

In the opinion of the Responsible Entity there are no other significant likely developments in the state of affairs of the Scheme as at the date of this report.

ENVIRONMENTAL REGULATION

The Scheme's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

INTERESTS OF THE RESPONSIBLE ENTITY

Information pertaining to fees paid to TFSL and its associates out of Scheme property, and their holdings is contained in Note 7 to the financial statements.

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EVENTS SUBSEQUENT TO REPORTING DATE

In the interval between the end of the financial year and the date of this report there has not arisen 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.

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS OR AUDITORS

Under the Scheme constitution the Responsible Entity, including its officers and employees, is indemnified out of the Scheme's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Scheme.

The Scheme has not indemnified any auditor of the Scheme.

During the financial year the Responsible Entity paid premiums in respect of its officers for professional indemnity insurance contracts for the year ended 30 June 2018. The Responsible Entity has paid or agreed to pay in respect of the Scheme, premiums in respect of such insurance contracts for the year ending 30 June 2019. The Scheme reimbursed the Responsible Entity a proportion of the professional indemnity insurance premiums based on the assets of schemes managed by the Responsible Entity. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been the directors or officers of the Responsible Entity.

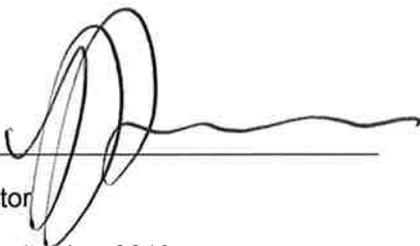
Details of the nature of the liabilities covered or the amount of the premium paid have not been included as such disclosure is prohibited under the terms of the contracts.

AUDITOR'S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration is set out on page 6 and forms part of the directors' report for the year ended 30 June 2018.

Signed in accordance with a resolution of the directors of Tidswell Financial Services Ltd:

TIDSWELL FINANCIAL SERVICES LTD



Director

25 September 2018

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Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of The Direct Mortgage Managed Investment Scheme 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.

A handwritten signature in black ink, appearing to read 'D Coogan', with a horizontal line extending to the right.

David Coogan
Partner
PricewaterhouseCoopers

Melbourne
25 September 2018

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**Statement of Profit or Loss and Other Comprehensive
Income**

for the year ended 30 June 2018

| | Note | 30 June 2018 (\$) | 30 June 2017 (\$) |
|---|------|----------------------|----------------------|
| Revenue | | | |
| Interest | 2 | 1,374,832 | 992,120 |
| Other Mortgage Loan Related Income | | 301,826 | 232,043 |
| Total revenue | | 1,676,658 | 1,224,163 |
| Expenses | | | |
| Responsible Entity Fees | 7(b) | 99,285 | 72,372 |
| Mortgage Loan Related Expenses | | 302,566 | 234,682 |
| General Administration Expenses | | 4,827 | 601 |
| Total expenses | | 406,678 | 307,655 |
| Profit from operating activities | | 1,269,980 | 916,508 |
| Finance costs | | | |
| Distributions to Participants | 3 | 1,269,980 | 916,508 |
| Total finance costs | | 1,269,980 | 916,508 |
| Net profit for the year | | - | - |
| Other comprehensive income | | - | - |
| Total other comprehensive income | | - | - |

The accompanying notes form part of these financial statements.

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Statement of Financial Position

as at 30 June 2018

| | Note | 30 June 2018 (\$) | 30 June 2017 (\$) |
|--|------|----------------------|----------------------|
| Assets | | | |
| Cash and Cash Equivalents | 6(a) | 3,070,696 | 714,191 |
| Trade and Other Receivables | | 115,556 | 19,187 |
| Mortgage Loans | 4 | 13,964,500 | 13,452,000 |
| Total assets | | 17,150,752 | 14,185,378 |
| Liabilities | | | |
| Trade and Other Payables | | 163,221 | 133,575 |
| Mortgage Offset Accounts | | 398,556 | 599,803 |
| Total liabilities (excluding net assets attributable to Participants' Accounts) | | 561,777 | 733,378 |
| Net assets attributable to Participants' Accounts - liability | 5 | 16,588,975 | 13,452,000 |

The accompanying notes form part of these financial statements.

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Statement of Changes in Equity

for the year ended 30 June 2018

The Scheme's net assets attributable to Scheme Participants are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As such, the Scheme has no equity and no items of changes in equity have been presented for the current or comparative year.

The accompanying notes form part of these financial statements.

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Statement of Cash Flows

for the year ended 30 June 2018

| | Note | 30 June 2018 (\$) | 30 June 2017 (\$) |
|--|------|----------------------|----------------------|
| Cash Flows from Operating Activities | | | |
| Interest Received | | 1,309,907 | 999,620 |
| Other Income Received | | 300,137 | 229,320 |
| Responsible Entity Fees Paid | | (51,685) | (80,522) |
| Administration Expenses Paid | | (372,427) | (125,638) |
| Net Cash Provided by Operating Activities | 6(b) | 1,185,932 | 1,022,780 |
| Cash Flows from Investing Activities | | | |
| Funds (Invested) in First Mortgage Loans | | (16,713,000) | (13,209,700) |
| Funds Redeemed from First Mortgage Loans | | 16,200,500 | 6,284,700 |
| Movement in Mortgage Offset Accounts | | (201,247) | 137,822 |
| Net Cash Provided by/(Used in) Investing Activities | | (713,747) | (6,787,178) |
| Cash Flows from Financing Activities | | | |
| Members' Applications | | 18,638,000 | 13,374,700 |
| Members' Redemptions | | (15,501,025) | (6,709,700) |
| Distributions Paid | | (1,252,655) | (916,508) |
| Net Cash (Used in)/Provided by Financing Activities | | 1,884,320 | 5,748,492 |
| Net Increase in Cash Held | | 2,356,505 | (15,906) |
| Cash at Beginning of the Financial Year | | 714,191 | 730,097 |
| Cash at End of the Financial Year | 6(a) | 3,070,696 | 714,191 |

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

for the year ended 30 June 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Direct Mortgage Managed Investment Scheme (**the Scheme**) is a registered managed investment scheme under the *Corporations Act 2001*. The Scheme is a for-profit entity. The financial statements of the Scheme are for the year ended 30 June 2018.

These financial statements were authorised for issue by the Board of Directors of the Responsible Entity on 25 September 2018.

Basis of Preparation

Statement of Compliance

The financial statements are general purpose and have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements of the Scheme comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for some financial assets and participants' balances.

The Scheme manages financial assets based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at reporting date.

In the case of participant accounts, the balances are redeemed on demand at the participant's option. However, participants typically retain the investment for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

(a) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

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Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed in profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

i. Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. Fair values of unit trust and managed fund investments are measured by reference to the unit redemption price at the reporting date.

ii. Loans and receivables

Mortgage Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

If evidence of impairment exists, an impairment loss is recognised in the Profit or Loss as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows.

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

iii. Financial liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost.

Impairment

At each reporting date, the Responsible Entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the profit or loss.

Derecognition

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

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the scheme has a legal right to offset the amounts and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

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Income and expenses are presented on a net basis only when permitted under AASBs, e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit and loss.

(b) Impairment of Non-Financial Assets

At each reporting date, the Responsible Entity reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

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.

(c) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash includes cash and at call deposits with banks, and investment in money market instruments that are readily convertible to cash on hand at the Responsible Entity's option and are subject to insignificant risk of changes in value.

(d) Income Tax

Under current legislation the Scheme is not subject to income tax as the Underlying Unitholders are presently entitled to the taxable income of the Scheme. Any liability for income tax must be taken up by Unitholders as part of their personal liability for tax.

(e) Income and Expenses

Income

Interest is recognised as it accrues taking into account the interest rates applicable to the financial assets.

Other Mortgage Loan Related Income is recognised when the corresponding Mortgage Loan Related Expense is brought to account on an accruals basis by the Scheme.

Expenses

Expenses are brought to account on an accruals basis.

Mortgage Loan Related Expenses are brought to account on an accruals basis.

The Responsible Entity is entitled under the Scheme Constitution, to be reimbursed for certain expenses incurred in administering the Scheme. The basis on which the expenses are reimbursed is defined in the Scheme Constitution. The amount reimbursed is recognised in the Profit or Loss and is calculated in accordance with the Scheme Constitution.

In accordance with the Scheme Constitution and PDS, Tidswell Financial Services Ltd (**TFSL**) is entitled to receive a management fee as the Single Responsible Entity. This fee is 0.5% (2017: 0.5%) per annum of the Underlying Participant's Invested Funds calculated monthly. TFSL is also entitled to receive a fee equal to the difference between the standard and penalty rates payable by a borrower, should a borrower be in default of the loan under the loan documentation. It is also entitled to receive any additional interest payable by a borrower should a loan be discharged early. The amount paid is disclosed as Responsible Entity Fees in the Profit or Loss.

The custodian of the Scheme, Australian Executor Trustees (SA) Pty Ltd, receives a fee for its services. This fee is either paid directly by the Scheme or paid by the Responsible Entity, and reimbursed by the Scheme when funds are available.

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(f) Participants' Accounts and Distributions

Participants' Accounts

Investors in the Scheme have the right to make a request to redeem funds from their Participant Account. This right to redeem gives rise to Participants' Accounts being classified as a financial liability. However, the Scheme will remain an illiquid Scheme under the Corporations Act 2001. An investor will not be able to withdraw from the investment unless the Scheme is considered liquid in accordance with the Corporations Act 2001 or a suitable investor is able to replace the investor wishing to withdraw.

Distributions

The Scheme distributes its distributable income, in accordance with the Scheme's Constitution, to participants in cash. The distributions are recognised in Profit or Loss, under finance costs, as Distributions to Participants.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (**ATO**). 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 are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows included in the Statement of Cash Flows are inclusive of GST. GST cash flow components arising from investing and financing activities which are payable to, or recoverable from, the ATO are classified as cash flows from operating activities.

(h) Trade and Other Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at reporting date. The distribution amount payable to Participants as at reporting date is recognised separately on the Statement of Financial Position as Participants are presently entitled to the distributable income as at 30 June 2018 under the Scheme's Constitution.

(i) Critical Accounting Estimates and Judgements

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

(j) Comparative Figures

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

(k) Accounting standards issued but not yet effective and not been adopted early by the Scheme

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 Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

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

AASB 9 Financial Instruments 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 mandatory date of application is annual reporting periods beginning on or after 1 January 2018.

The directors have assessed the impact of AASB 9 on the Funds financial statements. Given no debt instruments are held by the scheme, which could result in a reclassification of the financial instruments to amortised cost or fair value through other comprehensive income ('FVOCI'), the adoption of AASB 9 is not expect to have a significant impact on the recognition and measurement of the scheme's financial instruments.

The derecognition rules have not been changed from the previous requirements, and the scheme does not apply hedge accounting.

The Scheme has not yet decided when to adopt AASB 9.

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

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

2. INTEREST INCOME

| | 30 June 2018 | 30 June 2017 |
|---------------------------|---------------------|---------------------|
| | (\$) | (\$) |
| Cash and Cash Equivalents | 5,567 | 3,239 |
| Mortgage Loans | 1,369,265 | 988,881 |
| Total | 1,374,832 | 992,120 |

3. DISTRIBUTIONS

The distributions paid or payable by the Scheme in respect of the financial year were:

| | | |
|---|------------------|----------------|
| Distributions paid during July | 104,321 | 48,208 |
| Distributions paid during August | 103,090 | 56,560 |
| Distributions paid during September | 98,624 | 62,751 |
| Distributions paid during October | 102,605 | 61,519 |
| Distributions paid during November | 114,885 | 66,326 |
| Distributions paid during December | 109,736 | 80,640 |
| Distributions paid during January | 105,241 | 87,645 |
| Distributions paid during February | 90,472 | 86,790 |
| Distributions paid during March | 79,890 | 84,762 |
| Distributions paid during April | 118,855 | 88,201 |
| Distributions paid during May | 123,606 | 92,667 |
| Distributions paid and payable for June | 118,655 | 100,439 |
| Total | 1,269,980 | 916,508 |

At 30 June 2018, distributions payable relating to June totalled \$17,325 (2017: \$Nil).

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4. MORTGAGE LOANS

| | 30 June 2018 | 30 June 2017 |
|------------------------|---------------------|---------------------|
| | (\$) | (\$) |
| Opening balance | 13,452,000 | 6,527,000 |
| New Mortgage Loans | 16,713,000 | 13,209,700 |
| Mortgage Loans Repaid | (16,200,500) | (6,284,700) |
| Closing balance | 13,964,500 | 13,452,000 |

5. PARTICIPANTS' ACCOUNTS

| | | |
|--|-------------------|-------------------|
| Opening balance | 13,452,000 | 6,787,000 |
| Applications | 18,638,000 | 13,374,700 |
| Redemptions | (15,501,025) | (6,709,700) |
| Closing balance of Participants' Accounts | 16,588,975 | 13,452,000 |

Capital Risk Management

The Scheme considers its capital to be Participants' Accounts. The Scheme manages its net assets attributable to Participants' Accounts as capital, notwithstanding net assets attributable to Participants' Accounts are classified as a liability.

Applications and redemptions are reviewed relative to the liquidity of the scheme's underlying assets by the Responsible Entity. Under the terms of the Scheme's constitution, the Responsible Entity has the discretion to defer or adjust a redemption if the exercise of such discretion is in the best interests of participants.

All investments in the Scheme are of dollar value (non-unitised), are of the same class, and therefore carry equal rights. However, as Participant's select and invest in specific underlying mortgage loans, the risks and redemption ability of the investor is related to the relevant loan.

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6. CASH FLOW INFORMATION

(a) Reconciliation of cash. For the purposes of the Statement of Cash Flows cash includes cash on hand and at bank

| | 30 June 2018 | 30 June 2017 |
|--|---------------------|---------------------|
| | (\$) | (\$) |
| Cash and Cash Equivalents | 3,070,696 | 714,191 |
| (b) Reconciliation of Cash Flow from Operations with Net Profit | | |
| Profit from Operating Activities | 1,269,980 | 916,508 |
| Changes in Assets and Liabilities | | |
| (Increase)/Decrease in Receivables | (96,369) | (7,809) |
| Increase/(Decrease) in Payables | 12,321 | 114,081 |
| Net Cash provided by Operating Activities | 1,185,932 | 1,022,780 |

(c) Non-cash financing and investment activities

As all income is distributed to Underlying Participants no income is reinvested into the Scheme via a distribution reinvestment plan.

7. RELATED PARTY TRANSACTIONS

The Responsible Entity of the Scheme is Tidswell Financial Services Ltd ABN 55 010 810 607 (TFSL) whose ultimate holding company is Sargon Capital Pty Ltd (ACN 608 799 873).

Key Management Personnel

(a) The Scheme does not employ personnel in its own right. However the Responsible Entity does manage the activities of the Scheme and this is considered to be the Key Management Personnel. The directors of the Responsible Entity are Key Management Personnel but no amounts are paid by the Scheme directly to the directors of the Responsible Entity. Fees paid by the Scheme to the Responsible Entity are disclosed at (b) below.

Related Party Remuneration

(b) Responsible Entity Fees

Fees paid by the Scheme to the Responsible Entity amounted to \$99,285 (2017: \$72,372). In accordance with the Scheme Constitution and Prospectus, TFSL is entitled to receive a management fee as the Single Responsible Entity. This fee is 0.5% (2017: 0.5%) per annum of the Underlying Participant's Invested Funds calculated monthly. TFSL is also entitled to receive a fee equal to the difference between the standard and penalty rates payable by a borrower, should a borrower be in default of the loan under the loan documentation. It is also entitled to receive any additional interest payable by a borrower should a loan be discharged early. The amount paid is recognised as Responsible Entity Fees in the Profit or Loss.

(c) Other General Administration Expenses

Other General Administration Expenses incurred by the Responsible Entity are reimbursed by the Scheme in accordance with the provisions of the Constitution. These expenses amounted to \$277,496 (2017: \$216,743) and are recognised in the Profit or Loss.

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Other Related Party Transactions

(d) The following transactions occurred between the related entities:

The Scheme has no investment in TFSL or its associates.

As all underlying participants of the Scheme must first be a participant of The Tidswell Investment Plan, at reporting date The Tidswell Investment Plan had an investment of \$16,588,975 (2017: \$13,452,000) in the Scheme which is the total of participants' accounts disclosed in the Statement of Financial Position. TFSL is the trustee of The Tidswell Master Superannuation Plan, which is also an underlying participant of the Scheme and as at reporting date had an investment of \$4,090,067 (2017: \$2,352,600).

From time to time directors of TFSL, or their director related entities, may invest or withdraw from the Scheme. These transactions are on the same terms and conditions as those entered into by all other Scheme participants and are trivial in nature. At reporting date, director related entities held investments of \$Nil (2017: \$495,700).

(e) TFSL also receives remuneration on a fee for service basis for various administration services on normal commercial terms. These fees are levied directly against the borrowers not the Scheme.

(f) Accounts Payable

The aggregate amount of debts, other than trade debts, due and receivable from and payable to other related parties by the Scheme at reporting date:

| | 30 June 2018 | 30 June 2017 |
|--------------------|---------------------|---------------------|
| | (\$) | (\$) |
| Responsible Entity | 163,221 | 133,575 |

These amounts are included in creditors and accruals.

8. FINANCIAL RISK MANAGEMENT

The Scheme maintains positions in a variety of non-derivative financial instruments as dictated by the Scheme's investment strategy. The Scheme's financial assets include bank deposits and direct first mortgage investments, which are usually held for specific periods of time.

These investing activities expose the Scheme to various types of risk that are associated with the types of financial instruments and markets utilised. The main types of financial risk to which the Scheme is exposed are market risk, credit risk, liquidity risk and operational risk.

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, which meets monthly, is responsible for developing and monitoring the risk management framework relating to the Scheme. This framework is established to identify, analyse and monitor Scheme related risks, and assess the adequacy of the procedures and controls put in place to mitigate them. Risk management policies and systems are reviewed regularly to ensure they reflect Scheme activities and changes to market conditions.

Monthly reports are provided to the Board on investment performance, mortgage defaults and arrears rates.

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The total of each category of financial instrument measured in accordance with the accounting policies to the financial statements are set out below:

| | 30 June 2018 | 30 June 2017 |
|------------------------------------|---------------------|---------------------|
| | (\$) | (\$) |
| Financial and other assets | | |
| Cash and cash equivalents | 3,070,696 | 714,191 |
| Investments | 13,964,500 | 13,452,000 |
| Trade and other receivables | 115,556 | 19,187 |
| Total financial assets | 17,150,752 | 14,185,378 |
| Financial liabilities | | |
| Trade and Other Payables | 163,221 | 133,575 |
| Mortgage Offset Accounts | 398,556 | 599,803 |
| Participants' Accounts | 16,588,975 | 13,452,000 |
| Total financial liabilities | 17,150,752 | 14,185,378 |

The nature and extent of the financial instruments and other assets held at reporting date and the risk management policies employed by the Scheme are as follows:

(a) Market Risk

Market risk embodies the potential for losses and gains and includes currency risk, interest rate risk and price risk. As the underlying security for the Scheme's mortgage investments is real property, this market can have an effect on the Scheme's assets if a claim on the security is required. The Responsible Entity manages the Scheme's exposure to market risks in accordance with the investment strategy. Market risk is minimised by the selection of high quality service providers, prudent loan to valuation ratios (**LVR**) and short lending periods (generally up to 12 months). Current Board approved policy LVRs are currently set at 65% for residential security, 55% for commercial and 45% for rural unless full Board approval is given.

As all investments are held for specific investors, the market risks related to each specific investment are borne by the investor. The Scheme's exposure to currency risk, interest rate risk and price risk are set out below.

Currency Risk

The Scheme does not currently invest in financial instruments denominated in currencies other than the measurement currency (Australian Dollars) and consequently is not exposed to currency risk.

Price Risk

Price Risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices. As all of the Scheme's financial instruments are carried at recoverable amount with any impairment recognised in the Statement of Profit or Loss and Other Comprehensive Income, all changes in market conditions will directly affect Total Income. The mortgage investments held by the scheme are not directly exposed to price risk.

Interest Rate Risk

The Scheme invests in financial assets for the primary purpose of obtaining a return on investment on behalf of its Participants. Investments held for investors are fixed interest in nature. Cash and cash

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equivalents are subject to interest rate risks and will fluctuate in accordance with movements in market interest rates.

The Scheme's exposure to interest rate movements on its investments was as follows:

| | Floating Interest Rate | | Fixed Interest Rate | | Non-interest Bearing | | Total | |
|------------------------------------|------------------------|------------------|---------------------|------------------|----------------------|------------------|------------------|------------------|
| | 2018 (\$'000) | 2017 (\$'000) | 2018 (\$'000) | 2017 (\$'000) | 2018 (\$'000) | 2017 (\$'000) | 2018 (\$'000) | 2017 (\$'000) |
| Financial Assets | | | | | | | | |
| Cash | 2,672 | 114 | - | - | 399 | 600 | 3,071 | 714 |
| Receivables | - | - | - | - | 116 | 19 | 116 | 19 |
| Mortgage Loans | - | - | 13,964 | 13,452 | - | - | 13,964 | 13,452 |
| Total Financial Assets | 2,672 | 114 | 13,964 | 13,452 | 515 | 619 | 17,151 | 14,185 |
| Weighted average interest rate | 1.75% | 1.75% | 10.69% | 8.73% | | | | |
| Financial Liabilities | | | | | | | | |
| Payable | - | - | - | - | 163 | 133 | 163 | 133 |
| Mortgage Offset Account | - | - | - | - | 399 | 600 | 399 | 600 |
| Participants' Accounts | - | - | - | - | 16,589 | 13,452 | 16,589 | 13,452 |
| Total Financial Liabilities | - | - | - | - | 17,151 | 14,185 | 17,151 | 14,185 |
| Weighted average interest rate | - | - | - | - | | | | |

The interest rates above provided interest income of \$1,374,832 (2017: \$992,120) which resulted in a rate of return for the scheme for the year ended 30 June 2018 of 9.36% (2017: 8.31%).

Sensitivity Analysis:

A 10% increase in the interest rates received on financial instruments would have increased the scheme return by 1.02% (2017: 0.90%). An equal change in the opposite direction would have decreased the scheme return by an equal opposite amount.

With investment loans being held for specific investors such analysis would be unrepresentative of the investor specific risk, which is instead directly linked to the interest rate of the loan they invest in.

(b) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. At 30 June 2018, the following financial assets were exposed to credit risk: cash and cash equivalents, trade and other receivables and mortgage loans.

Mortgage loans are subject to credit assessments and security valuations. Valuations are based on fair current market valuation. An operating manual sets out detailed procedures for lending and dealing with interest arrears and defaults. All loans are approved as follows:

- Loans less than \$2.0m and within policy to be approved by the Investment Delegation, being A Peterson and either R Beard or F McNabb
- Loans between \$2.0m and \$4.0m and within policy to be approved by the Credit Delegation
- Loans in excess of \$4.0m and within policy to be reviewed by the Credit Delegation and if thought fit, recommended for approval to the Full Board

Loan performance is reported to the Board on a monthly basis along with a provisioning report. The risk of loss is implicitly provided for in the carrying value of financial assets.

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The Scheme holds collateral over the mortgage loans by a first mortgage registered with the relevant State Lands Titles Office over the security property. Current Board approved policy LVRs on security property are currently set at 65% for residential security, 55% for commercial and 45% for rural unless full Board approval is given.

The credit risk on financial assets of the Scheme, which have been recognised on the Statement of Financial Position, is the carrying amount as stated.

Due to the nature of the Scheme, whereby loans are held for specific investors, no analysis of credit concentrations is performed by the Responsible Entity.

Financial Assets Past Due Not Impaired

| Loan Amount | Due Date | Collateral | Last Valuation Amount | Last Valuation Date |
|--------------------------------|-----------------|----------------------|------------------------------|----------------------------|
| Year Ended 30 June 2018 | | | | |
| 550,000 | 10/06/2018 | Residential Property | \$910,000 | 17/08/2017 & 27/08/2017 |
| 1,755,000 | 10/03/2018 | Residential Property | \$2,700,000 | 25/10/2017 |
| 355,000 | 10/12/2017 | Commercial Property | \$560,000 | 09/02/2018 |

At the date of this report, the directors have assessed the recoverability of the above mortgages and consider them to be recoverable.

| | | | | |
|--------------------------------|------------|----------------------|-------------|------------|
| Year Ended 30 June 2017 | | | | |
| 546,000 | 10/06/2017 | Residential Property | \$840,000 | 13/04/2016 |
| 1,855,000 | 10/11/2016 | Residential Property | \$2,855,000 | 09/09/2015 |
| 820,000 | 10/11/2016 | Residential Property | \$1,260,000 | 09/09/2015 |

(c) Liquidity Risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. In line with the nature of the direct mortgage investments, the Scheme will remain an illiquid Scheme under the Corporations Act 2001. During the term of a mortgage, an investor will not be able to withdraw from the investment unless the Scheme is considered liquid in accordance with the Corporations Act 2001 or a suitable investor is able to replace the investor wishing to withdraw. If the mortgage is in default, an investor will not be able to withdraw. These liquidity terms are disclosed to investors in the Product Disclosure Statement.

Contractual Maturities of Financial Liabilities

Distributions are paid to investors within one month of accrual.

Mortgage Offset Accounts are managed by the Responsible Entity on behalf of the borrower over the period of the loan.

Participant accounts are subject to limitations due to illiquidity as detailed above.

Trade and other payables are due within a month days.

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(d) Net Fair Values of Financial Assets and Liabilities

The Scheme's financial assets and liabilities are included in the Statement of Financial Position at amounts that approximate net fair value. The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in Note 1(a) of the Statement of Significant Accounting Policies section.

As at 30 June 2018 the carrying amounts of the asset class Loans and Receivables were equal to fair values, \$13,964,500 (2017: \$13,452,000). As at 30 June 2018 the carrying amounts of remaining assets were equal to fair values, \$3,186,252 (2017: \$733,378). As at 30 June 2018 the carrying amounts of financial liabilities were equal to fair values, \$17,150,752 (2017: \$14,185,378).

Financial Instruments Measured at Fair Value

The financial assets recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Assets valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Assets valued based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (ie derived from prices) (Level2); and
- Assets valued based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Scheme holds no financial instruments that fall within this fair value hierarchy.

(e) Operational Risk

Operational risk is the risk of loss arising from causes associated with the processes, technology and infrastructure supporting the Scheme's activities with financial instruments either internally within the scheme or externally at the Scheme's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements.

The Scheme's objective is to manage operational risk so as to balance mitigation of risk with achieving its investment objective and generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Directors of the Responsible Entity.

The Directors' assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular reporting, ad-hoc discussions and an annual on-site review with the service providers and a review of the service providers' GS007 report on internal controls.

Substantially all of the assets of the Scheme are held by Australian Executor Trustees (SA) Pty Ltd. Bankruptcy or insolvency of the Scheme's custodian may cause the Scheme's rights with respect to the securities held by the custodian to be delayed or limited. The Responsible Entity monitors the capital adequacy of its custodian quarterly and reviews the findings documented in the GS007 report on the internal controls annually.

The Scheme has provided the custodian a general lien over the financial assets held in custody for the purpose of covering the exposure from providing custody services. The general lien is part of the standard contractual terms of the custody agreement.

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9. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets at 30 June 2018 or 30 June 2017.

10. EVENTS SUBSEQUENT TO REPORTING DATE

In the interval between the end of the financial year and the date of this report there has not arisen any other 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.

11. SCHEME DETAILS

The registered office and principal place of business of the Responsible Entity, Tidswell Financial Services Ltd, and the Scheme is 50 Hindmarsh Square, Adelaide SA 5000.

12. AUDITOR'S REMUNERATION

Auditor remuneration in relation to the Scheme for the year ended 30 June 2018 totalled \$21,640 (2017: \$12,774). This is comprised of \$17,640 (2017: \$9,774) for audit services and \$4,000 (2017: \$3,000) for other services (compliance services). All Auditor remuneration in respect to the Scheme is paid by the Responsible Entity and as such is not included in the expenses in the Profit or Loss.

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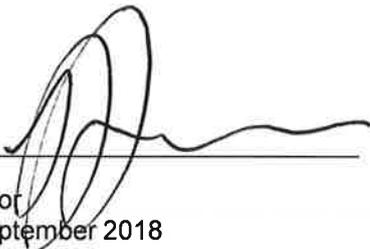
Responsible Entity's Directors' Declaration

The Directors of Tidswell Financial Services Ltd, Responsible Entity of The Direct Mortgage Managed Investment Scheme, declare that:

1. The financial statements and notes, as set out on pages 7 to 24, are in accordance with the Corporations Act 2001:
 - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the Scheme.
2. These financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.
3. In the directors' opinion 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 directors of Tidswell Financial Services Ltd:

TIDSWELL FINANCIAL SERVICES LTD



Director
25 September 2018

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Independent Auditor's Report



Independent auditor's report

To the unitholders of The Direct Mortgage Managed Investment Scheme

Our opinion

In our opinion:

The accompanying financial report of The Direct Mortgage Managed Investment Scheme (the Registered Scheme), which was established by Tidswell Financial Services as the Responsible Entity for the Registered Scheme, is in accordance with the *Corporations Act 2001*, including:

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

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the declaration of the Directors.

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

Independence

We are independent of the Registered Scheme in accordance with the auditor independence requirements of 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Director's 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.

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au



In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 the Registered 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* 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 ability of the Registered Scheme 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 Registered 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 the 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.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'David Coogan'.

David Coogan
Partner

Melbourne
25 September 2018