



ZANK INCOME FUND

ARSN 637 888 307

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2020

**ZANK INCOME FUND
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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

Table of Contents

RESPONSIBLE ENTITY REPORT	3
AUDITORS' INDEPENDENCE DECLARATION	8
FINANCIAL STATEMENTS	9
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	9
STATEMENT OF FINANCIAL POSITION.....	10
STATEMENT OF CHANGES IN EQUITY	11
STATEMENT OF CASH FLOWS	12
NOTES TO THE FINANCIAL STATEMENTS	13
DIRECTORS' DECLARATION	27
AUDIT REPORT	28

ZANK INCOME FUND
ARSN 637 888 307
RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2020

The Directors of the Responsible Entity, Vasco Trustees Limited present their report on the Zank Income Fund ('the Fund') for the year ended 30 June 2020. In order to comply with the provisions of the *Corporations Act 2001* the Directors report as follows:

1. Directors

The names of Directors of the Responsible Entity in office at any time during the financial year were:

Craig Mathew Dunstan

Fiona Jean Dunstan

Stephen George Hawkins (retired 2 July 2019)

Jonathan William Martin

Reginald Bancroft (appointed 2 July 2019)

2. Principal Activities

The principal activities of the Fund are to invest in mortgage-backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for business or investment purposes.

The Fund was established on 31 May 2016 and issued the first units on the commencement date of 5 July 2016.

3. Operating Results

The net profit of the Fund for the financial year ending 30 June 2020 was \$3,046,100 (2019: \$1,619,815). All surplus profits are payable to the Investment Manager as a performance fee. Any deficit funds in a financial year will be recovered prior to a performance fee being paid.

4. Review of Operations

During the period since inception, the Fund has issued 65,658,525 units, of which 201,879 units have resulted from the reinvestment of distributions and 22,167,384 units have been redeemed.

During the financial year the Fund issued 23,462,626 units of which 192,606 units have resulted from reinvestment of distributions and 6,352,384 units have been redeemed.

The Directors of the Responsible Entity resolved to change the name of Vasco Investment Managers Limited to Vasco Trustees Limited during the year, to better reflect the activities of the company as a corporate trustee and fiduciary. The ACN and other details remain unchanged.

The Fund was changed from a wholesale fund to a retail registered scheme following approval from ASIC on 17 December 2019. The Product Disclosure Statement was issued on 30 January 2020. Expenses incurred in changing the Fund have been included in prepaid establishment costs.

As at 30 June 2020, the total value of loans to borrowers were \$35,214,718. Interest on the loans is generally paid in advance. As a result of some interest being paid later than scheduled, the interest has been accrued and capitalised.

ZANK INCOME FUND
ARSN 637 888 307
RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2020

4. Review of Operations (continued)

The loan advance for Burwood Heights was in default on 13 September 2017. Interest has stopped accruing from 30 November 2018, due to the unlikelihood of recovery, per instruction from the Investment Manager.

The loan advance for Maidstone was in default on 9 March 2018. Interest has stopped accruing from 18 September 2019, due to the unlikelihood of recovery, per instruction from the Investment Manager.

For both of the above loans, the loan was secured against the value of the property. The property was sold as mortgagee in possession and the principal was recouped. The remaining interest and costs outstanding have been written off as at 30 June 2020.

5. Review of Performance

It is anticipated that unitholders will receive the interest return detailed in the Product Disclosure Statement or otherwise agreed between the unitholders and the Investment Manager.

Unit Class	2020	2019
	% p.a.	% p.a.
Ordinary units	8.38%	9.49%

6. Unit Redemption Prices

Unit redemption prices (quoted ex-distribution and exclusive of exit fees) are shown as follows:

	2020	2019
	\$	\$
At 30 June	1.00	1.00
High during year	1.00	1.00
Low during year	1.00	1.00

The availability and timing of redemptions is subject to the terms of the Fund's Constitution.

7. Distributions Paid or Recommended

In accordance with the Product Disclosure Statement of the Fund, distributions are payable on a quarterly basis within 10 business days after the end of each quarter. Returns payable to investors are expected to be paid in accordance with the term outlined in the Product Disclosure Statement.

The following distributions were paid or payable for the period to 30 June 2020:

Period	Distributions Paid / Payable
1 Jul – 30 Sep 2019	\$0.0002322404 per unit per day
1 Oct – 31 Dec 2019	\$0.0002322404 per unit per day
1 Jan – 31 Mar 2020	\$0.0002322404 per unit per day
1 Apr – 30 Jun 2020	\$0.0002185792 per unit per day

The total distributions declared for the financial year were \$3,046,100 (2019: \$1,619,393).

ZANK INCOME FUND
ARSN 637 888 307
RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2020

8. Applications Held

As at 30 June 2020, the value of pending unit allocations was \$3,572,000.

9. Redemption 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.

10. Options

No options over issued units or interests in the Fund were granted during or since the end of the financial 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.

11. Proceedings on Behalf of the Fund

During the year a previous borrower has made an Application for Assessment of Costs to the Supreme Court of New South Wales in respect of the legal costs incurred by the mortgagor. The proceedings have been resolved with the Investment Manager covering the costs, there is no impact to the Fund.

There have been no other proceedings, and no person has applied to the court for leave to bring other proceedings on behalf of the Fund, or to intervene in any proceedings to which the Fund is a party.

12. Value of Scheme Assets

The Gross Asset Value of the Fund's assets at the end of the reporting period was \$45,318,514 (2019: \$28,612,420). The Net Asset Value at the end of the reporting period was \$43,491,139 (2019: \$26,380,899).

13. Significant Changes in State of Affairs

Apart from those matters referred to in the previous sections of this Report, there have been no other significant changes to the state of affairs of the Fund during the financial year.

14. After Balance Date Events

The Responsible Entity of the Fund acknowledges that as a result of COVID-19, and as observed in the final quarter of the year ended 30 June 2020, there is uncertainty surrounding the property market which may result in a decline in the fair value of the properties, particularly those in the Melbourne Metropolitan area, that are secured against the Fund's loan book. Due to a limitation on available relevant market data, it is not possible to estimate the level of any decline in fair value, and therefore any impact on the Fund's Expected Credit Loss provision, as at the date of this report.

A Notice of Default was issued to Ian Street Land Pty Ltd on 2 September 2020 due to the breach of terms under which the Fund provided a loan facility to the borrower. If all amounts due to the Fund are not paid by 2 October 2020, it is the intention of the Fund to sell the property as mortgagee in possession.

No other matters or circumstances have arisen since the end of the financial 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 other than as disclosed in this report.

ZANK INCOME FUND
ARSN 637 888 307
RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2020

15. Future Developments

The Trustee is currently in negotiations to transfer the custody of the investments of the Fund to Perpetual Corporate Trust Limited.

Except for the above, there are no future developments to report on which are not otherwise disclosed in this report.

16. Indemnifying Officers or Auditor

During or since the end of the financial year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors as well as officers of the Responsible Entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Responsible Entity, other than conduct involving a willful breach of duty in relation to the Responsible Entity.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or of any related body corporate against a liability incurred as such an officer or auditor.

17. Fees, Commissions or Other Charges by the Trustee, Responsible Entity, Investment Manager or Related Parties

Investment management fees of \$77,006 (plus GST) were accrued and paid by the Fund to the Investment Manager for the period (2019: \$251,174).

Performance fees of \$246,338 (plus GST) were accrued and payable by the Fund to the Investment Manager for the period (2019: \$24,078).

Performance fees on default interest of \$303,688 (excluding GST) were accrued by the Fund during the year and are payable to the Investment Manager for the period if the accrued default interest is received. At 30 June 2020, \$792,333 was written off as unrecoverable, the net performance fees accrued on default interest was (\$488,645). (2019: \$1,087,925).

Fees of \$39,705 (plus GST) were accrued and paid by the Fund to the Administration Manager (2019: \$36,619).

Fees of \$53,178 (plus GST) were accrued and paid by the Fund to the Trustee for the period 1 July 2019 to 16 December 2019 (2019: \$47,888).

Fees of \$62,826 (plus GST) were accrued and paid by the Fund to the Responsible Entity for the period 17 December 2019 to 30 June 2020 (2019: nil).

The Investment Manager also receives establishment fees and line fees in respect of each loan, which are negotiated with and paid directly from the borrower.

18. Units held by the Responsible Entity, Investment Manager or Related Parties

As at 30 June 2020, the Responsible Entity or Investment Manager and their related parties held no units in the Fund.

19. Interests in the Fund

The movement of units on issue in the Fund during the year is set out in Note 13 to the financial statements.

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

**ZANK INCOME FUND
ARSN 637 888 307
RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

20. Environmental Issues

The operations of the Fund are not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

21. Lead auditor's declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on the following page and forms part of the Responsible Entity's report for the year ended 30 June 2020.

Signed in accordance with a resolution of the Board of Directors of Vasco Trustees Limited by:

A handwritten signature in black ink, appearing to read 'Craig Mathew Dunstan', with a long horizontal stroke extending to the right.

Craig Mathew Dunstan

Director

Date: 6 October 2020

Auditor's Independence Declaration to the Directors of the Responsible Entity

In accordance with section 307C of the *Corporations Act 2001* (the Act), in relation to our audit of the financial report of Zank Income Fund for the financial year ended 30 June 2020, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Act or any applicable code of professional conduct.



PKF



Steven Bradby
Partner

Melbourne, 7 October 2020

ZANK INCOME FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$	2019 \$
Revenue and other income			
Bank interest	2 (a)	87,083	65,844
Loan interest income	2 (b)	3,608,524	1,926,311
Service income	2 (c)	-	39,050
Other interest income	2 (d)	31	-
Total revenue and other income		3,695,638	2,031,205
Expenses			
Investment manager fees	3	77,006	251,174
Performance fees	3	246,338	24,078
Trustee fees	4	53,178	47,888
Responsible Entity fees	4	62,826	-
Administration fees	4	39,705	36,619
Custodian fees	5	26,123	25,341
Other expenses	6	144,362	26,290
Total expenses		649,538	411,390
Net profit attributed to unitholders		3,046,100	1,619,815
Other comprehensive income			
Default interest income		(488,645)	1,087,925
Total other comprehensive income		2,557,455	1,087,925
Distribution expense		3,046,100	1,619,393
Performance fee on default interest		(488,645)	1,087,925
Withholding tax where no TFN provided		-	422
Total comprehensive income for the year attributable to unitholders net of distributions		-	-

ZANK INCOME FUND

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Notes	2020 \$	2019 \$
Current assets			
Cash and cash equivalents	7	10,043,438	9,008,428
Accrued loan interest income		22,119	-
Total current assets		10,065,557	9,008,428
Non-current assets			
Investment assets	8 (b)	35,214,718	19,592,791
Prepaid establishment costs	9	38,240	11,201
Total non-current assets		35,252,958	19,603,992
Total assets		45,318,515	28,612,420
Liabilities			
Prepaid interest	8 (a)	386,443	283,774
Fees payable	10	588,365	1,239,032
Other expenses payable	11	3,018	(14,124)
Settlement deposit	12	-	260,669
Distributions payable		849,550	462,170
Total liabilities		1,827,376	2,231,521
Net assets		43,491,139	26,380,899
Represented by:			
Issued units	13 (a)	43,491,139	26,380,899
Undistributed profit/(loss) attributable to unitholders	13 (b)	-	-
Net assets attributable to unitholders		43,491,139	26,380,899

ZANK INCOME FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

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

ZANK INCOME FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$	2019 \$
Cash flows from operating activities			
Bank interest		87,083	65,844
Loan interest		3,595,733	2,113,113
Fees paid		(798,482)	(567,372)
Tax paid		(68,313)	(89,504)
Other expenses		(373)	303,213
Net cash provided by operating activities		<u>2,815,648</u>	<u>1,825,294</u>
Cash flows from investing activities			
Payment for the purchase of investment assets		(16,355,400)	(8,502,868)
Net cash used in investing activities		<u>(16,355,400)</u>	<u>(8,502,868)</u>
Cash flows from financing activities			
Proceeds from issue of units		23,270,020	18,462,719
Payment for the redemption of units		(6,352,384)	(8,115,000)
Distributions paid		(2,342,874)	(1,500,384)
Net cash provided by financing activities		<u>14,574,762</u>	<u>8,847,335</u>
Net increase/ (decrease) in cash and cash equivalents		1,035,010	2,169,761
Cash and cash equivalents at the beginning of year		9,008,428	6,838,667
Cash and cash equivalents at the end of year	7 (a)	<u>10,043,438</u>	<u>9,008,428</u>

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial report is for the Zank Income Fund ('the Fund'). The Fund is a retail registered managed investment scheme established and domiciled in Australia. The Responsible Entity of the Fund is Vasco Trustees Limited, and Zank and Company Pty Ltd is appointed as the Investment Manager of the Fund.

Prior to 17 December 2019, the Fund was an unregistered managed investment scheme that was open to investment by wholesale clients (as defined in section 761G of the Corporations Act). Those unitholders will continue to hold Units that are issued on the same terms as the Units being offered under the Fund's Product Disclosure Statement.

Basis of Preparation

(a) Statement of compliance

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report of the Fund complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

Zank Income Fund is a for-profit entity for the purpose of preparing the financial statements.

(b) Basis of measurement

The financial report is prepared on the historical cost basis except for the following material items in the statement of financial position:

Investment assets are measured at fair value.

(c) Functional and presentation currency

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

(d) Critical judgements and significant accounting estimates

The preparation of financial statements requires the Directors of the Responsible Entity to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, which is based on any loans where the loan to value ratio is more than 70%, where the value is represented by the independent valuation of any land, property or construction secured against the loan. These assumptions include recent default experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New, revised or amending Accounting Standards and Interpretations adopted

The Fund has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been early adopted.

New and revised standards and amendments thereof and interpretations effective for the current year that are relevant to the Fund include:

- AASB 16 – Leases

Impact of the application of AASB 16 Leases

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

As the Fund does not deal with leases, the adoption of AASB 16 did not have any effects on the financial position or results of the fund.

Significant accounting policies

(a) Financial instruments

Financial assets and financial liabilities are recognised on the Fund's Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

(i) Measurement

Under this approach, financial assets and financial liabilities are generally measured initially at amortised cost. As the financial assets meet the following criteria, they are also subsequently measured at amortised cost:

- the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Fair value in an inactive or unquoted market

The fair values of financial assets and liabilities that are not traded in an active market are determined through the valuation policy identified in the Product Disclosure Statement for the Fund.

Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses (ECL) on its financial assets and trade receivables.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Categorisation

The Fund's investments are categorised as follows:

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

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 Fund 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 expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Issued units

The Fund issues units which have a limited life under the Fund's Constitution and are classified as a liability in accordance with *AASB 132 Financial Instruments: Presentation*.

Where the Fund buys back any of its units from unitholders, the consideration paid, including any directly attributable incremental costs are recognised as a reduction in liability attributable to the Fund's unitholders.

(b) 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, and accruals are shown exclusive of GST.

(c) Income tax

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

(d) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the Fund that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue and Other Income

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Interest revenue is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of Goods and Services Tax (GST).

(f) Trade Receivables

Trade receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade receivables are recognized at amortised cost using the effective interest method, less expected credit losses (ECL). Collectability of trade receivables is reviewed on an ongoing basis.

(g) Foreign Exchange

Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in Australian dollars, which is the presentation currency of the Fund.

(h) Provisions

Provisions are recognised when the Fund has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 2: REVENUE

The Fund's revenue is analysed under the following categories

(a) Bank interest

	2020	2019
	\$	\$
Bank interest	87,083	65,844
	<u>87,083</u>	<u>65,844</u>

Cash on deposit is held by the Custodian (Sargon CT Pty Ltd) with St. George Bank. The current interest rate paid by St. George Bank is 0.30% per annum.

(b) Loan interest income

	2020	2019
	\$	\$
Abbotsford	-	44,597
Airport West	-	201,939
Maidstone	322,055	116,469
Speers Point	-	211,152
West Melbourne	-	157,577
Burwood Heights	-	218,563
Brucam	292,740	291,977
Applgold	-	140,856
Shackel	188,393	68,630
Park Ridge 94	155,379	211,419
Park Ridge 96 and 98	325,603	-
MBC Property	154,195	77,422
Rochedale	162,952	37,695
Runhao Education	169,581	17,630
Wharf Road	-	130,385
Biltex Group	381,986	-
Boyd by the Park	120,088	-
Golden Apple	6,192	-
Ian Street	179,685	-
iConstruction	127,543	-
Jomanni	15,092	-
Kehler Holdings	17,640	-
M2Space	47,250	-
Malvern East	76,683	-
MP No. 1 Holdings	47,096	-
Playford City Hotel	26,942	-
Steven Zheng	352,932	-
Sydenham Village	228,267	-
Western Construction	210,230	-
	<u>3,608,524</u>	<u>1,926,311</u>

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 2: REVENUE (continued)

(c) Service income

	2020	2019
	\$	\$
Service income	-	39,050
	<u>-</u>	<u>39,050</u>

(d) Other interest income

The fund received \$31 of other interest income from the Australia Taxation Office for late payment of RITC refund.

NOTE 3: INVESTMENT MANAGER FEES AND PERFORMANCE FEES

	2020	2019
	\$	\$
Investment manager fees	77,006	251,174
Performance fees	246,338	24,078
	<u>323,344</u>	<u>275,252</u>

In accordance with the Product Disclosure Statement of the Fund, the Investment Manager is entitled to an investment manager fee equivalent to 1.5% per annum (plus GST) of the gross value of the Fund's assets on an ongoing basis, calculated and payable monthly.

The Investment Manager may be entitled to a performance fee equivalent to all surplus funds generated by the Fund after all fees, expenses, returns of capital and distributions are paid by the Fund. The performance fee is payable to Zank and Company Pty Ltd on a quarterly basis.

The Investment Manager may negotiate with unitholders on an individual basis in relation to rebates of the fees payable to the Manager. In the event rebates are offered, they will be paid by the Investment Manager (not the Responsible Entity) and will not affect the fees paid by, or any distributions to, other unitholders.

The Investment Manager agreed to waive part of its management fee for the year as a reimbursement to the Fund, totaling \$433,879, in order to keep the Fund's unit price at \$1.

NOTE 4: TRUSTEE, RESPONSIBLE ENTITY AND ADMINISTRATION FEES

	2020	2019
	\$	\$
Trustee fees	53,178	47,888
Responsible Entity fees	62,826	-
Administration fees	39,705	36,619
	<u>155,709</u>	<u>84,507</u>

In accordance with the Product Disclosure Statement, Vasco Trustees Limited as the Responsible Entity of the Fund is entitled to an annual fee of 0.3% (plus GST) of the gross asset value of the Fund, paid monthly in arrears, subject to a minimum fee of \$60,000 (plus GST).

Vasco Fund Services Pty Limited as the Administration Manager of the Fund is entitled to an annual administration fee of \$40,517 (plus GST) from 1 January 2020. The administration fee will increase by 5% on 1 January of each year.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 5: CUSTODIAN FEES

	2020	2019
	\$	\$
Custodian fees	26,123	25,341
	<u>26,123</u>	<u>25,341</u>

In accordance with the Custodian Agreement, Sargon CT Pty Ltd as the custodian is entitled to an annual fee of \$25,000 (plus GST) calculated monthly and payable quarterly in arrears, subject to a CPI increase applied quarterly.

When the Fund has a Gross Asset Value of more than \$50 million, the custodian is entitled to a fee of 0.05% of the Gross Asset Value, calculated monthly and payable quarterly in arrears.

NOTE 6: OTHER EXPENSES

	2020	2019
	\$	\$
Tax return fees	2,300	2,300
Bank fees	373	127
GST expense (non-claimable)	27,550	10,844
Default management fee	1,050	457
Legal fees	11,735	5,225
Other administration expense	10,188	4,537
Establishment fees	5,886	2,800
ASIC fees	3,029	-
Professional fees	82,251	-
	<u>144,362</u>	<u>26,290</u>

NOTE 7: CASH AND CASH EQUIVALENTS

Cash at bank

	2020	2019
	\$	\$
St. George Bank	10,043,438	9,008,428
	<u>10,043,438</u>	<u>9,008,428</u>

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 8: INVESTMENTS

(a) Prepaid interest

	2020	2019
	\$	\$
Brucam	-	71,836
Shackel	-	8,726
Park Ridge 96 and 98	-	42,542
MBC Property	-	47,578
Rochedale	-	639
Runhao Education	-	79,870
Park Ridge 94	-	32,583
Boyd by the Park	662	-
Sydenham Village	13,895	-
Biltex Group	70,069	-
iConstruction	58,231	-
Playford City Hotel	5,606	-
Kehler Holdings	4,174	-
Golden Apple	1,828	-
Western Construction	231,978	-
	386,443	283,774

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 8: INVESTMENTS (continued)

(b) Investment assets

As at 30 June 2020, the total value of loans to borrowers was \$35,214,718. The interest on loans is generally paid in advance. The section below summarises the current status of the loan investments:

	2020	2019
	\$	\$
Loan advance - Airport West	2,660,599	2,291,280
Loan advance - Maidstone	-	3,271,661
Loan advance - Burwood Heights	-	244,817
Loan advance – Brucam	1,952,794	2,300,000
Loan advance – Shackel	1,407,607	1,400,000
Loan advance - Park Ridge 96 and 98	-	4,062,500
Loan advance - MBC Property	-	2,287,363
Loan advance - Rochedale	-	2,000,000
Loan advance - Runhao Education	-	1,735,170
Loan advance – Boyd by the Park	1,050,000	-
Loan advance – Sydenham Village	2,100,000	-
Loan advance – Biltex Group	8,250,000	-
Loan advance – iConstruction	2,075,000	-
Loan advance – Playford City Hotel	600,000	-
Loan advance – Kehler Holdings	479,500	-
Loan advance – Ian Street	4,911,752	-
Loan advance – Jomanni	390,000	-
Loan advance – Golden Apple	210,000	-
Loan advance – Western Construction	6,300,000	-
Loan advance – M2Space	1,104,900	-
Loan advance – Malvern East	1,722,566	-
	35,214,718	19,592,791

NOTE 9: PREPAID EXPENSES AND AMORTISATION

	2020	2019
	\$	\$
Prepaid establishment cost	46,927	14,002
Less: amortisation	(8,687)	(2,801)
	38,240	11,201

Establishment costs of \$32,925 were incurred during the year in establishing the Fund as a retail registered investment scheme. This will be amortised over 5 years.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 10: FEES PAYABLE

	2020	2019
	\$	\$
Performance fees payable	-	101,024
Custodian fees payable	6,483	12,496
Administration fees payable	3,376	-
Investment manager fees payable	50,909	29,644
Reimbursement from Investment Manager	(83,041)	-
Trustee fees payable	-	7,943
Responsible Entity fees payable	11,359	-
Performance fees payable on default interest	599,279	1,087,925
	<u>588,365</u>	<u>1,239,032</u>

NOTE 11: OTHER EXPENSES PAYABLE

	2020	2019
	\$	\$
GST payable	8,857	-
RITC receivable	(24,774)	(29,579)
Income tax payable	5,180	-
Provision for tax return fees	2,500	2,500
Other accrued fees	7,705	12,955
Other administration expenses	3,550	-
	<u>3,018</u>	<u>(14,124)</u>

NOTE 12: SETTLEMENT DEPOSIT

During the prior year a deposit of \$260,699 was received from the sale of the Maidstone property. This was applied to the loan on settlement of the facility.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 13: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

(a) Issued units in \$

	2020 Units	2020 \$	2019 Units	2019 \$
Opening balance	26,380,899	26,380,899	16,033,180	16,033,180
Redemptions	(6,352,384)	(6,352,384)	(8,115,000)	(8,115,000)
Units issued – applications	23,270,020	23,270,020	18,453,446	18,453,446
Units issued – reinvestment of distributions	192,606	192,604	9,273	9,273
Closing balance	43,491,141	43,491,139	26,380,899	26,380,899

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. For distributions that have reinvested during the year, units have been rounded to the nearest whole unit in accordance with the Responsible Entity's Unit Pricing Policy.

(b) Undistributed profit/(loss) attributable to unitholders

	2020 \$	2019 \$
Opening balance	-	-
Net operating profit attributable to unitholders	3,046,100	1,619,393
Distributions paid	(2,196,550)	(1,157,223)
Distributions payable	(849,550)	(462,170)
Closing balance	-	-

Withholding taxes applicable to the distributions payable during the 2020 financial year were \$131,831. Total distributions payable for the financial year were \$3,046,100.

(c) Capital management

The Fund regards total unitholders' interests as capital. The objective of the Fund is to invest in mortgage-backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for business or investment purposes.

The Investment Manager aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments, including unitholder redemptions.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 14: RELATED PARTY TRANSACTIONS

The Fund's related parties include those described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

(a) Trustee

Vasco Trustees Limited was the Trustee of Zank Income Fund before it became a retail fund on 17 December 2019.

Fees of \$53,178 have been paid by the Fund to Vasco Trustees Limited for its role as Trustee for the period 1 July 2019 to 16 December 2019, of which \$2,925 is claimable as RITC.

The Trustee has changed its name to Vasco Trustees Limited to better reflect the activities of the company as well as to keep in line with industry conventions. The ACN and other details remain unchanged.

(b) Responsible Entity

Vasco Trustees Limited is the Responsible Entity of Zank Income Fund.

Fees of \$62,826 have been paid by the Fund to Vasco Trustees Limited for its role as Responsible Entity for the period 17 December 2019 to 30 June 2020, of which \$3,455 is claimable as RITC.

(c) Investment Manager

The Investment Manager of the Zank Income Fund is Zank and Company Pty Ltd.

Fees of \$77,006 (plus GST) were accrued and paid by the Fund to Zank and Company Pty Ltd for its role as Investment Manager for the period, of which \$5,775 is claimable by the Fund as RITC.

Performance fees of \$246,338 (plus GST) were accrued and payable by the Fund to Zank and Company Pty Ltd for its role as Investment Manager for the period, of which \$18,475 is claimable by the Fund as RITC.

The Investment Manager agreed to waive part of its management fee for the year as a reimbursement to the Fund, totaling \$433,879, in order to keep the Fund's unit price at \$1.

At 30 June 2020, the Investment Manager and their related parties held no units in the Fund.

(d) Administration Manager

The Administration Manager of the Zank Income Fund is Vasco Fund Services Pty Limited.

Administration fees of \$39,705 (plus GST) were accrued and paid by the Fund to Vasco Fund Services Pty Limited for its role as Administration Manager of the Fund, of which \$2,978 is claimable by the Fund as RITC.

Vasco Fund Services Pty Limited is a related party of the Responsible Entity.

(e) Key management personnel

The Fund does not employ personnel in its own right. However, it has incorporated the Responsible Entity, Vasco Trustees Limited, and an Investment Manager, Zank And Company Pty Ltd, to manage the activities of the Fund. The Directors of the Responsible Entity and Investment Manager are key management personnel of those corporate entities. No compensation is paid directly by the Fund to Directors or to any of the key management personnel of the Responsible Entity or Investment Manager. Payments made by the Fund to the Responsible Entity and Investment Manager do not specifically include any amounts attributable to the compensation of key management personnel.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 15: CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the period.

NOTE 16: EVENTS SUBSEQUENT TO REPORTING DATE

The Responsible Entity of the Fund acknowledges that as a result of COVID-19, and as observed in the final quarter of the year ended 30 June 2020, there is uncertainty surrounding the property market which may result in a decline in the fair value of the properties, particularly those in the Melbourne Metropolitan area, that are secured against the Fund's loan book. Due to a limitation on available relevant market data, it is not possible to estimate the level of any decline in fair value, and therefore any impact on the Fund's Expected Credit Loss provision, as at the date of this report.

As at the date of this report, there have been no other events subsequent to the reporting date that require additional disclosure.

NOTE 17: FINANCIAL RISK MANAGEMENT

(a) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund holds investments in mortgage-backed loans, which are not considered to be assets that are readily realisable.

In order to address this risk, the Responsible Entity retains broad discretion to restrict distributions, withdrawals and/or redemptions.

(b) Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Fund. The Fund is exposed to this risk for various financial instruments, for example, placing money at financial institutions or interest revenue that is paid in arrears. The Fund's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2020	2019
	\$	\$
Cash and cash equivalents	10,043,438	9,008,428
Investment assets	35,214,718	19,592,791
	<u>45,258,156</u>	<u>28,601,219</u>

The Responsible Entity, through the Investment Manager manages the exposure to credit risk on an ongoing basis. The Fund's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

(c) Market Risk

The Fund is exposed to market risk through its use of financial instruments and specifically to interest rate risk and property value risk, which results from both its operating and investing activities. Market risk is the risk that changes in market prices which will affect the Fund's income. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Market risk is monitored by the Responsible Entity.

ZANK INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTE 17: FINANCIAL RISK MANAGEMENT (continued)

(d) Interest Rate Risk

The Fund's interest rate risk is monitored by the Responsible Entity.

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

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

	2020	2019
	\$	\$
Cash and cash equivalents	10,043,438	9,008,428
Investment assets	35,214,718	19,592,791

An increase or decrease of 100 basis points in interest rates as at the reporting date would not have a material effect on the net assets attributable to unitholders and operating results.

NOTE 18: RESPONSIBLE ENTITY DETAILS

The registered office and the principal place of business of the Responsible Entity are:

Vasco Trustees Limited

Level 5

488 Bourke Street

Melbourne Victoria 3000


ZANK INCOME FUND

DIRECTORS' DECLARATION

In the opinion of the Directors of Vasco Trustees Limited:

- (a) The financial statements and notes of Zank Income Fund are in accordance with the *Corporations Act 2001*, including
 - (i) Complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting obligations; and
 - (ii) Giving a true and fair view of its financial position as at 30 June 2020 and its performance for the financial year ended on that date;
- (b) There are reasonable grounds to believe that Zank Income Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Craig Mathew Dunstan', with a long horizontal flourish extending to the right.

Craig Mathew Dunstan

Director

6 October 2020

Independent Auditor's Report to the Members of Zank Income Fund and the Directors of the Responsible Entity

Report on the Financial Report

Opinion

We have audited the accompanying financial report of Zank Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2020, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

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

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund 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 (including Independence Standards)* (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 Matter

The financial report of the Fund for the year ended 30 June 2019 was unaudited. We have obtained sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial report.

Responsibility of the Directors of the Responsible Entity for the financial report

The Directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating 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 the financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



PKF
Melbourne, 7 October 2020



Steven Bradby
Partner