

Auditor's Independence Declaration to the Directors of Capricorn Society Limited

As lead auditor for the review of Capricorn Society Limited for the half-year ended 31 December 2018, I declare 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 review, and
- b. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Capricorn Society Limited and the entities it controlled during the financial period.



Ernst & Young



T G Dachs
Partner
7 March 2019

Capricorn Society Limited and Controlled Entities

Consolidated Statement of Profit or Loss

For the Half Year Ended 31 December 2018

		December 2017 Restated (Note 2) \$'000	
	December 2018 \$'000		
	Note		
Revenue from contracts with customers	3(a)	10,282	9,124
Trade account revenue	3(b)	48,790	44,054
Less: rewards points arising from Member purchases	3(b)	(14,762)	(13,471)
Interest revenue	3(c)	4,328	3,966
Other revenue	3(c)	3,377	2,880
Total revenue		52,015	46,553
Other operating income	3(d)	82	2,632
Expenses			
Employee benefit expense		(21,606)	(19,442)
Reward points issued under Member trading rebate	4	(5,005)	-
Depreciation and amortisation expense		(1,604)	(1,554)
Marketing and advertising expense		(1,414)	(1,469)
Other expenses	3(e)	(13,499)	(10,277)
Total expenses		(43,128)	32,742
Profit before tax		8,969	16,443
Income tax expense	5	(2,428)	(4,886)
Profit for the period		6,541	11,557
Profit attributable to:			
Members of the parent entity		6,541	11,563
Non-controlling interests		-	(6)
		6,541	11,557

The accompanying notes form part of these financial statements

Capricorn Society Limited and Controlled Entities

Consolidated Statement of Other Comprehensive Income

For the Half Year Ended 31 December 2018

	December 2017 Restated (Note 2) \$'000
December 2018 \$'000	
Note	
Profit for the period	11,557
Other comprehensive income:	
Other comprehensive income to be reclassified to profit or loss in subsequent periods:	
Exchange differences on translating foreign controlled entities	(830)
Other comprehensive income for the period, net of tax	(830)
Total comprehensive income for the period, net of tax	10,727
Total comprehensive income, net of tax, attributable to:	
Members of the parent entity	10,733
Non-controlling interests	(6)
	10,727

The accompanying notes form part of these financial statements

Capricorn Society Limited and Controlled Entities

Consolidated Statement of Financial Position

As at 31 December 2018

		December 2018 \$'000	June 2018 Restated (Note 2) \$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents	6	46,050	46,345
Trade account advances and other receivables		156,621	186,033
Financial assets	7	32,100	21,600
Other current assets	8	3,091	1,665
Total current assets		237,862	255,643
Non-current assets			
Long term trade account advances		10,047	9,637
Financial assets	7	61,198	67,008
Investment properties		3,580	3,450
Intangibles	10	14,767	15,373
Property, plant and equipment	9	17,305	17,157
Deferred tax assets		10,567	8,593
Total non-current assets		117,464	121,218
Total assets		355,326	376,861
Liabilities			
Current liabilities			
Trade and other payables		104,089	133,405
Contract Liability for reward points	4	52,771	43,618
Current tax liabilities		2,319	4,703
Employee benefits		3,289	2,679
Total current liabilities		162,468	184,405
Non-current liabilities			
Employee benefits		1,187	1,209
Total non-current liabilities		1,187	1,209
Total liabilities		163,655	185,614
Net assets		191,671	191,247
Equity			
Issued capital	11	132,926	122,975
Reserves		2,023	1,248
Retained earnings		57,182	67,484
Equity attributable to equity holders of the parent		192,131	191,707
Non-controlling interests		(460)	(460)
Total equity		191,671	191,247

The accompanying notes form part of these financial statements.

Capricorn Society Limited and Controlled Entities

Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2018

2018	Share Capital \$'000	Retained Earnings \$'000	Foreign Currency Reserve \$'000	Sub-Total \$'000	Non- controlling Interests \$'000	Total \$'000
Balance at 1 July 2018 Restated	122,975	64,321	1,248	188,544	(460)	188,084
Profit for the period	-	6,541	-	6,541	-	6,541
Other comprehensive income	-	-	775	775	-	775
Total comprehensive income	-	6,541	775	7,316	-	7,316
Shares issued during the period	15,672	-	-	15,672	-	15,672
Shares bought back during the period	(5,721)	-	-	(5,721)	-	(5,721)
Dividends paid	-	(13,680)	-	(13,680)	-	(13,680)
Balance at 31 December 2018	132,926	57,182	2,023	192,131	(460)	191,671

2017	Share Capital \$'000	Retained Earnings \$'000	Foreign Currency Reserve \$'000	Sub-Total \$'000	Non- controlling Interests \$'000	Total \$'000
Balance at 1 July 2017 Restated	110,959	51,921	1,767	164,647	(454)	164,193
Profit for the period	-	11,563	-	11,563	(6)	11,557
Other comprehensive income	-	-	(830)	(830)	-	(830)
Total comprehensive income	-	11,563	(830)	10,733	(6)	10,727
Shares issued during the period	13,725	-	-	13,725	-	13,725
Shares bought back during the period	(6,254)	-	-	(6,254)	-	(6,254)
Dividends paid	-	(12,379)	-	(12,379)	-	(12,379)
Balance at 31 December 2017	118,430	51,105	937	170,472	(460)	170,012

The accompanying notes form part of these financial statements.

Capricorn Society Limited and Controlled Entities

Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2018

	December 2018 \$'000	December 2017 Restated (Note 2) \$'000
	Note	
Cash flows from operating activities:		
Receipts from Members	1,024,093	918,505
Payments to suppliers and employees	(1,008,342)	(907,869)
Management fees received	3(a) 9,001	7,948
Other income received	40	(69)
Interest received	3(c) 4,328	3,966
Rewards and rebates paid	(13,820)	(9,598)
Investment income received	3(c) 1,987	1,524
Taxes paid	(6,757)	(3,719)
Net cash provided by operating activities	10,530	10,688
Cash flows from investing activities:		
Purchase of property plant and equipment	(819)	(935)
Proceeds from sale of property plant and equipment	11	9
Purchase of intangible assets	(12)	-
Funds transferred from term deposits	4,500	19,400
Funds transferred to term deposits	(15,000)	-
Purchase of investments	(3,264)	(6,498)
Proceeds from investments	6,716	434
Net cash (used in)/provided by investing activities	(7,868)	12,410
Cash flows from financing activities:		
Proceeds from issue of shares	2,727	2,133
Re-purchase of shares	(5,723)	(6,254)
Dividends paid by parent entity	(736)	(787)
Net cash used in financing activities	(3,732)	(4,908)
Net (decrease)/increase in cash held	(1,070)	18,190
Cash at beginning of financial year	46,345	37,014
Effect of exchange rates changes on the balance of cash held in foreign currencies	775	(825)
Cash at end of financial period	6 46,050	54,379

The accompanying notes form part of these financial statements.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

2 Basis of preparation and changes to the Group's accounting policies (continued)

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion.

The below table shows the classification of financial instruments under AASB 139 and AASB 9

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139 (prior to 1 July 2018)	New measurement category under AASB 9 (from 1 July 2018)
Investments in unit trusts	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss
Investments in hybrid securities	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss
Investments in property trusts	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss
Listed securities	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss
Unlisted securities	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss
Loan to Capricorn Mutual Limited ("CML")	Loans and receivables	Financial assets at fair value through profit and loss
Term deposits	Loans and receivables	Financial assets at amortised cost
Trade Account advances and other receivables (current and non-current)	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost

The assessment of the Group's business models was made as of the date of initial application, 1 July 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Loan to CML

Under AASB 139, the loan to CML was classified under loans and receivables. Under AASB 9, the loan to CML is classified as FVPL. The Group has assessed the fair value of the loan taking into account the interest rate and the credit risk.

CML and the Group considers the recovery of the full amount of the outstanding balance as highly probable.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

2 Basis of preparation and changes to the Group's accounting policies (continued)

The Mutual has received consent from ASIC to allow a fifty percent repayment of the loan in the second half of the current financial year. The Group continues to receive interest payments on the outstanding balance, indicating CML's intention to honour the loan and that the loan is repayable in full.

The Group's understanding of CML's business model and current financial position further enhances the belief that the loan will be repaid in full on or before the due date in 2025.

Trade account advances and other receivables

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to record an allowance for ECL's for all loans and other debt financial assets not held at fair value through profit and loss.

Under AASB 139 trade and other receivables were held at amortised cost. Under AASB 9 Trade Account advances and other receivables are held at amortised cost. The Group has calculated ECLs based on expected credit losses.

The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For the current Trade Account advances, the Group applies the general approach in calculating the ECL's. Due to the short term nature of the current Trade Account advances, the ECL's are based on the lifetime expected credit losses.

In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due, whereupon a lifetime assessment of expected credit losses is undertaken.

The Group considers a financial asset in default when contractual payment are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The Group has performed an analysis of the provision for doubtful debts under AASB 139, and the ECL's under AASB 9 as per below:

	31 December 2018
Trade accounts advances and other receivables balance	163,420
Allowance for impairment of receivables under AASB 139	(3,754)
ECL under AASB 9	(3,794)

The adoption of the ECL requirements of AASB 9 did not have a material impact in impairment allowances of the Group's debt financial assets.

The accounting for the Group's financial liabilities remains largely the same as it was under AASB 139.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

3 Revenue and expenses

a) Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the 6 months ended 31 December 2018			
	Management fee \$000's	Commission income \$000's	Advertising income \$000's	Total \$000's
Geographical markets				
Australia	8,431	735	424	9,590
New Zealand	570	74	48	692
Total revenue from contracts with customers	9,001	809	472	10,282

	Management fee \$000's	Commission income \$000's	Advertising income \$000's	Total \$000's
Timing of revenue recognition				
Revenue earned at a point in time	-	-	472	472
Revenue earned over time	9,001	809	-	9,810
Total revenue from contracts with customers	9,001	809	472	10,282

For the 6 months ended 31 December 2017

	Management fee \$000's	Commission income \$000's	Advertising income \$000's	Total \$000's
Geographical markets				
Australia	7,435	542	155	8,132
New Zealand	513	43	436	992
Total revenue from contracts with customers	7,948	585	591	9,124

	Management fee \$000's	Commission income \$000's	Advertising income \$000's	Total \$000's
Timing of revenue recognition				
Revenue earned at a point in time	-	585	591	1,176
Revenue earned over time	7,948	-	-	7,948
Total revenue from contracts with customers	7,948	585	591	9,124

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

3 Revenue and expenses (continued)

b) Trade Account revenue

	December 2018 \$'000	December 2017 \$'000
Sale of goods to Members by suppliers	993,503	891,680
Payments to suppliers	(944,870)	(847,626)
Net collection	48,633	44,054
Less: Rewards points issued	(14,762)	(13,471)
Add: net deferral of revenue using the effective interest rate method on adoption of AASB 9	157	-
Trade Account Revenue	34,028	30,583

c) Interest and Other revenue

	December 2018 \$'000	December 2017 \$'000
Interest	4,217	3,852
Interest - related parties	111	114
Interest revenue	4,328	3,966
Rent received	86	82
Other Income	1,304	1,274
Investment income received	1,987	1,524
Other revenue	3,377	2,880

d) Other operating income

	December 2018 \$'000	December 2017 \$'000
Fair value gain on financial assets at fair value through profit or loss	-	2,618
Foreign exchange gain realised	-	5
Foreign exchange gain unrealised	71	-
Profit from sale of plant and equipment	11	9
	82	2,632

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

3 Revenue and expenses (continued)

e) Other expenses

	December 2018 \$'000	December 2017 \$'000
Bad and doubtful debts	546	901
Travel expenses	912	933
Information technology and communication expenses	1,530	1,490
Operating lease rental expenses	832	853
Fair value loss on financial assets at fair value through profit or loss	2,203	-
Other expenses	7,476	6,100
	<u>13,499</u>	<u>10,277</u>

4 Contract Liability for unredeemed reward points

A Member trading rebate of \$5,005,000 was paid to Members during the half year ended 31 December 2018. The payment was made to Members in the form of reward points on a pro rata basis based on total Member spend in the 2018 financial year.

	December 2018 \$'000	December 2017 \$'000
Reward points		
Opening Balance – Liability for unredeemed Reward points	46,824	39,745
Reward points issued	14,762	13,471
Reward points issued - Member trading rebate	5,005	-
Reward points redeemed	(13,820)	(9,598)
Closing Balance – Contract Liability for unredeemed Reward Points	<u>52,771</u>	<u>43,618</u>

5 Income tax expense

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the half year statement of profit or loss are:

	December 2018 \$'000	December 2017 \$'000
Income taxes		
Current income tax expense	4,443	4,692
Deferred income tax expense relating to origination and reversal of temporary differences	(2,015)	194
Income tax expense recognised in the statement of profit or loss	<u>2,428</u>	<u>4,886</u>

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

6 Cash and cash equivalents

	December 2018 \$'000	June 2018 \$'000
Cash at bank	28,772	35,869
Short term deposits	17,278	10,476
	<u>46,050</u>	<u>46,345</u>

(a) Cash at bank and on hand

Cash at bank earns interest at floating rates based on daily bank deposit rates.

(b) Short-term deposits

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

7 Financial assets

Set out below is an overview of financial assets, other than cash and trade account and other receivables, held by the Group:

	December 2018 \$'000	June 2018 \$'000
Current		
Term deposits (a)	<u>32,100</u>	21,600
Non-current		
Restricted cash deposits (b)	203	203
Loan to Capricorn Mutual Limited - at fair value through profit and loss (c)	4,903	4,903
Investments in unit trusts – at fair value through profit and loss (d)	36,650	40,186
Investments in hybrid securities – at fair value through profit and loss (e)	14,378	13,885
Investment in property trust – at fair value through profit and loss (f)	3,503	5,800
Listed securities – at fair value through profit and loss	1,550	2,020
Unlisted securities – at fair value through profit and loss	11	11
	<u>61,198</u>	<u>67,008</u>

(a) Term deposits

Term deposits are made for varying periods of between four and twelve months, depending on the immediate cash requirements of the Group, and earn interest at the respective term deposit rates.

(b) Restricted cash deposits

The Group has rented premises in Sydney for which a rental security of \$203,000 was required in the form of a bank guarantee to the lessor in the event of the Group being unable to meet its rental obligations.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

7 Financial assets (continued)

(c) Loan to Capricorn Mutual Limited

The Group has provided a loan to the Mutual of \$4,903,000 (2017: \$4,903,000) repayable on 31 October 2025. The loan was advanced in 3 payments during the years ended 30 June 2004 to 2006. An impairment provision of \$4,903,000 was made over a number of financial years; 2006 and prior. The Mutual has been profitable in recent years resulting in the strengthening of the Mutual's balance sheet to a point where current and forecast capital is now well within APRA suggested Capital Adequacy Multiple ("CAM") range. The Mutual's current profitability and adequate CAM would suggest ASIC's approval of the loan repayment will be granted. The Mutual has lodged the required documentation with ASIC to allow for a fifty percent repayment in the second half of the current financial year. It is on this basis the Group has assessed the loan as fully recoverable as at 31 December 2018 and believes that the fair value is equal to the carrying value of the asset.

(d) Investments in unit trusts

Investments in unit trusts comprise managed portfolio investments, where the underlying portfolio investment consists of shares traded in active markets. The investment strategy is "balanced growth" yielding both a return of income and capital. The portfolio managers may alter the asset class weighting in accordance with the investment strategy. This may result in investment in other classes of assets other than equity. The portfolio manager may weight asset classes by investing in equity vehicles where the underlying assets better reflect the investment objective.

(e) Investment in hybrid securities

Investments in hybrid securities comprise of income producing preference notes offered by Australian financial institutions. The investment strategy is "balanced growth" yielding both a return of income and capital. It is valued on a mark to market basis using the bid price at the close of trading.

(f) Investment in property trust

The investment in property trust comprises of a managed property investment, where the underlying assets are two offices in the Perth Central Business District. The investment strategy is "balanced growth" yielding both a return of income and capital. There is no established secondary market or other redemption facility for Units in the Trust and there are no early withdrawal rights for the Trust. The investment has a seven year term whereby the trust will sell the underlying real property assets within the seven years giving investors a clear exit strategy.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

8 Other current assets

	December 2018 \$'000	June 2018 \$'000
Accrued income	281	234
Other assets	2,810	1,431
	3,091	1,665

Other assets are non-interest bearing.

9 Property, plant and equipment

During the half year ended 31 December 2018, the Group acquired plant and equipment with a cost of \$819,000 (2017: \$935,000).

There were no property purchases during the half year ended 31 December 2018 (2017: nil).

During the half year ended 31 December 2018 the Group disposed of assets with a written down value of \$nil (2017: \$4,000).

10 Intangibles

During the half year ended 31 December 2018, the Group acquired intangible assets with a cost of \$12,000 (2017: Nil).

11 Issued capital

	December 2018 No.	June 2018 No.	December 2018 \$'000	June 2018 \$'000
Ordinary shares issued and fully paid:				
Member shares	136,322,680	126,228,524	132,710	122,829
All region shares	215,948	145,935	216	146
	136,538,628	126,374,459	132,926	122,975

12 Dividends

a) Distributions paid for the half year ended

	December 2018 \$'000	December 2017 \$'000
2018 fully franked ordinary dividend of 11 cents per share declared and paid in the period to 31 December 2018	13,680	-
2017 fully franked ordinary dividend of 11 cents per share declared and paid in the period to 31 December 2017		12,379
	13,680	12,379

b) Proposed dividends

The directors have not proposed any dividends for the half year to 31 December 2018.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

13 Seasonality of operations

Trade debtors and creditors are lower in December than June as Member transactions are lower during the Christmas period.

This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by AASB 134 *Interim Financial Reporting*.

14 Related party disclosure

The interim consolidated financial statements include Capricorn Society Limited and the subsidiaries listed in the following table:

	% Equity Interest		Investment	
	December 2018	June 2018	December 2018	June 2018
	%	%	\$	\$
Capricorn Insurance Services Pty Limited	100	100	1,350,000	1,350,000
Capricorn Travel Australia Pty Limited	100	100	137,500	137,500
Capricorn Society Financial Services Pty Limited	100	100	10	10
Capricorn Technology Services Pty Limited	100	100	10	10
Capricorn Risk Services Pty Limited	100	100	1	1
Capricorn Mutual Management Pty Limited	100	100	10	10
Capricorn 1974 Pty Ltd	100	100	1	1
INEEDASERVICE Pty Limited	51	51	280,000	280,000

Transactions with related parties

In 2003 Capricorn Society Limited established Capricorn Mutual Limited ("the Mutual") in response to the desire by some Members to access a separate and unique offering of risk protection services. Risk protection services create exposure to an inherently different set of risks and returns to the Capricorn business. As these risks and services were not attractive to all Members of the Group, the Mutual was created.

The Group is one Member out of approximately 7,400 of the Mutual's Members. The Mutual's constitution requires CSL to hold a majority of seats on the Mutual's Board of Directors (the Board) although the Mutual's Members do have the ability to amend the constitution to remove the Board.

Whilst the Mutual is not a related party to CSL under the Corporations Act, Capricorn Mutual Management Pty Ltd and Capricorn Risk Services Pty Ltd which are both a subsidiary of CSL are engaged by the Mutual to manage the day to day operations of the mutual on behalf of the Mutual's board. As a result, in the interest of disclosure, the following transactions have been noted.

The Mutual provides benefits to the Mutual's Members by the way of protection services provided with competitive prices and/or expansion of services when possible. The Mutual is unable to pay dividends given the structure of the Mutual.

The Group provides the Mutual with payment, settlement and distribution services. It has also provided loans and other finance required for the establishment and growth of the Mutual.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

14 Related part disclosure (continued)

The Group has provided a loan to the Mutual of \$4,903,000 (2017: \$4,903,000) repayable on 31 October 2025. The loan was advanced in 3 payments during the years ended 30 June 2004 to 2006. An impairment provision of \$4,903,000 was made over a number of financial years; 2006 and prior. The Mutual has been profitable in recent years resulting in the strengthening of the Mutual's balance sheet to a point where current and forecast capital is now well within APRA suggested Capital Adequacy Multiple ("CAM") range. The Mutual has received consent from ASIC to allow a fifty percent repayment of the loan in the second half of the current financial year. It is on this basis the Group has assessed the loan as fully recoverable as at 31 December 2018 and therefore the fair value of the asset is equal to the current carrying value.

An amount of \$4,814,000 was outstanding at 31 December 2018 (2017: \$4,803,000) in relation to trade payables to the Mutual which will be settled within normal trade terms.

The Group therefore carries \$4,903,000 assets and \$4,814,000 of liabilities in respect of the Mutual. CSL is not significantly exposed to further net liabilities of the Mutual other than payment of the above trade payable.

During the half year the Group earned interest on the loan of \$111,000 (2017: \$114,000), service fees for the collection of protection revenue on behalf of the Mutual of \$1,509,000 (2017: \$1,275,000) and fees for providing services to the Mutual of \$9,002,000 (2017: \$7,948,000). All charges are based on either recovery of costs or benchmarked market rates ensuring remuneration is on an arm's length basis and and reasonable.

The nature of the cost recoveries, lack of ability to pay dividends and the Mutual's objective of constant improvement of services to the Mutual's Members when financially prudent, minimises further returns for the Group.

In view of the above the Capricorn Society Limited Board considers that the relationship between the Group and the Mutual is that of the Group acting as an agent and hence under AASB 10 does not control the Mutual and is not required to consolidate the Mutual.

Directors Russell Becker, Mark Cooper and Bruce Rathie were directors of Capricorn Mutual Limited during the half year. The Mutual paid a total of \$111,000 in directors' fees to these directors during the half year ended 31 December 2018 (2017: \$132,000).

All directors of the parent entity, other than independent non-Member directors, are Members of the Group and conduct Member accounts. The terms and conditions of all Member accounts operated by directors are the same as accounts provided to other Members. Reward points earned by directors for the year were \$64,000 (2017: \$30,000) and the reward point balances owing to Member directors at 31 December 2018 were \$45,000 (2017: \$45,000).

The Group is engaged in a venture with Anthem Software Pty Ltd in the company INeedAService Pty Ltd. Anthem Software Pty Ltd holds a minority interest of 49%, which is disclosed in Note 14. CSL is responsible for the day-to-day management and decision making of the venture and is considered to have control of INeedAService Pty Ltd under the terms of AASB 10.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

15 Financial instruments

The fair value of the Group's financial assets and liabilities is impacted by movements in interest rates, foreign exchange rates and equity prices.

16 Fair value measurement

Set out below is an overview of financial instruments, other than cash, held by the Group at 31 December 2018:

	Loans and receivables/ amortised cost \$'000	Fair value through profit or loss \$'000
Financial assets:		
Investments in unit trusts	-	36,650
Investment in hybrid securities	-	14,378
Investment in property trust	-	3,503
Unlisted securities	-	11
Listed securities	-	1,550
Loan to Capricorn Mutual Limited	-	4,903
Term deposits	203	-
Trade account advances and other receivables	10,047	-
Total non-current	10,250	60,995
Trade account advances and other receivables	156,621	-
Term deposits	32,100	-
Total current	188,721	-
Total	198,971	60,995
Financial liabilities		
Trade and other payables	104,089	-
Total current	104,089	-
Total	104,089	-

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

16 Fair value measurement (continued)

Set out below is an overview of financial instruments, other than cash, held by the Group at 30 June 2018:

	Loans and receivables/ amortised cost Restated \$'000	Fair value through profit or loss \$'000
Financial assets:		
Investments in unit trusts	-	40,186
Investment in hybrid securities	-	13,885
Investment in property trust	-	5,800
Unlisted securities	-	11
Listed securities	-	2,020
Loan to Capricorn Mutual Limited	-	4,903
Term deposits	203	-
Trade account advances and other receivables	9,637	-
Total non-current	9,840	66,805
Trade account advances and other receivables	186,033	-
Term deposits	21,600	-
Total current	207,633	-
Total	217,473	66,805
Financial liabilities		
Trade and other payables	133,405	-
Total current	133,405	-
Total	133,405	-

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

16 Fair value measurement (continued)

Set out below is a comparison of the carrying amounts and fair values of financial assets and financial liabilities, other than cash and cash equivalents, as at 31 December 2018 and 30 June 2018:

	Carrying Amount		Fair Value	
	December 2018	June 2018 Restated	December 2018	June 2018 Restated
	\$'000	\$'000	\$'000	\$'000
Financial assets:				
Investments in unit trusts	36,650	40,186	36,650	40,186
Investment in hybrid securities	14,378	13,885	14,378	13,885
Investment in property trust	3,503	5,800	3,503	5,800
Unlisted securities	11	11	11	11
Investment in listed securities	1,550	2,020	1,550	2,020
Restricted cash deposits	203	203	203	203
Trade account advances	10,047	9,637	10,047	9,637
Loan to Capricorn Mutual Limited	4,903	4,903	4,903	4,903
Total non-current	71,245	76,645	71,245	76,645
Trade account advances and other receivables	156,621	186,033	156,621	186,033
Term deposits	32,100	21,600	32,100	21,600
Total current	188,721	207,633	188,721	207,633
Total	259,966	284,278	259,966	284,278
Financial liabilities				
Trade and other payables	104,089	133,405	104,089	133,405
Total current	104,089	133,405	104,089	133,405
Total	104,089	133,405	104,089	133,405

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

16 Fair value measurement (continued)

As at 31 December 2018, the Group held the following classes of financial instruments measured at fair value:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value:	\$'000	\$'000	\$'000	\$'000
Financial assets (Note 5)				
Investments in unit trusts	36,650	-	36,650	-
Investments in property trusts	3,503	-	-	3,503
Investment in hybrid securities	14,378	14,378	-	-
Investments in listed securities	1,550	1,550	-	-
Unlisted securities	11	-	-	11
Loan to Capricorn Mutual Limited	4,903			4,903
	60,995	15,928	36,650	8,417

As at 30 June 2018, the Group held the following classes of financial instruments measured at fair value:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value:	\$'000	\$'000	\$'000	Restated \$'000
Financial assets (Note 5)				
Investments in unit trusts	40,186	-	40,186	-
Investments in property trusts	5,800	-	-	5,800
Investment in hybrid securities	13,885	13,885	-	-
Investments in listed securities	2,020	2,020	-	-
Unlisted securities	11	-	-	11
Loan to Capricorn Mutual Limited	4,903			4,903
	66,805	15,905	40,186	10,714

During the period ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

During the period ended 31 December 2018, there were no transfers from level 2 to level 3.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs that have significant effect on the recorded fair value that are not based on observable market data.

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

16 Fair value measurement (continued)

For assets that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Movements of significant assets in Level 3

	\$'000
At 1 July 2017	6,245
Reclassification of CML Loan on adoption of AASB 9	4,903
Return of Capital – Property Trusts	(434)
At 30 June 2018	<u>10,714</u>
Return of Capital – Property Trusts	(2,297)
At 31 December 2018	<u><u>8,417</u></u>

Valuation techniques

The fair value of units in trusts is determined by reference to published bid prices at the close of business on the reporting date, being the redemption price as established by the underlying trust's responsible entity.

The fair value of the hybrid securities is based on price quotations in an active market at the reporting date.

The fair value of the property trust is based on the valuation of the underlying properties at the reporting date adjusted for secured debt over the properties, capital additions and excess working capital in the trust. The underlying properties have been either valued by independent licenced valuers or internal valuations performed by the fund manager during the year using the capitalisation approach and discounted cash flow analysis. Properties sold in the last six months have been valued at the arm's length sale price less acquisition costs.

Valuation technique	Significant unobservable inputs	Range
Capitalisation approach	Capitalisation rate	7.00% - 8.25%
Discounted cash flow analysis	Discount rate	7.50% - 8.25%

Capricorn Society Limited and Controlled Entities

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

17 Commitments

The Group has no commitments for the purchase of property, plant, and equipment at 31 December 2018.

18 Contingent liabilities

Guarantees

The Group has rented premises in Sydney for which a rental security of \$203,000 was required in the form of a bank guarantee to the lessor in the event of the Group being unable to meet its rental obligations. See Note 7(b).

The Group has provided a financial guarantee for Capricorn Travel Australia Pty Ltd that was valued at nil. As part of the registration requirements of the International Air Transport Association (IATA), a guarantee of \$143,000 was provided. It has been valued at nil as the likelihood of it being exercised is minimal.

19 Events subsequent to balance date

In February 2019, the Group announced the appointment of Mr David Fraser as Capricorn's new Group CEO, effective from 1 July 2019. Mr Fraser is the current Capricorn CEO – Automotive and a Member of the Executive Leadership Team.

Since the end of the reporting period, there have been no other significant events which may impact on the results for the period ended 31 December 2018.

Capricorn Society Limited and Controlled Entities

Directors' Declaration

For the Half Year Ended 31 December 2018

In accordance with a resolution of the directors of Capricorn Society Limited, we state that:

In the opinion of the directors:

- 1) The financial statements and notes of Capricorn Society Limited and Controlled Entities for the half year ended 31 December 2018 are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2018 and of its performance for the half-year ended on that date; and
 - b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- 2) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board

Director:



.....
Russell Becker

Director:



.....
Mario Pirone

Dated this 7th day of March 2019

Independent auditor's review report to the members of Capricorn Society Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Capricorn Society Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date, and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

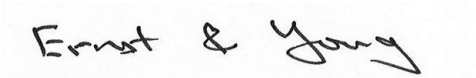
Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



T G Dachs
Partner
Perth
7 March 2019