

# Southern River Syndicate

(ARSN 117 661 971)

## ASIC REGULATORY GUIDE 46

The Australian Securities & Investments Commission (**ASIC**) issued Regulatory Guide 46 (**RG 46**) in September 2008. RG 46 was revised in March 2012.

RG 46 sets out disclosure principles that responsible entities must address for unlisted property schemes with retail investors. The disclosure principles are intended to assist retail investors understand the risks associated with investing in unlisted property schemes and to decide if such investments are suitable for them.

Primary Securities Ltd is the responsible entity (**RE**) of the Southern River Syndicate (**the Syndicate**), a closed ended unlisted property syndicate due for completion upon the sale of all subdivided lots.

This document presents disclosure principles for the Syndicate and should be read in conjunction with the Syndicate's annual and half year financial statements, and quarterly update reports. It will be updated with any material changes at least every six months and a copy is available on the Appian Properties website [www.appianproperties.com](http://www.appianproperties.com).

### Disclosure Principle 1: Gearing Ratio

The gearing ratio indicates the extent to which a scheme's assets are funded by interest-bearing liabilities. It gives an indication of the potential risks the scheme faces in terms of its level of borrowings.

Gearing ratios can be impacted by interest rate and property value movements.

The liabilities and assets used to calculate the gearing ratio are based on the Scheme's latest audited or reviewed financial statements, except where there has been a material change since those statements. Total assets exclude intangible assets including tax deferred assets

The gearing ratio is calculated using the following formula:

$$\begin{array}{lcl} \text{Gearing ratio} & = & \frac{\text{Total interest bearing liabilities}}{\text{Total assets}} \\ \text{Gearing ratio} & = & \frac{644,087}{13,116,001} \end{array}$$

The gearing ratio for the Southern River Syndicate as at 30<sup>th</sup> June 2017 was 4.9%

## Disclosure Principle 2: Interest Cover Ratio

The interest cover ratio gives an indication of a scheme's ability to meet interest payments from earnings. The interest cover is calculated using the following formula:

$$\text{Interest Cover} = \frac{\text{EBITDA}^* - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest Expense}}$$

\* EBITDA (earnings before interest, tax, depreciation and amortisation)

The Southern River Syndicate is a residential property development syndicate that does not produce regular revenue like a property rented to tenants and accordingly the interest cover ratio detailed above is difficult to apply.

The Syndicate has a debt facility of \$644,087 with National Australia Bank Limited in the form of bonds. The total amount drawn down as at 30<sup>th</sup> June 2017 was \$644,087 drawn for refundable bonding.

## Disclosure Principle 3: Scheme Borrowing

This principle provides information on a scheme's borrowing maturity and credit facility expiry, and any associated risks or loan breaches.

A scheme's borrowings are secured against its assets, and repayment of borrowings to secured creditors will rank ahead of unsecured creditors and equity investors in the scheme. Relatively short term borrowings are a risk factor if they are used to fund assets intended to be held long term.

Refinancing could result in less favourable terms or the inability to refinance may result in the need to sell an asset on a forced sale basis with the risk that it may realise a capital loss. The responsible entity has no reason to believe that the facility will not be further extended. This is based on the fact that the facility has been successfully renewed in the past.

Southern River Syndicate	As at 30 <sup>th</sup> June 2017
Lender	National Australia Bank
Loan facility limit	\$644,086.91
Loan drawn down	\$644,086.91 bonds
Maturity Date	31st August 2018
Interest Rate	N/A
Amount (as %) by which the value of the assets used as security must fall to breach loan covenant	Not applicable
Loan hedging	0%

Loan covenant breaches	Not applicable
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## Disclosure Principle 4: Portfolio Diversification

This principle addresses the scheme's investment practices and portfolio risk. Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk.

The Syndicate is comprised of the subdivision of approximately 23.8 hectares of land, including 13 different land titles consolidated and converted to 386 residential lots, 1 commercial lot.

There are a total of 9 stages in the development. Stage 8 is ready to commence development and will be followed by stage 9 being the last stage of this project

The residential estate has been named Riverbank at Southern River reflecting the subdivision's close proximity to the Southern River, a tributary of the Swan River. The land is located within the City of Gosnells, approximately 19 km south of Perth in Western Australia.

An independent valuation completed in June 2017, valued the property at \$12,312.000 including GST.

Funding for the development is via the scheme's loan facility with the National Australia Bank as per disclosure principle 3, Scheme Borrowing plus cash at Bank.

## Disclosure Principle 5: Related Party Transactions

A conflict of interest may arise when a scheme invests in, makes loans or provides guarantees to related parties.

The Responsible Entity and the Agent may from time to time enter into transactions with related parties. Any decision to appoint a related party will be made on the basis that:

- the decision to appoint a related party is in the best interests of the unit holders;
- the agreement is entered into on an arm's length basis and approved by the board of the RE;
- Any remuneration paid to a related party from the Syndicate is within prevailing market rates; and
- The arrangements are documented in writing.

The RE of the unlisted property Syndicate in this document is Primary Securities Ltd (ABN 96 089 812 635). Appian Properties Pty Ltd (ABN 80 234 866 024) is the agent of Primary and Supervisor in relation to the operation of the Syndicate.

The Syndicate does not directly employ personnel. The directors and executives of the RE and the Supervisor are referred to as the Key Management Personnel ('KMP'). The Syndicate does not pay compensation to any of the KMPs. No KMP has received or become entitled to any benefit because of a contract made by the RE or Manager with a KMP, or with a firm of which the KMP is a member, or with an entity in which the KMP has a substantial interest.

#### **Loans to Key Management Personnel of the Responsible Entity or Supervisor**

The Syndicate has not made, guaranteed or secured, directly or indirectly, any loans to KMPs or their personally-related entities at any time during the reporting period.

#### **Other Transactions Key Management Personnel of the Responsible Entity or Supervisor**

From time to time KMPs or their personally-related entities may buy or sell units in the Syndicate. These transactions are subject to the same terms and conditions as those entered into by other investors in the Syndicate.

#### **Detail of Related Party Transactions**

All transactions with related parties are conducted on normal commercial terms and conditions.

Units in the Syndicate held by Related Parties			
<i>Entity</i>	<i>Relationship</i>	<i>Unit holding</i>	<i>Interest held</i>
Appian Properties Pty Ltd	Agent	3,297,907	16.32%
Koy Pty Ltd (RC Nichevich)	Director of Agent	126,469	0.63%

### **Disclosure Principle 6: Distribution Practices**

This principle provides investors with information on the scheme's distribution practices and will assist investors in assessing the sources of distributions and informing them of the sustainability of distributions from sources other than realised income.

The Syndicate PDS refers to distributions as the amount earned by investors, after interest and all fees and expenses have been paid, and may include some return of capital. The Syndicate's secured lender, the National Australia Bank, requires full repayment of the debt facility before the Syndicate is allowed to distribute funds to investors.

The PDS forecast Total Return (which is an Internal Rate of Return) is 19.7% per annum over the life of the Syndicate. Forecast returns include profits and return of capital over time, generally in proportion with the number of lots settled each year upon commencement of selling, and will continue until all subdivided lots have been sold.

The revised forecast Total Return using current sales data (actual and forecasts) supplied by the Syndicate developer is 6.53%.

## Disclosure Principle 7: Withdrawal Arrangements

This principle provides investors with information regarding their withdrawal rights in each scheme.

The Southern River Syndicate is an illiquid investment with no withdrawal arrangements. Final completion is scheduled for December 2019.

## Disclosure Principle 8: Net Tangible Assets

A Net Tangible Assets (NTA) calculation helps investors understand the value of the assets upon which the value of their unit is determined.

The NTA is calculated using the following formula and is based on the latest audited or reviewed financial statements:

$$\text{NTA} = \frac{\text{Net Assets} - \text{intangible assets} \pm \text{any other adjustments}}{\text{Number of units in the scheme}}$$

$$\frac{8,057,248}{13,000,000}$$

The value of the net tangible assets on a per unit basis for the Southern River Syndicate as at 30<sup>th</sup> June 2017 is: \$0.62c

Further Information:

Financial statements and quarterly updates are available on the Appian Properties website [www.appianproperties.com](http://www.appianproperties.com).

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