

# Henley Brook Syndicate

(ARSN 114 592 040)

## 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 Henley Brook 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 investor 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.

The gearing ratio is calculated using the following formula:

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$
$$\frac{3,944,978}{20,337,644}$$

The gearing ratio for the Henley Brook Syndicate as at 30<sup>th</sup> June 2018 was 19%

## 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 Henley Brook 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.

Interest is to be paid from sales. There is a risk that if sales fall, interest is unable to be paid. As interest rates fluctuate, there is a risk that interest rates may increase or the value of lots being sold may fall, both of which would impact on the ability of the Syndicate to pay interest.

The National Australia Bank debt facility has been agreed for \$7.6m composed of \$7.1m in loans and a \$500,000 Bank Guarantee. Of this sum \$610,000 was repaid on the 28<sup>th</sup> February 2018. The balance of the debt of \$6,990,000 is to be repaid in full by the 31<sup>st</sup> December 2018.

An independent valuation completed in June 2018 valued the property at \$20,340,000 excluding GST.

## 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.

Henley Brook Syndicate	30 <sup>th</sup> June 2018
Lender	National Australia Bank
Loan facility limit	\$6,990,000 composed of tranche A,B,C,D including \$500,000 for bank guarantees.
Loan drawn down	\$3,944,978
Maturity Date	31 <sup>st</sup> December 2018 with reductions of \$3.0m as at the 30 <sup>th</sup> October 2018

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Interest Rate	100% Variable
Amount (as %) by which the value of the assets used as security must fall to breach loan covenant	over 35%
Loan hedging	the loan is not hedged
Loan covenant breaches	No breaches

## 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's principal activity is the progressive development of 40.56 hectares of acquired land into approximately 581 residential lots. Completion of the project is estimated as being late 2021.

The syndicate has completed development of stages 1 to 10. The last stage developed, stage 10, produced 56 lots in various sizes and categories. Stage 9 has achieved sales of 61 lots and settlements of 50 lots have been completed. Stage 10 has achieved sales of 15 lots with no settlements

Located within an urban corridor of the Swan Valley approximately 18 km north east of Perth in Western Australia, the estate has been named 'Avonlee at Henley Brook'. An independent valuation completed in June 2018 valued the unsold developed lots and the remaining englobo land at \$20,340,000 excluding GST. Funding for the development is via the scheme's loan facility with the National Australia Bank as per disclosure principle 3, Scheme Borrowing.

## 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 the 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 Supervisor 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>
Deluge Holdings Pty Ltd (RC Nichevich)	Director of Supervisor	90,000	0.82%
Koy Pty Ltd (RC Nichevich)	Director of Supervisor	110,000	1.00%

## **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 21.1% 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.

There has not been a revised forecast due to the uncertainty of the future cash flows.

## Disclosure Principle 7: Withdrawal Arrangements

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

The Henley Brook Syndicate is an illiquid investment with no withdrawal arrangements. Final completion is scheduled for December 2021.

## 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:

$$\begin{array}{rcl} \text{NTA} & = & \frac{\text{Net Assets} + \text{intangible assets}}{\text{Number of units in the scheme}} \\ & & \frac{14,881,017 + 1,381,856}{11,000,000} = 16,262,873 \end{array}$$

The value of the net tangible assets on a per unit basis for the Henley Brook Syndicate as at 30th June 2018 is \$1.48

### Further Information:

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

For a copy of the Product Disclosure Statement, please contact our Client Services team.

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