



ANGAS SECURITIES LIMITED ABN 50 091 942 728  
AUSTRALIAN FINANCIAL SERVICES LICENCE NO. 232 479

# Debenture Holder Quarterly Run-Off Update

**11 JULY 2018**

The Angas Securities first ranking debenture fund continues in Run-Off. Progress has been slower than debenture investors had expected but the realisation process has gained some recent momentum. Market forces drive the pace and size of asset realisations. Sale prices to date have been broadly in line with book value. Each transaction to date has exceeded any applicable valuation obtained by The Trust Company Limited ("Trustco"). The Perth property market has improved this year in line with expectations. Real estate agents have remarked that Angas Securities will hold out for its price. The market knows that Angas Securities is not susceptible to fire sale deals to get assets off the Balance Sheet. Such an approach destroys investor value. The board and management of Angas Securities are dedicated to achieving the best possible return for investors.

The Run-Off has entered a new phase. There are less individual assets to recover so there will numerically be less transactions that go to settlement each month. In all likelihood, redemptions will be larger in size but fewer in number. Accordingly, the terms approved at the last Debenture Holder Meeting provided for quarterly distributions. Angas Securities will try to make additional distributions whenever possible, but you should not expect redemptions at the end of every month because that will no longer be the case. Consistent with the arrangements in place since August 2017, Debenture Holder Updates will be issued to you quarterly. The next payment is due on 30 September 2018. An earlier payment will be made if circumstances permit.

## **1. THE LATEST PORTFOLIO INFORMATION**

- 1.1.** One partial loan repayment was made during May from the sale by Angas Securities of a commercial development site at Newcastle Street, West Perth for \$5.0M (Trustco valuation: \$4.5M). The remaining principal balance of the facility is circa \$1.0M is due to be recovered from collateral security provided by the guarantor under a Deed of Forbearance that has now expired. In addition, Angas Securities has commenced legal proceedings against the guarantor in the Federal Court of Australia (refer item 3.3 below). It is hoped that funds recovered from the guarantor will permit suspended interest to be reversed and enhance distributions to debenture holders.

Page 1 of 7

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### **ADELAIDE**

Level 14, 26 Flinders Street, Adelaide SA 5000  
GPO Box 2948, Adelaide SA 5001  
Ph [61 8] 8410 4343 Fax [61 8] 8410 4355

### **SYDNEY**

3 Spring Street, Sydney NSW 2000  
Royal Exchange, PO Box R1835, Sydney NSW 2001  
Ph [61 2] 9259 0777

### **PERTH**

Suite 12, 448 Roberts Road, Subiaco WA 6008  
PO Box 1602, Subiaco WA 6904  
Ph [61 8] 9380 4983 Fax [61 8] 9380 4480

Email [reception@angassecurities.com](mailto:reception@angassecurities.com)

Web [www.angassecurities.com](http://www.angassecurities.com)

Investor Service Line 1800 010 800

- 1.2. On 15 June 2018, the New South Wales government completed its purchase of the Fernhill Central precinct from members of the Angas Contributory Mortgage Fund (“ACMF”) syndicated loan. Debenture Holders received benefit from the excess funds generated by the sale proceeds in addition to Angas debenture funds that formed part of the syndication. The debenture loan component invested in Fernhill Central was cleared by this sale. Eastern Precinct, Western Precinct and bio credits remain for sale. These assets are projected to produce significant returns to debenture investors over the balance of the Run-Off. Angas Securities is in advanced negotiation to sell Eastern Precinct. Steps are being taken to split Western Precinct into two land parcels (refer item 2.1 below).
- 1.3. Angas is mortgagee in possession of a 15.256 hectare residential development site at Wellard WA which has a notional lot yield of 210 residential titles, subject to an “Urban Deferred” restriction being lifted (refer to Item 2.2 below). The holding is located on the southern fringe of metropolitan Perth, near the Wellard train station and with direct access to the Kwinana Freeway. To the immediate north is Sunrise at Wellard, an integrated residential estate developed by Amex Corporation, a major WA property developer. Hundreds of homes have been built and sold in this staged development which is about half complete to date. Stockland Group, an ASX listed property developer, has purchased a 330 hectare site to the immediate south. Stockland Group has announced its intention to build 3,700 homes on its newly acquired holding. Located between these existing and planned estates, the Angas site is now ripe for development. It is now to be promoted for sale in a targeted campaign with price expectations boosted by the recent transactions.
- 1.4. A sale contract with an agreed price of \$6.0M for a property in Dayton, WA has been executed. The purchaser’s conditions have been met and the sale is due to settle next month. The site was developed by the borrower with DA approval for a supermarket. The purchaser has secured one of Perth’s major IGA chains to operate a supermarket to be constructed on the site. Whilst Angas is the contracting party as Controller Acting, the borrower facilitated the transaction. Should the contract settle next month, Angas will retire and return control of the borrower to its investors.
- 1.5. Angas has executed a conditional contract for sale of a high rise beachfront development site at Safety Bay WA. The prospective purchaser will probably require consent from Angas to lodge a new DA for the site. There will be no settlement until much later in the year, being once the contract conditions have been satisfied by the purchaser.

## **2. STEPS TAKEN TO ENHANCE THE VALUE OF REMAINING ASSETS**

### **2.1. Proposed Subdivision of Western Precinct of Fernhill Estate at Mulgoa NSW**

This asset comprises 110 hectares of virgin bushland near the Nepean River. It is a discrete holding located adjacent to the Fernhill Central homestead property sold to the NSW government. The site is suitable for bio banking. Environmental consultants expect at least \$12 million worth of bio credits to be created. Local planning controls permit minimum 15 hectare blocks to be created in this location. However creating multiple building sites would substantially reduce the value of the bio credits. The environmental consultants advised Angas Securities that two building sites could be created near the entrance to opposite ends of Western Precinct without any reduction in bio banking. Angas Securities concluded that splitting Western Precinct into two parcels of equal size would maintain the value of the bio credits whilst creating two very valuable rural living blocks. The real estate agent who sold the 5 Mayfair sites and Lot 31 at Fernhill Estate for Angas Securities estimates that these new blocks should sell for at least \$2.5 million each.

Development Approval from Penrith City Council was sought for this subdivision last year. When consent was not granted within the statutory timeframe, Angas Securities lodged an appeal against this deemed refusal. The Council then raised three concerns namely the requirement for legal access from Nepean Gorge Road, hydrology evidence to satisfy the ability to safely deal with a one in one hundred year's flood event and the requirement to underground power lines to the site. Public consultation led to multiple objections from persons who were given the opportunity to address the Commissioner who conducted an on-site inspection and conciliation conference on 21 June 2018. Angas Securities addressed the Council's first two requirements by means of an easement and detailed hydrology calculations but refused to comply with the third requirement. In driving from Mulgoa Post Office to the site at the end of a no through road, I counted 117 poles supporting overhead power wires. The Council dropped the requirement for under grounding of power wires to the site and conditions for DA consent were approved. Angas Securities can now proceed with the two lot subdivision of Western Precinct.

## **2.2. Proposed Removal of "Urban Deferred" Zoning Restriction over 176 Woolcoot Road, Wellard WA**

The Wellard property referred to at item 1.3 has a dual zoning of approximately 40% (6.10 ha) being "Development" and approximately 60% being "Urban Deferred" (9.15 ha). The latter is within a 1,000 metre "Livestock Holding Facility Buffer". The borrower applied in 2013 to the Western Australian Planning Commission ("WAPC") to modify the buffer and transfer the zoning to "Urban" to permit full utilisation of the site. WAPC refused the application and a review to the State Administration Tribunal was commenced by the borrower but not pursued. The borrower is now in liquidation.

Angas Securities obtained legal and town planning advice about lifting the urban deferment zoning which relates to the 1,000 metre odour buffer for the Wellard Rural Exports livestock holding facility at 1 Telephone Lane, Baldivis. Extensive onsite work over a range of months was undertaken comprising Field Based Ambient Odour Intensity Assessments downwind of the facility. A report was prepared for Angas Securities which ranked the observed odours based on Standard VDI 3882. This extrinsic evidence, not available to the borrower, has enabled Angas Securities to lodge a fresh application with WAPC to amend the zoning. In the meantime, Stockland Group has bought the Baldivis property to develop for housing so the livestock usage will cease in due course in any event.

## **2.3. Proposed Subdivision of St Eyre Estate, Port Augusta SA**

The real property held by Angas Securities comprises 22.3 hectares of development land within an eight stage estate. Prior to being placed in liquidation, the borrower spent \$4.297M on civil works and infrastructure at St Eyre Estate including the installation of roads, curbs, gutters, power, footpaths and other essential services. Stages 1 and 2 have been developed and sold. Angas Securities holds a first mortgage over Stages 5b to 8. On 5 June 2018 the Port Augusta City Council granted Development Plan Consent and Land Division Consent to separate Stage 5a from Stage 5 b. A standalone title for Stage b will facilitate the sale of the secured property.

## **2.4. Development Approval Application for 71 Pebble Beach Drive, Coral Cove Estate QLD**

This asset comprises one of two direct property investments made by Angas Commercial Property Trust ("ACPT") yet to be realised as part of the Run-Off. In July 2012, ACPT received a Preliminary Approval for Material Change of Use for 28 units to be built on the land. Bundaberg Regional Council determined that there was insufficient trunk to service the proposed development so a preliminary approval was issued at that time. The new sewerage treatment plan required to service Coral Cove Estate has been constructed and commissioned. This satisfies the Council's

infrastructure requirements so ACPT is now proceeding with an application for Development Consent. ACPT does not intend to undertake construction of the 28 residential units on its land. Rather, ACPT will offer the land for sale with full Development Consent in place.

## **2.5. Subdivision of Mannum Green Shopping Centre SA**

This Shopping Centre comprises the other direct property investment by ACPT which is yet to be realised as part of the Run-Off. The Shopping Centre was newly built in 2012 and has been fully operational since that time. Mannum is a popular lifestyle community on the River Murray with access to Adelaide through the Adelaide Hills or via Murray Bridge and then the South East Freeway. The quaint 19th Century main street is a tourist hub. Mannum Green Shopping Centre is the heart of the civic centre for local residents adjacent to the Council Chambers, Police Station, School, Library and the turnover to the new Marina. ACPT developed the Shopping Centre on a former rural property which included the house occupied by the previous owner. The house now faces a road to the rear of the Shopping Centre. ACPT has leased out the house but it adds no other value so it has been subdivided by ACPT. A standalone title to the house has been issued to enable the house to be offered for sale.

## **2.6. Seeking Amendment to By-Laws at Garden Estate Christies SA**

Garden Estate Christies comprises 50 residential units together with a manager's residence. Angas Securities funded the purchase as an en globo property following which the borrower created fifty one individual strata titles which significantly enhanced the value of the secured holding. The borrower had sold one unit prior to defaulting on the loan. Angas has sold many more but has encountered difficulties in closing sales which are not cash sales. By-Laws prevent cooking in the units. On site management can provide meals in a dining room forming part of the manager's residence. Banks have generally declined to fund unit purchases so Angas Securities will propose at the AGM of the Strata Corporation to remove the restriction on cooking. A number of consultants have been engaged to support this proposal including legal, sales, valuation and conveyancing experts. Apart from making the remaining units easier to sell, if passed at the AGM, the proposed amendment to the By-Laws should see higher sale prices and enhanced returns for Debenture Holders.

## **2.7. Permitted Use Development Approval for Currumbin Valley Eco Village QLD**

The EcoVillage was conceived and developed as Australia's first sustainable urban living community with resort style amenities. It has received numerous awards for its achievements. Situated in the unspoilt hinterland adjacent to the Gold Coast, the Estate contains a total of 141 residential allotments plus 6 home studio lots, commercial lots and common areas. Development of the first two stages of the EcoVillage was funded by a major bank. Stage One and Stage Two sold out. Angas then became involved with funding Stage Three comprising 38 lots and took out the bank's security over the six home studio lots and the commercial lots (all of which were located within the Village Centre). The borrower failed following the tragic death of its principal. Angas is now Mortgagee in Possession.

All of the remaining residential blocks have been sold along with the home studio lots and most of the commercial sites. Since 2016, there has been a permissible use Development Application under way to create 12 residential sites on the remaining commercial land. This application was opposed by several existing residents of the EcoVillage, some of whom have circulated unauthorised extracts from these regular investor updates in order to campaign against the Permissible Change. I am delighted to advise that the Gold Coast City Council has now approved a modified proposal which will permit 11 sites to be created. There were a number of parties interested in acquiring the land which was sold this year at a price being nearly double the Trustee's valuation.

### **3. THE CURRENT STATUS OF LEGAL RECOVERY PROCEEDINGS**

#### **3.1. Quinnco Pty Ltd v Verco Insurance Federal Court of Australia No SAD of 2015**

The borrower paid \$5,969,590 to acquire a site on which to develop a retail Outlet Centre off the Gold Coast Freeway midway between Brisbane and the Gold Coast. It entered into a construction contract for \$28,358,195 to build The OC @ Exit 35. Construction was well advanced when the borrower's bank withdrew funding in late 2008. The borrower used its own funds to bring the project to lock up stage. \$20,458,195 had been expended on construction with bank debt of \$9,250,000 so the borrower had contributed significant equity to acquire and develop the project to that point. In 2010, Angas Securities provided bridging finance to take out the bank debt whilst the borrower sought a capital injection from a joint venture investor. When the borrower failed to do so, Angas Securities placed the borrower into receivership.

These proceedings concern an insurance claim brought by the borrower in receivership. The property occupied 5.43 ha. On completion, it would have provided 13,742 sqm of lettable space with 841 car parks. Whilst on the market being offered for sale, The OC @ Exit 35 was a very large, unoccupied, incomplete commercial structure. The Receivers and Managers took out insurance cover, implemented on site security patrols at a total cost of \$380,437 and erected temporary fencing at a cost of \$33,264. These costs were met by Angas Securities. Other steps to protect the property included installing heavy duty bollards in the driveway, blocking the entrance and removing lighting to the split level car park to discourage vagrants. Nevertheless, a major act of theft and vandalism took place causing damage assessed at over \$6M to reinstate. The insurance company has denied liability. The proceedings are listed for trial to commence on 22 October 2018 in Brisbane before Justice Derrington.

#### **3.2. Angas Securities Limited v SCV Manager District Court of South Australia No 681 of 2017**

Angas Securities took control as mortgagee of two residential estates at Hackham and Christies Beach SA in October 2012. 90 units were leased to tenants and have been progressively sold down with 26 units remaining on the market for sale. The defendant was appointed to manage the units. Angas Securities contends that the defendant has overcharged for its services and has failed to properly discharge its duties. Presentation of the claim involves many components per unit over a period in excess of five and a half years. Some units sold early and the claims are quite small. Other claims are quite large such as for units where the defendant allegedly failed to enforce a ban on smoking and Angas Securities had to pay nearly \$10,000 to repaint and recarpet the unit before it could be leased again.

Angas Securities presented the defendant with a formulated claim along with two lever arch folders of documents. After carefully considering the material at a pre trial hearing on 8 May 2018, Master Rice upheld the defendant's complaint that there was insufficient identification of each component of the claim nor adequate correlation with the supporting documents. More work has to be done by Angas Securities in the presentation of the claim before the matter can proceed further. I hope that the upside will be to simply shorten the trial if a settlement cannot be reached in the meantime.

#### **3.3. Angas Securities Limited v Miller Federal Court of Australia No WAD 196 of 2018**

These proceedings comprise a Creditor's Petition issued by Angas Securities against the Guarantor of the loan referred to in Item 1.1. The Guarantor had been directed to file any evidence in opposition by 2 July 2018 but he failed to do so. Angas Securities has been negotiating closely with the Guarantor and his lawyers over the last 12 months. I have met with the Guarantor several times in Adelaide and Perth. On 5 July 2018, the Guarantors lawyers submitted a settlement proposal which Angas Securities will consider ahead of the next hearing of the Creditor's Petition on 20 August 2018.

## **4. STEPS TAKEN TO MINIMISE USE OF EXTERNAL CONSULTANTS**

You will be aware that very substantial legal fees and consultants fees were incurred by or imposed on Angas Securities in the lead up to the Run-Off. Regrettably, external fees have continued through the Run-Off process despite the best efforts of Angas Securities executive directors and management to keep these to a minimum and to extract maximum value from those fees which are incurred. I have reported on legal claims brought against guarantors and third parties during the Run-Off. As a rule of thumb, Angas Securities have recovered \$7 for every \$1 outlaid. This represents money recovered that would not otherwise have been available to Angas Securities to distribute to you. Likewise, fees incurred to consultants and suppliers to create bio credits, to sub-divide land or to vary features of property assets such as rights of way, odour buffers or by-laws are incurred to create or enhance value. Nevertheless, Angas Securities will use its internal resources whenever possible to minimise expense. I set out below some relevant examples of effective action taken by in house staff.

### **4.1. Mannum Green Tenancy Claim**

District Court proceedings were issued by a former tenant in the Mannum Green Shopping Centre alleging he had been misled into taking out the lease. The insurer of the leasing agent engaged lawyers to conduct its Defence. Angas Securities was self represented and brought a counter claim for arrears of rent. There were multiple pre trial hearings. Pleadings were amended. Expert Reports as to economic loss were prepared. There were attempts at conciliation and the proceedings were settled two years later by mediation. Angas Securities incurred no legal fees and received half of the rent arrears as part of the settlement.

### **4.2. Responding to Application for Party Disclosure of Documents**

Angas Securities was served with an application to produce certain files in litigation to which it was not a party. Angas Securities was concerned to protect commercial confidentiality. Also, Angas Securities has enough to do running two mortgage trusts and completing the Run-Off without devoting precious resources to rummaging through archives to collate material for litigation to which it is not a party. The application was opposed by Angas Securities without utilising external counsel. The Judge refused the application and ordered the applicant to pay costs to Angas Securities which it duly did.

### **4.3. Application for Crown Marina Overnight Stays**

Angas Securities is mortgagee in possession of Crown Marina which adjoins the Cruising Yacht of SA ("CYC"). Three fingers of moorings have been developed and consent is held for two more. Rent is being collected from lessees direct by Angas Securities staff whilst the marina is being marketed for sale. CYC members can stay overnight on their vessels. That is not currently permitted at Crown Marina. Angas Securities has prepared internally a Development Application to permit overnight stays. This has been lodged with City of Port Adelaide Enfield.

### **4.4. Recovery of Outgoings for ACPT**

Three substantial commercial assets were sold by ACPT during the Run-Off. The Angas Securities Accounts Department identified that a former tenant had failed to pay all outgoings due under the lease. The former tenant was a well known subsidiary of an ASX Top 20 company. It failed to respond to demands so ACPT issued a civil claim without use of external lawyers and payment in full was received.

#### **4.5. Retirement of Receivers, Managers and Controllers**

In Item 1.4, reference is made to the intention of Angas Securities to retire as Controller of a borrower should a land sale proceed to settlement next month. It has been essential to the Run-Off that Angas Securities exercise its powers as mortgagee to enhance and realise assets. Sometimes Angas Securities can do this internally such as with the Dayton sale. Sometimes, Angas Securities needs external assistance from Receivers and Managers such as with The OC @ Exit 35. To date, Angas Securities has retired Receivers and Managers from six appointments as assets have been realised during the Run-Off.

### **5. GENERAL MATTERS**

#### **5.1. Review of Half Year Accounts**

Angas Securities filed Half Year Financial Statements on 15 April 2018 prepared in accordance with AASB but not subject to external review by the auditor. ASIC has rejected the application by Angas Securities for relief under section 340 of the Corporations Act to dispense with the requirement for external review. Several reasons were set out for seeking this dispensation. All of them pertain to the Debenture Run-Off including cost. These reasons were articulated in the last Quarterly Update. An application to review ASIC's refusal has been lodged with the Administrative Appeals Tribunal. There will be a conference by telephone on 25 July 2018 to make arrangements to hear and determine the request by Angas Securities to review ASIC's decision.

#### **5.2. Re-structure of Managed Investment Scheme**

The application lodged by Angas Mortgage Management Limited to become the new Responsible Entity of the two Managed Investment Schemes remains unresolved. Angas Securities has consistently stated that it will be easier to market Angas Prime and Angas Direct for sale to a third party operator if they can be structurally removed from the Angas Securities Balance Sheet. ASIC advises that it is still unwilling to accept the proposed form of guarantee approved by Debenture Holders by Extraordinary Resolution and approved by the Federal Court. ASIC has suggested a possible alternative approach to the Net Tangible Asset issue.

#### **5.3. Performance of Managed Investment Scheme FY18 Full Year**

Combined revenue from Angas Prime and Angas Direct was \$3.3M in FY17. Whilst the final numbers are subject to audit, management accounts suggest that combined revenue will be a similar figure in FY18. This is a very solid contribution to operating costs as Angas Securities continues to Run-Off the remaining debenture assets. The Run-Off projection anticipated slightly higher revenue from these two Managed Investment Schemes in FY18. The actual figures are updated monthly together with all appropriate adjustments. Any minor deficiency in revenue is not material to the outcome of the Run-Off. Angas Securities has been managing funds through this structure since 2010. The highly qualified Compliance Committee chaired by Angas Securities veteran Kimley Lyons has three out of four independent members. Many Debenture Holders have taken the opportunity to invest in Angas Prime and Angas Direct to generate good returns.

Yours faithfully

**Angas Securities Limited**



**Andrew Luckhurst-Smith**  
*Executive Chairman*

11th July 2018

Page 7 of 7

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