



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

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MARKET UPDATE AS TO PROGRESS OF DEBENTURE RUN-OFF

The Angas Securities first ranking debenture fund entered Run-Off whereby all available assets have been sought to be realised so that debenture principal could be returned to investors. Progress has been slower than the directors and debenture investors had expected. \$133,150,588 has been distributed by Angas Securities to debenture investors since commencement of the Run-Off. Market forces drive the pace and size of asset realisations. Sale prices to date have been broadly in line with book value. Each sale transaction has exceeded the valuation obtained by The Trust Company Limited ("Trustco") where applicable. The board and management of Angas Securities remain dedicated to achieving the best possible return for investors.

The costs of operating Angas Securities have been reduced with the direct operating costs being broadly covered by revenue from the continuing funds management businesses known as Angas Prime (pooled mortgage fund) and Angas Direct (contributory mortgage fund). Angas Securities is now two businesses. One is in Run-Off being the debenture fund. The other is an ongoing funds management business. The revenue earned from running the ongoing business defray the costs of finalising the former debenture business.

The debenture Run-Off expires on 30 June 2019. The view of the directors is that the Run-Off will not be finalised by then. No further extension will be sought. A new approach is required. Subscribed debenture funds were invested primarily in first mortgages. The borrowers and guarantors who can discharge their obligations have done so. The loan and property assets capable of ready sale have been sold. There is no point in undertaking a fire sale of the remaining assets given that investors have been so patient until now. The principal remaining assets of the debenture fund comprise two unresolved court actions; significant new bio credits from Fernhill Estate in New South Wales; four properties that remain subject to incomplete subdivision or rezoning applications; and several properties still to be sold on the open market. Most of these unsold properties are in Western Australia where the market rallied in 2018 and several contracts were obtained by Angas Securities but only one contract proceeded to settlement. The funds management businesses cannot achieve their underlying value in the Run-Off as the 2016 restructure application remains unresolved.

1. SOME RECENT DEVELOPMENTS IN THE LOAN PORTFOLIO

- 1.1. On 18 December 2018, the New South Wales government completed its purchase of the Fernhill Eastern Precinct from Angas Securities. The sale price was 50% more than Trustco's valuation but was much less than third party developers had bid but had not settled on because of zoning restrictions. The sale price is less than the Run-Off projection adopted in line with the market interest expressed by developers so the projection has been adjusted accordingly.

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- 1.2. A sale contract has been negotiated for the sale of an asset in metropolitan Adelaide. The borrower has been placed in liquidation. The property has been advertised for sale widely for several years but extensive negotiations with several interested parties have not led to a contract. The sale price that has now been accepted by Angas Securities is below that projected in the Run-Off. The sale terms have been approved by the LRC. The Cashflow projection has been adjusted to reflect the agreed sale price.
- 1.3. The remaining principal balance of one loan facility of circa \$1.0M is now considered irrecoverable. Collateral security held from a corporate guarantor under a Deed of Forbearance is now adjudged to be worthless. This corporate guarantor was placed in liquidation prior to completing and selling the development project held as collateral. In addition, Angas Securities brought bankruptcy proceedings against the personal guarantor but does not expect to receive any dividend. The Cashflow projection has been adjusted to reflect this impairment.
- 1.4. Several legal actions brought by Angas Securities during the Run-Off have led to funds being recovered. There remained two consent judgments held by Angas Securities in proceedings brought against personal guarantors providing for instalment arrangements. A WA Supreme Court order was fulfilled when a final payment was received this month. A Queensland Supreme Court order directing monthly instalments is being complied with. A final lump sum is due at the end of 2019.
- 1.5. There are two unresolved legal actions. The claim against the manager of the Christies Beach and Hackham Estates is listed for a Settlement Conference in the District Court of South Australia on 31 January 2019. The claim against Vero Insurance is listed for trial in the Federal Court of Australia in Brisbane commencing on 1 April 2019.

The projected Cashflow from the Run-Off has been adjusted to reflect the impact of the transactions noted in items 1.1 to 1.3. Angas Securities considers it unlikely that these shortfalls will be offset by uplift from the sale of other assets. Accordingly, the principal return to investors is now projected to be less than 100 cents in the dollar.

2. FURTHER STEPS TAKEN TO REDUCE COSTS

Angas Securities comprises a legacy debenture business which is contracting and a mortgage trust business which is trading solidly. Management, staff and facilities are required to complete the Run-Off and conduct the mortgage trust business which generates cashflow. Other than the Angas Direct Portfolio Manager, every person engaged by Angas Securities has a role in both operations. For example, the investor staff in each office deal with debenture holder enquiries and with Angas Prime and Angas Direct investors. The Head of Funds Management who oversees the two mortgage trusts is Acting Head of Lending too. He has worked closely on enhancing and managing the Fernhill assets, especially in relation to bio banking and land subdivision. Nevertheless, there have been substantial cost savings achieved throughout the Run-Off by staff redundancies, staff not being replaced, reduction in executive director fees, salary reductions, lease renegotiation and relocation of the Sydney office. Cost savings effective from 1 January 2019 include a further reduction in executive director fees and an executive director being remunerated at 0.75 times.

3. FINALISING THE RUN-OFF AND GOOD FAITH NEGOTIATIONS WITH TRUSTCO

In May 2018, the LRC requested Angas Securities to provide a briefing to LRC at the September 2018 meeting concerning the intentions of the directors if it was then considered likely to be insufficient time to realise all of the residual assets in the legacy debenture fund by 30 June 2019. This briefing was provided. Angas Securities subsequently compiled a formal written proposal for LRC outlining options being considered by its board and management. This proposal was provided to LRC members on 12 October 2018 and discussed at length with me on behalf of Angas Securities at the LRC meeting held on 26 October 2018. Angas Securities directors subsequently met with representatives of Trustco on 30 October 2018 and 14 December 2018. Whilst these discussions will continue, neither Angas Securities nor Trustco favour a further extension of the Run-Off. The preferred course is to develop a mechanism which will preserve the assets for debenture investors whilst retiring Trustco and the financial burden of the Run-Off. A secondary issue is a claim by Trustco for out of pocket fees incurred with external advisers engaged prior to and throughout the Run-Off process.

Meanwhile, there has been a formal report made by Angas to the Federal Court on alternative proposals that have been under consideration. Orders were made by the Honourable Justice Beach on 8 November 2018 setting out a structure by which the parties should conduct their deliberations in good faith. The proceedings will be back before the Federal Court next month. Australian Securities Investment Commission ("ASIC") has advised Angas that it does not currently intend to appear at, or take a position on any contemplated proposal, in advance of the case management hearing scheduled for next month. However, ASIC reserved its rights to take a position and/or to seek or make any submissions that it deems appropriate at the case management hearing should it become concerned that debenture holder interests or protections are being or could be undermined. The Orders of Justice Beach require each of Angas and the Trustee to consult in good faith with each other and with ASIC. The consultation process is ongoing. Angas will continue to provide updates to the market as and when developments arise in respect of this process.

Yours faithfully
Angas Securities Limited



Andrew Luckhurst-Smith
Executive Chairman