

Disclosure Guide

Elements Residential Development Class

Important Notice and Disclaimer

As responsible entity of the Skyring Property Development Fund ARSN 160 006 488 relating to the Elements Residential Development Class of Units (Trust or Fund) Skyring Asset Management Limited ABN 92 156 533 041 (Skyring) is the issuer of this update disclosure guide (Guide) which should be read in conjunction with the product disclosure statement part one (or P1) dated 17 June 2013 and product disclosure statement part two (or P2) relating to the Elements Residential Developments Class of Units dated 1 July 2013 and collectively referred to as the product disclosure statement (PDS). As at the date of this Guide, the Trust is closed to new investments. The Trust has a fixed term of 48 months commencing on the date Units were issued (October 2013) during which investors have no right to withdraw.

Information in this Guide is general information only and does not take into account your objectives, financial situation or needs. Therefore in deciding whether to acquire or continue to hold an investment you should consider the PDS and Guides to it carefully and assess, with or without your financial or taxation adviser, whether the product meets your objectives, financial situation or needs.

Scope of this Disclosure Guide for Unlisted Property Schemes

The Australian Securities and Investments Commission (ASIC) issues regulatory guides (RGs) to assist regulated entities, of which Skyring is one, by publishing practical guidance on ASIC's explanation on how they apply the law together with describing the principles under which ASIC approach to interpretation of the Corporations Act (2001) provisions and regulations. RG 46 was issued in September 2008 and updated in March 2012. RG 46 sets out particular disclosure principles and benchmarks designed to provide improved disclosure to retail investors to help them compare risks and returns across investments in the unlisted property scheme sector.

Set out below are tables which lists each disclosure principle and benchmark and whether relevant information is included in this Guide and the Product Disclosure Statement (PDS)

Disclosure Principles	Guide Reference	PDS (P1) &(P2) reference
1 Gearing Ratio – this indicates the extent to which the Trust's assets are funded by interest-bearing liabilities	Section 4	Section 3.2 & 3.3 (P1) "Investment details" (P2)
2 Interest Cover Ratio – this indicates the Trust's ability to meet its interest payments from its borrowing	Section 4	Section 3.2 & 3.4 (P1) "Investment details" (P2)
3 Scheme borrowing – disclosure is important because it helps investors understand significant risks associated with the Trust	Section 4	Section 3.5 (P1)
4 Portfolio diversification – this discloses the Trust's direct property portfolio, a key element in the financial position and performance of the Trust	Section 1	Section 3.6 (P1) "Investment details" (P2)
5 Related Party Transactions – this will help investors understand and assess the approach Skyring takes to transactions between the Trust and Skyring related entities	Section 7	Section 3.7 (P1 "Investment details" (P2))
6 Distribution Practices – this will help investors understand how Skyring will fund distributions and assess whether distributions are sustainable	Section 5	Section 3.8 (P1) "Investment details" (P2)
7 Withdrawal Arrangements – this will help investors understand how Skyring will fund withdrawals and assess whether withdrawals are sustainable	Section 6	Section 3.9 (P1) "Investment details" (P2)
8 Net Tangible Assets – this will help investors understand the value of the assets upon which the value of the unit is determined	Section 2	Section 3.10 (P1) & Key Investor Information (P2)

Benchmarks	Guide Reference	PDS reference
1 Gearing policy – Skyring maintains it complies with a written policy that govern the level of gearing for the Trust	Section 4	Section 3.4 (P1) “Investment details” (P2)
2 Interest Cover Policy – Skyring maintains and complies with the written policy that govern the level of interest cover for the Trust’s borrowings	Section 4	Section 3.3 (P1) “Investment details” (P2)
3 Interest Capitalisation – the interest expense of the Trust is being paid monthly until practical completion and sale of the Property	Section 4	Section 3.3 (P1) “Investment details” (P2)
4 Valuation Policy – Skyring maintains it complies with the written policy governing valuations of the Trust’s property	Section 3	Section 3.6 (P1) “Investment details” (P2)
5 Related Party Transactions – Skyring maintains it complies with the written policy on related party transactions	Section 7	Section 3.7 (P1) “Investment details” (P2)
6 Distribution Practices – the Trust will only pay distributions from cash available from its operations (excluding any borrowings)	Section 5	Section 3.8 (P1) “Investment details” (P2)
All statistics and amounts in this document are as at 31 May 2017 unless otherwise stated		

Skyring may update this document from time to time. All updates are emailed to investors. A paper copy of this document or any updated information will be given to you on request and without charge.

From time to time, Skyring may become aware of information that is material to investors but not covered by disclosure principles. Any such material information will be provided to investor’s via email updates.

1. Portfolio Diversification

- a. Trust investments- the Trust (Elements Residential Development Class of Units) owns a single property situated at Stadium Drive Coffs Harbour NSW 2450 (Property). This Class holds no other assets.
- b. Property valuation – As at the date of this investor Continuous Disclosure we are not in receipt of a current valuation. The Directors are not valuers and do not propose to place a valuation on the property on an “as is” basis without independent verification from a registered valuer. The next disclosure will include the valuation provided by an independent valuer.

2. Net Tangible Assets-

- a. Net Tangible Assets (NTA) of the Trust can be calculated on a per unit basis. This can be used as an approximate measure of what a unit holder could expect to receive per unit held if the assets of the Trust were sold at that particular point in time. However, it does not make any allowance for the cost of disposal of the asset nor any costs associated with winding up the Trust if that was the required strategy.
- b. The NTA formula is: (net assets- intangible assets +/- other adjustments) divided by the number of units on issue.
- c. NTA calculations are typically performed by using information from the trust's latest audited financial statements but can be updated for current year balances.
- d. As the main asset of the Trust is property and as detailed above a current valuation is not at hand, no NTA unit price can be determined at this point. Upon completion of the 2017 annual report an updated NTA unit price will be determined and will be included in the annual report and in the next disclosure guide.

3. Valuation Policy-

- a. Skyring has, and complies with, its valuation policy for the Property. Skyring will obtain an independent valuation for this property "as is" together with an independent valuation on the gross realisation estimates for Phase 2 as at 30 June 2017.

4. Trust Borrowing

- a. Borrowing policy- Skyring has, and complies with, a written policy that governs the level and nature of the Trusts borrowings and, in particular the level and nature of the Trust gearing and the level and nature of its interest cover.
- b. The Property had been mortgaged for a loan of \$5.86 million with \$4.28M currently drawn down.
- c. It is expected that the balance of the loan will be repaid within the next 12 months assuming all current contracted and uncontracted sales settle in accordance with the settlement program advised by the development manager.
- d. Gearing ratio- the gearing ratio indicates the extent to which the Trust assets are funded by interest-bearing liabilities (i.e. its borrowings). The ratio gives an indication of the potential risks faced by the Trust as a result of its borrowings due to, for example, increases or decreases in property values. In accordance with the PDS Part 1, the gearing should not exceed 85% of total assets. The current gearing ratio based on current loan divided by total assets will be determined on completion of the 2017 annual report. To date, the gearing ratio has not been exceeded on inception or valuation of loans.
- e. Interest cover- interest cover measures the ability of the Trust to meet the interest payments on its borrowings from its earnings. The level of interest cover gives an indication of the Trust financial health. It is a key measure of the Trust's ability to meet its interest payment obligations. Generally the higher the interest cover the easier it will be for the Trust to continue to meet its interest payments if earnings decline.
 - i. Interest cover is calculated by dividing earnings before interest tax depreciation and amortisation (EBITDA) adjusted for unrealised gains and losses by the interest expense

- ii. the Trust is not currently calculating its interest cover because, at the date of this document, the Trust does not have “earnings” as the property is a land subdivision currently under construction
 - iii. Interest has been, and will be, paid as and when due from the sale proceeds of allotments as they settle.
 - f. Loan covenants- the Trust’s Loan has various financial covenants which Skyring are required to comply with prior to the discharge of the loan. Skyring consider these loan covenants to be commercial in nature and not onerous on the Trust Property.
 - g. Hedging- hedging is a means by which the variable component of the Trusts interest payments is fixed for a certain period. This provides the Trust with certainty as to its interest expense for the hedging period. Whilst this is a benefit to the Trust should interest rates rise, it would be disadvantageous to the Trust if interest rates fall below the level at which the Trust’s interest rate was hedged.
 - i. Skyring has hedged (fixed) the interest only borrowings relating to the current Loan
 - ii. The fixed interest rate which will only increase in the event of default by the Trust
5. **Distribution Practices-** the Trust will only make distributions from realised income and not from unrealised gains or, with the exception of partial distributions of net proceeds from the sale of a Property, from capital. Final distribution will be determined once all assets have been converted to cash, outstanding liabilities have been determined and paid cash distributed to investors. The intended timing of distributions is determined solely by the current sales rates success as each stage of the development is constructed, sold and sale proceeds utilised to fund the next stage until such time that all stages have been completed and all assets realised into cash.
6. **Withdrawal Arrangements-** generally investors who hold investor interests (Units) in the Trust will have no right to have their Units redeemed or repurchased.
7. **Related Party Transactions-** Skyring recognises that it is important that related party transactions are properly managed because of the inherent risk that they may be mutually assessed and then reviewed less vigorously than transactions with external parties. Skyring has, and complies with, written policies with regard to related party transactions. The policies cover among other things the assessment and approval process for related party transactions as well as how those transactions are managed. Skyring has appointed a number of related entities to provide services or loans to the Trust.
- a. Skyring raised a \$5.86 million loan facility by issuing interests in the Elements Development Finance Stage 2 Class of units (Finance Units). Loan facility organised by Skyring utilising the Finance Units has been facilitated on commercial terms and fully disclosed in a product disclosure statement issued to investors of the Finance Units class. Skyring Chartered Accountants (formerly Mardell Financial Centre), a business associated with Skyring provides loan management services on behalf of the Trust.
 - b. Skyring outsources the day-to-day accounting and administration to Skyring Chartered Accountants, a business associated with Skyring. All services provided by Skyring Chartered Accountants are done so on arm’s-length and at commercial terms.

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- c. Skyring has engaged Skyring Real Estate (formerly My Property Group Australia) for development management and sales co-ordination. Skyring and Skyring Real Estate have related shareholders. Skyring Real Estate holds the appropriate licences, experience and expertise to provide development management and real estate services.
 - d. Compliance with the Related Party Transactions is tested at least annually by Skyring's audit and compliance team. To date, the policies have been complied with by Skyring.