

## **Australian Securities and Investment Commission (ASIC) Benchmark and Disclosure Principles**

Regulatory Guide 232 encourages responsible entities of agribusiness schemes to update retail investors on compliance with the benchmarks and disclosure principles set out in Regulatory Guide 232 for the purpose of enhancing disclosure and helping investors understand and assess agribusiness schemes.

In Regulatory Guide 232, ASIC encourages responsible entities of agribusiness schemes to address the benchmarks on an 'if not, why not' basis, apply the disclosure principles and provide updates to investors on material changes to the benchmark and disclosure principle information.

Set out below is information relating to the benchmark and disclosure principles for the TFS Sandalwood Project 2012 (**Project**) (ARSN 157 880 263).

### **Benchmark 1 – Fee Structures**

#### Description:

*The scheme is structured so that either:*

*(a) investors are required to pay annual fees (or contributions) to the responsible entity that are sufficient to fund the operation of the agribusiness scheme for the relevant financial year; or*

*(b) the up-front fees (or contributions) investors pay when they invest is sufficient to cover the operation of the agribusiness scheme until the proceeds of sale of produce are available and this money is held on trust for the investors in that agribusiness scheme.*

*Any fees (or contributions) received by the responsible entity from investors in the agribusiness scheme are:*

*(a) held separately from the other assets of the responsible entity for the benefit of the investors in that agribusiness scheme, are only available for the operation of that agribusiness scheme and are subject to annual audit; and*

*(b) only used by the responsible entity to meet any expenses that are incurred in the operation of that agribusiness scheme during the period to be covered by the payment, including the portion of the responsible entity's fees that is proportionate to its duties that have been properly performed during that period.*

Sandalwood Properties Ltd (Subject to Deed of Company Arrangement) (Receivers And Managers Appointed) (Sandalwood Properties) does not satisfy all of Benchmark 1.

#### Explanation:

Sandalwood Properties charges fees including both upfront fees and annual fees. Sandalwood Properties provides fee payment structures designed to provide Growers with flexibility as an investor in the Project. If a Grower elects to defer certain annual fees, Sandalwood Properties pays these fees on behalf of the Grower which entitles Sandalwood Properties to a percentage share of the gross proceeds of sale at harvest for each year in which the Grower elected to defer payment.

Set out below are the material risk factors associated with the fee structures in relation to the Project and the mechanisms that Sandalwood Properties has adopted to address those risks:

- deferred payment of fees: Growers are entitled to defer payment of plantation management costs, on the basis that the responsible entity meets those costs in exchange for earning a share of the proceeds of harvest. Sandalwood Properties obtains funding from other members of the Quintis Group to enable it to meet those ongoing costs. In circumstances where Growers elect to exercise that right, funding of the operations of the agribusiness scheme is dependent upon the availability of funding from members of the Quintis Group. A recapitalisation of the Quintis Group is in the process of being implemented through a linked deed of company arrangement and scheme of arrangement. If that recapitalisation is successful, the Quintis Group would have sufficient funds available to provide that funding.
- annual fees are insufficient: There is the risk that the annual fees payable by Growers is less than the actual costs of running the Project for the relevant financial year. In these circumstances, the Project may not be sufficiently funded for such a period. Lack of adequate funding for the Project from the

annual fees may have a detrimental impact upon the size and quality of the produce ultimately harvested. It may in turn result in lower returns for Growers. When the Project was established the annual fee for the Project was set taking into account forestry practices at the time, market rates for forestry service providers both at the time as well as projected market rates, specialist advice from forestry experts and advice from its experienced management team. Further, the annual fee increases each year of the Project by a fixed price escalation of 3% to account for inflation; and

- working capital requirements for harvesting and processing: The costs of harvesting and processing the Sandalwood trees are expected to be funded from the gross proceeds of sale at harvest. Growers pay a fee, currently estimated to be approximately \$16,000 (plus GST) per hectare, to cover these costs, which is deducted from their gross proceeds of sale at harvest. As this fee is received by the responsible entity after the harvesting and processing, the responsible entity must ensure that it has sufficient working capital to meet the expenses associated with harvesting and processing the Sandalwood trees. Sandalwood Properties anticipates that it will have access to sufficient working capital to fund the costs of harvesting and processing by virtue of:
  - finance for the costs of harvesting and processing from the purchasers of the Sandalwood products - purchase arrangements can provide for the funding of harvesting and processing by the purchaser of the products; and
  - the annual fees received for the Project - these fees are the same each year (subject to indexing and differences resulting from the number of annual fee deferrals), and can potentially be available to assist with the harvesting and processing operations.

To the extent that the costs of harvesting and processing cannot be met from the working capital sources outlined above, the Sandalwood Properties would rely on funding from other sources to meet these costs including funding from within the Quintis Group. A recapitalisation of the Quintis Group is in the process of being implemented through a linked deed of company arrangement and scheme of arrangement. If that recapitalisation is successful, the Quintis Group would have sufficient funds available to meet those costs. Whilst Sandalwood Properties expects that the above funding sources will be sufficient to meet the costs of harvesting and processing the Sandalwood trees, Sandalwood Properties cannot guarantee that it will have sufficient working capital to meet these costs.

Sandalwood Properties considers that, based on past payment history, it charges fees that are sufficient to cover most of the expenses relating to the Project over its life cycle. If Sandalwood Properties is replaced as the responsible entity of the Project, any replacement responsible entity could seek to remove the deferral rights afforded to Growers in relation to fees payable in connection with the Project.

The annual fee was calculated based on the reasonably expected costs of operating the Project. Fees were calculated based upon Sandalwood Properties' experience operating agribusiness schemes focussing on Sandalwood. The annual fee is charged 6 months in arrears and 6 months in advance on 1 January each year. The invoice for the annual fee sets out the total amount to be paid and contains a breakdown of the composition of the total fee.

If Sandalwood Properties is replaced as the responsible entity of the Project, Sandalwood Properties considers that, based on the fee structure and past payment history in relation to the Project, the replacement responsible entity will be able to continue the Project.

The establishment fee received from a Grower was paid into custodian account to be held on trust pending acceptance of the Grower's application. Following acceptance of applications, 50% of these funds were transferred into an operating account. Sandalwood Properties subsequently made payments to the Project manager, Quintis Forestry Limited (Subject to Deed of Company Arrangement) (Receivers And Managers Appointed) (**Quintis Forestry**) to fund the establishment of the Plantations for the Project. Sandalwood Properties deposited the remaining 50% of the establishment fee into a trust account which was maintained by an independent custodian and was released to the responsible entity quarterly until the completion of establishment services for the Project.

Sandalwood Properties has in place accounting methods that permit accurate allocation, identification and segregation of fees received from the Project's Growers from the property of Sandalwood Properties or other agribusiness schemes.

The Project is structured such that any fees received by the responsible entity from investors in the Project are only available for the operation of the agribusiness scheme, are subject to annual audit and are only used by the responsible entity to meet any expenses that are incurred in the operation of the agribusiness scheme during the period to be covered by the payment, including the portion of the responsible entity's fees that is proportionate to its duties that have been properly performed during that period.

The fees received by the responsible entity from Growers in the agribusiness scheme could theoretically be taken by creditors of the responsible entity if the responsible entity is wound up or is subject to administration before the responsible entity has met the expenses that relate to the operation of the agribusiness scheme for the relevant period and performed its obligations in relation to the agribusiness scheme. That has not occurred during the external administration of Sandalwood Properties and fees received from Growers have continued to be used to meet relevant costs in relation to the agribusiness scheme.

One year's annual fee and rent was also paid upfront by Growers and deposited by Sandalwood Properties into a trust account maintained by an independent custodian. In accordance with the Project documentation, these funds will be applied either:

- in satisfaction of the annual fee and rent payable in Year 12 of the Project; or
- in satisfaction of the next year's annual fee and/or rent if the responsible entity or Quintis Leasing becomes insolvent and is therefore unable to pay for the ongoing services and/or rent (as applicable) and the Growers pass the necessary resolution.

**Benchmark 2 – Responsible entity or related party ownership of interests in the agribusiness scheme**

Description: The responsible entity and its related parties own less than 5% in aggregate by value of the interests in the agribusiness scheme except for any interests acquired through the default by a member of the agribusiness scheme.

Sandalwood Properties satisfies Benchmark 2.

Explanation: Sandalwood Properties and its related parties did not apply for Sandalwood Lots in the Project. Sandalwood Properties and/or its related parties either do not own or own less than 5% in aggregate by value of the interests in the Project (excluding any interests acquired through the default by a Grower of the Project). In relation to interests acquired by the Quintis Group other than through the default of a Grower in the Project, the Quintis Group does not have any policy on ownership of interests in the agribusiness scheme in place other than the fact that the Quintis Group does not apply for Sandalwood Lots in its agribusiness schemes.

**Benchmark 3 – Annual reporting to members**

Description: The responsible entity provides members with a report at least annually that contains relevant scheme-specific information.

Sandalwood Properties does not satisfy Benchmark 3.

Explanation: Sandalwood Properties prepares annual audited accounts for the Project and provides Growers with access to the annual audited accounts, including by posting them on the Quintis website.

Annual audited accounts have been provided up to the 2016 financial year. The 2017 and 2018 financial year accounts have been delayed due to the circumstances leading up to, and the subsequent external administration of Sandalwood Properties. Sandalwood Properties has subsequently applied for relief from ASIC in relation to its reporting obligations and the form of relief is in the process of being finalised. We expect audited accounts (including 2017 and 2018 financial years) will recommence being provided by Sandalwood Properties in accordance with the terms of financial reporting relief being discussed with ASIC.

#### **Benchmark 4 – Experts**

Description: Where the responsible entity engages an expert to provide a professional or expert opinion on the agribusiness scheme, and the expert opinion is disclosed to retail investors in a way that may lead them to place reliance on the expert's expertise, the responsible entity only engages an expert that is independent.

Sandalwood Properties satisfies Benchmark 4.

Explanation: The PDS contained an Expert Forester's Report prepared by Kimber Environment Services and an Expert Sandalwood Marketing Report prepared by H.S. Anantha Padmanabha. Further information is set out in the PDS.

#### **Benchmark 5 – Appointing and monitoring service providers**

Description: The responsible entity only engages key service providers (whether directly or indirectly on behalf of the agribusiness scheme investors) necessary for the operation of the agribusiness scheme where:

(a) the engagement is subject to a written agreement approved by the board of the responsible entity in accordance with a documented policy;

(b) the agreement is subject to annual review against set performance criteria or measures; and

(c) the agreement is subject to certification by the board, at the time each agreement is entered into, that the agreement is on an arm's length basis.

Sandalwood Properties does not satisfy all of Benchmark 5.

Explanation: Quintis Forestry, the specialist Sandalwood plantation manager within the Quintis Group, is the key service provider for management of the Project. Further details of Quintis Forestry's experience are set out below.

Quintis Forestry acts pursuant to the Plantation Management Agreement between Sandalwood Properties and Quintis Forestry. A summary of the key terms of the Plantation Management Agreement is as follows:

- Sandalwood Properties appointed Quintis Forestry to carry out the Services with respect to the Project. Quintis Forestry agreed to perform all of the Services;
- Quintis Forestry will provide Sandalwood Properties on or before 31 October and 30 April in each financial year after the end of the Establishment Period a report containing a review of the timber operations on the Plantation during the relevant period;
- Quintis Forestry will make available to Sandalwood Properties all of the books of Quintis Forestry relating to the Project;
- Quintis Forestry will regularly monitor and whenever required by Sandalwood Properties, report on all relevant key provisions of the Lease and Management Agreement;
- Quintis Forestry must provide Sandalwood Properties with an appropriate action plan to address any issues identified in any expert's reports as requiring attention; and
- In consideration of Quintis Forestry performing the Services, Sandalwood Properties shall pay Quintis Forestry an amount of \$50,000 per hectare during the Establishment Period, and \$4,500 per hectare for each of years 2 to 13. Sandalwood Properties may also pay a bonus to Quintis Forestry if it successfully completes the Services, provided that any such bonus be paid on reasonable commercial terms in accordance with Section 210 of the Corporations Act 2001 (Cth):

In terms of the execution of the Plantation Management Agreement, it was executed by a director and secretary or two directors. The Plantation Management Agreement contains standard industry terms with respect to provision of plantation management services, and the payment of reasonable fees in consideration of the services provided by Quintis Forestry.

Quintis Forestry engages contractors to perform certain services, which are managed by Quintis Forestry. The Compliance Plan sets out procedures in relation to the appointment and monitoring of external service providers.

Quintis Forestry is an experienced manager of Indian Sandalwood plantations and currently manages Sandalwood plantations across northern Australia covering a total area of over 12,000 hectares. Quintis Forestry has qualified and experienced professional staff in relevant disciplines.

Quintis Forestry's operations are subject to review and monitoring within the Quintis Group including the following:

- Key performance indicators have been set for all managers employed in Quintis Forestry's forestry operations, which are assessed regularly;
- The General Manager of Forestry regularly reports to the Board on the current status and progress of Quintis Forestry's forestry operations; and
- A senior forester expert endeavours to perform regular inspections of the plantation and they are accompanied by a senior manager and the regional manager and/or plantation manager.

#### **Disclosure Principle 1 – Investor financing arrangements**

Description:

If the responsible entity or a related party is providing finance, or expects to receive payment for arranging finance, for investors in the agribusiness scheme to fund an investment into the scheme, the responsible entity should clearly and prominently disclose in the PDS:

(a) the details of the financier;

(b) any amounts paid to the responsible entity or related party in relation to the finance;

(c) that the investor should obtain and read the finance agreement before entering into the finance facility; and

(d) unless the proposed finance facility is non-recourse, that the investor will remain liable to repay the amount lent or made available under the finance agreement should the scheme fail.

The responsible entity should also ensure that, as far as practicable, investors receive a copy of the finance agreement before entering into the finance facility.

Sandalwood Properties satisfied Disclosure Principle 1 with respect to the 12 Month Interest Free Loan.

Sandalwood Properties did not satisfy all of Disclosure Principle 1 with respect to the long-term finance option offered to Growers due to the fact that the amounts paid to the responsible entity or related party in relation to such finance were not disclosed in the PDS. These amounts were however disclosed in the principal and interest loan application form.

Explanation: Please refer to the PDS for information on the 12 Month Interest Free Loan. In relation to the long-term finance option that was offered to Growers, information was disclosed to Growers as part of a finance documentation package which was provided to Growers seeking finance. This package included an application form, loan agreement and terms applicable to the loan and associated security.

#### **Disclosure Principle 2 – Track record of the responsible entity in operating agribusiness schemes**

Description:

The responsible entity of an agribusiness scheme should disclose the experience and resources it has available to operate the agribusiness scheme and the agribusiness enterprise.

Where the responsible entity has operated other agribusiness schemes, it should disclose:

(a) the number of agribusiness schemes it currently operates;

(b) the types of agribusiness scheme being operated;

(c) the period of time that it has been operating the agribusiness schemes; and

(d) whether any of the agribusiness schemes operated by the responsible entity have produced, or are producing, positive returns net of contributions for the investors in those agribusiness schemes.

Sandalwood Properties satisfies Disclosure Principle 2.

Explanation:

The resources and experience of Sandalwood Properties (as responsible entity) and Quintis Forestry (as plantation manager) are summarised below.

Sandalwood Properties is currently the responsible entity of 15 retail agribusiness schemes, all of which are Indian Sandalwood plantation projects. In addition to these, the Quintis Group manages other Indian Sandalwood plantation schemes both for itself and also on behalf of sophisticated and institutional investors.

The Quintis Group has been operating Sandalwood projects since 1999 and the plantation manager, Quintis Forestry, has been managing Sandalwood projects since 1999.

Quintis Forestry has a specialist management team comprising professionals with expertise in areas including forestry and nursery management, research and development, human resources, financial management, environmental, quality and OHS management and infrastructure management.

The financial resources of Sandalwood Properties as the responsibility entity include the upfront and annual fees paid by Growers. Sandalwood Properties also has access to funding through the Quintis Group. Following implementation of the recapitalisation, Sandalwood Properties will become a subsidiary of Quintis (Australia) Pty Limited (**Quintis Australia**) which in turn will be a 100% subsidiary of Quintis Holdco Pty Limited (**Quintis Holdco**), a new privately held company.

Sandalwood Properties commenced annual harvests of Indian Sandalwood plantations operated by the Quintis Group in September 2013. The first two projects harvested were East Kimberley Sandalwood Project No.1 and TFS Sandalwood Project No.2. Although the majority of investors in East Kimberley Sandalwood Project No.1 received a return on investment before tax and before financing costs, due to poor yields achieved for the plantation not all investors in the first two projects achieved a positive net return net of contributions. The third project, TFS Sandalwood Project 2000, was harvested in 2016. The returns for investors in the TFS Sandalwood Project 2000 were improved from the earlier projects resulting in positive returns to investors.

Further information on Sandalwood Properties' resources is available on the Quintis website ([www.quintis.com.au](http://www.quintis.com.au)) and in the annual audited accounts provided to Growers.

Please also see the PDS.

### **Disclosure Principle 3 – Responsible entity's financial position**

#### Description:

The responsible entity should disclose a summary of its financial position in any PDS, including details of any known unfunded obligations in respect of the schemes it operates.

The responsible entity should disclose if it:

- (a) is reliant on funding from external or related parties to perform the functions and obligations to members in relation to the agribusiness scheme;
- (b) has entered into guarantees or indemnities with external or related parties; or
- (c) is a member of a tax consolidation group.

It should also disclose the measures it has in place to address the risks arising out of these arrangements to its financial position and its ability to meet its obligations in relation to the agribusiness scheme.

If the responsible entity is reliant on funding from external or related parties to perform its functions and fulfil its obligations in relation to the agribusiness scheme, it should disclose the extent of the reliance.

If the responsible entity has entered into any guarantee or indemnity with external or related parties, it should explain:

- (a) what each guarantee or indemnity is, including the names of the parties to the guarantee; and
- (b) the potential implications of entering into these arrangements on the financial position of the responsible entity if the other parties are unable to meet their obligations.

If the responsible entity is a member of a tax consolidation group, it should disclose details of:

- (a) whether a tax-sharing agreement is in place and the parties to the tax-sharing agreement; and
- (b) if no tax-sharing agreement is in place, the potential implications of not having this.

Sandalwood Properties satisfies Disclosure Principle 3.

Explanation:

Financial information concerning Sandalwood Properties and the Project is contained in the annual audited accounts provided to Growers.

The project fees are a key source of funding for the management of the Project. As noted above, following implementation of the recapitalisation, Sandalwood Properties will become a wholly owned subsidiary of Quintis Australia which, in turn, will be a wholly owned subsidiary of Quintis Holdco. A sum in excess of US\$100m will be available for the group's working capital requirements following the recapitalisation. As such, following recapitalisation, Sandalwood Properties will have multiple avenues of funding through the recapitalised Quintis Group. Further, the Quintis Group's vertically integrated business model generates cash-flow from multiple sources, including non-MIS forestry sales and sandalwood oil production.

As part of the recapitalisation, the Quintis Group will be forming a new income tax consolidated group under the Tax Consolidation Regime. Each entity in the Quintis Group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each Quintis Group entity will then subsequently assumed by the parent entity. Quintis Holdco and its Australian subsidiaries (including Sandalwood Properties) are parties to a tax-sharing agreement.

As part of the recapitalisation, the existing guarantees and security granted by Sandalwood Properties and Quintis Leasing Pty Ltd (Subject to Deed of Company Arrangement) (Receivers And Managers Appointed) (**Quintis Leasing**) in relation to the secured debt will be novated to a replacement collateral trustee in respect of the remaining debt and the new debt that will be raised pursuant to the recapitalisation.

#### **Disclosure Principle 4 – Land, licences and water**

Description:

The responsible entity should disclose the arrangements entered into to secure rights of access or tenure to the resources and infrastructure required to operate the agribusiness scheme, including any land, licences or leases, and water required, and whether these arrangements:

- (a) provide for access for the life of the agribusiness scheme; and
- (b) are entered into on an arm's length basis.

The responsible entity should disclose:

- (a) the risks associated with these arrangements;
- (b) the consequences of a failure by the responsible entity to pay amounts due under these arrangements, and any breaches of these arrangements or agreements underlying these arrangements; and
- (c) any measures the responsible entity has implemented, or will implement, to address these risks.

The responsible entity should disclose the identity, where known, of the owner of the resources and infrastructure referred to in the first paragraph above, the terms of use and whether security has been given over these assets.

The responsible entity should disclose (where applicable) for any leases, licences, rights or infrastructure required for the operation of the agribusiness scheme:

- (a) whether the responsible entity treats the leases and licences or rights as scheme property;
- (b) the identity of the parties to the leases, licences and/or rights; and
- (c) whether any action in relation to a lease, licence or right needed for the operation of the agribusiness scheme, which is not an obligation of the responsible entity, could endanger the relevant lease, licence or right. Disclosure should clarify the risk of this occurring and how it may affect the agribusiness scheme.

If land, licences or water assets are, or are proposed to be, used as security for borrowings by the responsible entity, the responsible entity should disclose the level of actual or proposed gearing, and the risks associated with this gearing, in the PDS and in the report provided to members under Benchmark 3.

Sandalwood Properties does not satisfy all of Disclosure Principle 4.

## Land

The Project is operated over land owned by Sandalwood Properties (in its personal capacity) and over land owned by unrelated third parties. In each case, the owner of the land leases the land to Quintis Leasing pursuant to a head lease which is on customary and on arm's length terms. The head lease permits the land to be sub-leased to Growers for the purpose of commercial silviculture of Sandalwood trees.

Quintis Leasing then sub-leases the land to the Growers pursuant to the Lease and Management Agreement, the terms of which are summarised in the PDS. It is ensured that before Lease and Management Agreements are entered into, commercial silviculture of Sandalwood trees is a permitted use of the land under any relevant agreement or law.

Growers are provided with access to the underlying land for the life of the Project.

The main risks associated with land infrastructure for the Project and the measures adopted by Sandalwood Properties to address these risks are set out below:

- secured land – if land used in the Project (whether owned by Sandalwood Properties (in its personal capacity) or a third party) is subject to a mortgage then there is a risk that any failure to repay the secured moneys could result in the enforcement of the security (for example, by the sale of the secured land). Growers' rights to use the land the subject of the Project have sought to be protected by Quintis Leasing registering a sub-lease against the title of the land with the relevant government department, with the intent that any transfer of the land will be subject to the Growers' leasehold interest in the land. Growers have a sub-lease of the relevant land however and to the extent that the relevant head-lease is terminated or is otherwise invalid, this could affect the proprietary rights of Growers;
- breach of head lease – in relation to land used in the Project that is owned by unrelated third parties, if Quintis Leasing breaches a material term of a head lease and is unable to rectify the breach within the time frame permitted by the head lease, there is a risk that the registered holder of the land may be entitled to terminate the head lease which may result in the consequent termination of the Growers' sub-leases and ability to use the land for the Project. The main obligation of Quintis Leasing under the head lease is the obligation to pay rent. To mitigate the risk of a default by Quintis Leasing of its payment obligations, there are multiple avenues of funding through Quintis. The Quintis Group also manages this risk by seeking to negotiate and include limited termination rights and dispute resolution mechanisms in each head lease. The Quintis Group has processes in place to ensure that all head leases are correctly administered in accordance with their terms; and
- land unsuitable for commercial silviculture of Sandalwood trees – there is the risk that the land allocated for the Project is unsuitable for commercial silviculture of Sandalwood trees, which in turn would reduce Growers' returns. The Quintis Group undertook due diligence enquiries and research and development studies as to the land's suitability for the commercial silviculture of Sandalwood trees before acquiring it and then allocating it for use in the Project.

In relation to land used in the Project that is owned by Sandalwood Properties, no rent is payable to Sandalwood Properties. If a Grower elects to defer the payment of annual Rent, Sandalwood Properties will fund the relevant payments on behalf of the Grower in return for a percentage of the Gross Proceeds of Sale.

## Water Infrastructure

The Project accesses water in:

- the Kununurra region in Western Australia - water supply and infrastructure in this area is provided through the Ord River Irrigation Co-operative (**Co-operative**) of which Sandalwood Properties (in its personal capacity) is a member and holds shares in the Co-operative. As a member, Sandalwood Properties is entitled to certain annual water usage volumes. Fixed charges and volumetric charges are payable for the ongoing water usage and infrastructure provided by the Co-operative. The arrangement is on arms' length terms; and

- the Burdekin region in Northern Queensland – water and infrastructure is supplied by SunWater. Fixed charges and volumetric charges are payable for the ongoing water usage and infrastructure provided by SunWater. The arrangement is on arms' length terms.

The risks associated with the water arrangements for the Project and the measures adopted by Sandalwood Properties to address these risks are set out below:

- Failure by the Quintis Group to pay the fees due for fixed and volumetric charges is a risk as failure to pay will result in the water supply ceasing. However, failure to pay does not mean the Quintis Group loses the water entitlement or access to infrastructure and once any outstanding payment is satisfied the water supply is reinstated. In addition, following recapitalisation, the Quintis Group will be a strong financial position and there is no reason why volumetric and fixed charge fees would not be paid by the Quintis Group;
- In the case of water arrangements in Western Australia and Queensland there is a risk that the respective State governments will change their water policies, water supply and infrastructure maintenance which currently are provided by the Co-operative and SunWater respectively. This could result in changes to allocations, security of water supply for the life of the Project and water charges. Currently Sandalwood Properties believes that the water supply is for the life of the Project in both Western Australia and Queensland, however a change in State government policy may affect this. Sandalwood Properties is not aware of any actions in relation to changes to water arrangements in Western Australia or Queensland which could endanger the relevant water allocation; and
- Water supply in Western Australia and Queensland is regulated on a seasonal basis. Different water authorities determine the level of allocations for any given year at a defined point and then allocate the amount of water that can be used against the licence that a licence holder possesses. The annual allocations are determined by the previous usage, current water storage volumes and rainfall recharge into the catchment system. If there is successive drought weather then annual allocations can be reduced.
- Sandalwood Properties' entitlement to water is held by Sandalwood Properties in its personal capacity. To the extent that there is a change in the responsible entity of the Project, this water entitlement would not be transferred to the new responsible entity.

No Project assets will be charged. Sandalwood Properties granted a charge to BTA Institutional Services Australia Pty Ltd as the trustee under a secured bond debt facility entered into with the Quintis Group in 2011 (that charge will be transferred to a replacement collateral trustee pursuant to the recapitalisation). The charge excludes property or assets that are the subject of a trust or managed investment scheme. The recapitalisation further provides for a release of that charge in relation to property other than any land or buildings owned or leased by Sandalwood Properties. If Quintis Australia defaults on its payments under the bonds or otherwise breaches the terms of the bonds, the security could be enforced against the relevant land and buildings.

The land leases and water assets of the Project are not treated as property of the Scheme.

#### **Disclosure Principle 5 – Replacement of the responsible entity**

##### Description:

The responsible entity should disclose whether there are any restrictions on the ability of any replacement responsible entity to access the resources required to continue to operate the agribusiness scheme (including but not limited to any leases, licences, land, water and money held for the purposes of operating the scheme).

##### The responsible entity should disclose:

- (a) whether the responsible entity or related parties are eligible for any payment or fee that is payable if the responsible entity is replaced, or is to be replaced, and, if so, the amount or method for calculation of this fee;
- (b) the effect of a change in responsible entity on any agreements entered into between investors and the responsible entity or other parties in relation to the agribusiness scheme;
- (c) any obligation to repay fees already paid to the responsible entity to the incoming responsible entity if the responsible entity changes; and
- (d) the risk to, and impact on, investors if the responsible entity changes.

Sandalwood Properties does not satisfy all of Disclosure Principle 5.

**Explanation:**

Growers are entitled to defer payment of plantation management costs, on the basis that the responsible entity meets those costs in exchange for earning a share of the proceeds of harvest. Sandalwood Properties obtains funding from other members of the Quintis Group to enable it to meet those ongoing costs. In the event that a replacement responsible entity was appointed, it would not have access to funding from other members of the Quintis Group and the replacement would need to seek its own source of funding to meet the costs associated with operating the scheme.

In relation to agreements entered into by Sandalwood Properties as the responsible entity of the Project, these agreements will have effect as if the new responsible entity was a party to it, were referred to in it or had or might have acquired a right, obligation or liability under it (pursuant to section 601FT of the Corporations Act). There are no payments or fees that are payable to a member of the Quintis Group that are triggered if Sandalwood Properties is replaced as the responsible entity of the Project.

However, a replacement responsible entity would need to negotiate commercial terms with the Quintis Group if it wished to access:

- the water rights, which are held by Sandalwood Properties in its personal capacity; or
- access to infrastructure which is not on the leased land;

A replacement responsible entity would also need to make its own arrangements in relation to any funding required (e.g. to meet the expenses incurred on behalf of Growers electing the Deferred Investment Option and the harvesting and marketing costs).

If Sandalwood Properties is replaced as the responsible entity of the Project, there is no obligation on Sandalwood Properties to repay fees already paid to it to the replacement responsible entity. If Sandalwood Properties is replaced as the responsible entity of the Project, it will endeavour to repay all fees paid to it to the replacement responsible entity except for fees and expenses it is entitled to pursuant to section 601FS(2) of the Corporations Act (which includes fees paid for the performance of its functions before it ceased to be the responsible entity and funds paid for reimbursement of expenses it incurred before it ceased to be the responsible entity).

The risks to investors if Sandalwood Properties is replaced as the responsible entity of the Project are:

- funding of the replacement responsible entity – if the replacement responsible entity does not have the requisite funding to fund the Project as needed, then this will have a detrimental effect on the management of the Project and in turn may affect Growers' returns. A replacement responsible entity may, in these circumstances, seek to amend the funding arrangements available to Growers to remove the deferral rights;
- experience of the replacement responsible entity - a replacement responsible entity may not have the requisite experience in managing a scheme of this type which may have a detrimental effect on the management of the Project and in turn may affect Growers' returns; and
- that any replacement responsible entity may not have access to water entitlements or other critical infrastructure required to operate the Project.

There is also a risk that, if Sandalwood Properties is unable to fulfil its obligations as the responsible entity of the Project, it may be difficult for Growers to find a suitable replacement responsible entity on terms acceptable to the Growers, or at all.

To mitigate these risks, at commencement of the Project, each Grower was required to pay one year's annual fee and rent upfront. These amounts were paid into a trust account maintained by an independent custodian. In the event that the responsible entity or Quintis Leasing becomes insolvent, and is therefore unable to pay for the ongoing services or rent (as applicable) in that year of the Project, Growers may pass a resolution directing the responsible entity to instruct the independent custodian to release the upfront annual fee and/or rent and

apply it in satisfaction of the outstanding annual fee and/or rent (as applicable) for the following year of the Project. If the Growers have not resolved to apply the upfront annual fee and/or rent in the manner described above by the commencement of Year 12 of the Project, these amounts are applied in satisfaction of the annual fee and/or rent payable in Year 12 of the Project.