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Eureka Group Holdings Limited

ASX Announcement

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COURAN COVE LOAN AND PROPERTY UPDATE

Eureka Group Holdings Limited (ASX: EGH) (Eureka) has a significant investment in the Couran Cove Resort on South Stradbroke Island.

In its 31 December 2017 half-year financial report, Eureka's investment was summarised as follows:

- Inventory of \$2.8 million comprising ownership of 29 cabins located at Couran Cove Resort.
- Loans receivable of \$2.85 million (interest bearing) owing from various Couran Cove entities (details below).
- Call option over equitable interests in land at Couran Cove Resort valued at \$3.0 million. In August 2020, for any lots for which an option has not been exercised, Eureka will receive a settlement in cash from Couran Cove Holdings Pty Ltd. Settlement will be \$50,000 for each unexercised lot.
- Entitlement right to 30% of the proceeds of the sale of certain management and infrastructure rights related to the Couran Cove Resort, if sold by August 2020 by the current owner. No value was attributed to this entitlement by Eureka as at 31 December 2017.

The counterparties to the above arrangements are subsidiaries of Onterran Limited (ASX: OTR) (Onterran). The Executive Chairman of Onterran is Lachlan McIntosh. Mr McIntosh is also a Director of Eureka.

In relation to the loans receivable of \$2.85 million, on 15 May 2018 Eureka reported to shareholders that:

- The loan receivable had been reduced to \$2.54 million.
- Couran Cove Holdings Pty Ltd, a subsidiary of Onterran, had approached Eureka seeking variations to the loan repayment schedule.
- It had reserved its rights under the security agreements.
- It was in advanced discussions with key stakeholders of Onterran with a view to obtaining final payment of the loan early in the FY19 financial year.

These discussions have been protracted and as a result of extensive negotiations, a settlement has been reached which will see Eureka dispose of its property assets at the Couran Cove Resort, obtain recovery of its loan over time, and retain the right to recover value from the equitable land interests.

Eureka now provides the following comprehensive update.



Background to the loans receivable from the Onterran Group

In late 2015 and 2016, Eureka acquired cabins and apartments at the Couran Cove Resort and advanced funds and charged management fees for services provided to Couran Cove Holdings Pty Ltd. Eureka's original intention during this period was to acquire the management rights of the Couran Cove Resort. In February 2017 the Board determined that it would not acquire the management rights and sought to restructure its existing investment in Couran Cove.

In February 2017, Eureka and Couran Cove Holdings Pty Ltd, CCH Developments No.1 Pty Ltd and Onterran (the Onterran Group) entered into a Binding Heads of Agreement in relation to amounts owed to Eureka, with effect from 31 December 2016.

Under that agreement the obligation to pay Eureka the first \$3 million owed was to be satisfied by CCH Developments No. 1 Pty Ltd entering into a call option giving Eureka the option to acquire 60 lots at the Couran Cove Resort. The option was to be for three years from the date the call option was granted and was to be secured by registered mortgage over land assets at the Couran Cove Resort. Any lots for which an option had not been exercised by the end of the 3 year term would result in a settlement in cash of \$50,000 per lot.

Eureka was also granted an entitlement to 30% of the proceeds of the sale of certain management and infrastructure rights related to the Couran Cove Resort, if sold within the next 3 years by the current owner. This entitlement was secured by a specific charge over the management and infrastructure rights and a general security agreement over the entity that owns the rights.

The remaining amount owing at that time, was recognised as a loan receivable.

In February 2018, the end date for the option period was fixed as 31 August 2020 and a formal loan agreement was entered into between Eureka and Couran Cove Holdings Pty Ltd for the then outstanding amount of \$2.98 million.

Summary of new agreements

The key elements of the settlement reached are summarised below.

(a) Sale of cabins and apartments

The 28 remaining cabins and apartments owned by Eureka are to be sold for \$2.01 million to a purchaser that is not a related party of the Onterran Group. Settlement is to occur on 6 September 2018.

(b) Repayment and refinance of the loans receivable

As at the date of this announcement, the \$2.54 million loan receivable has been further reduced by additional payments to \$2.26 million.

That \$2.26 million loan owed to Eureka by Couran Cove Holdings Pty Ltd is to be repaid and refinanced by the following:



- a lump sum repayment of \$1.59 million on 6 September 2018;
- Lachlan McIntosh in his personal capacity has assumed by way of a new unsecured loan \$350,000 (the **McIntosh Loan**); and
- a new secured loan to CCH Developments No 1 Pty Ltd in its personal capacity and as trustee of the CCH Developments No 1 Trust for \$320,000 (the **West Cabin Loan**).

McIntosh Loan

Lachlan McIntosh has agreed to the McIntosh Loan to bridge a gap and facilitate the transactions. The McIntosh Loan is due for repayment on 31 December 2019. An additional restructure fee may be payable by the borrower on the loan of up to \$130,000.

The loan is on substantially the same terms as the existing loan to Couran Cove Holdings Pty Ltd. Interest at the general interest charge set by the Australian Taxation Office from time to time, which for the period July 2018 to September 2018 is set at 8.96% per annum, accrues on the loan on exactly the same terms as under the existing loan to Couran Cove Holdings Pty Ltd. The independent directors consider this loan to be on arm's length terms and expect that it will be repaid on the due date.

West Cabin Loan

The West Cabin Loan is due for repayment no later than 28 February 2019. No interest accrues on this loan. The loan is guaranteed by Onterran and Lachlan McIntosh in his personal capacity and secured by a real property mortgage over two existing cabins owned by CCH Developments No 1 Pty Ltd. Recourse against CCH Developments No 1 Pty Ltd in respect of the loan is limited to the two existing cabins. The two existing cabins are subject to a conditional contract of sale for \$320,000 to an unrelated party.

(c) Restructure of the \$3 million land option

The existing \$3 million amount owed to Eureka by Couran Cove Holdings Pty Ltd is to be refinanced under a new secured loan to CCH Developments No 1 Pty Ltd. No interest accrues on this loan.

The loan is guaranteed by Onterran and secured by a real property mortgage over land owned by CCH Developments No 1 Pty Ltd relating to 60 proposed cabin sites. The proposed cabin sites correspond to the lots over which Eureka was to be granted an option.

Eureka has a right of first refusal to purchase those proposed cabin sites for \$50,000 per site. The purchase price would be paid by way of set off against the \$3 million loan on settlement. The right can be exercised until the repayment date for the loan.

The loan is due for repayment on 31 August 2020. Eureka has the option to extend the repayment date, and the time in which it can exercise its right of first refusal, to 31 August 2023.



In order for Eureka to realise value from this agreement, Eureka intends to reach arrangements for developers to construct dwellings on the proposed cabin sites, and ultimately acquire the sites from Eureka. Eureka's interests will be protected by its mortgage under any such arrangements with developers. Eureka is in discussions with a potential developer for some of these sites and has already entered into a non-binding term sheet for 5 lots at \$50,000 per lot.

(d) Conditions precedent

The restructure of the \$2.26 million and \$3 million loans are subject to the conditions precedent, the most important of which are:

- completion occurring on the sale of the existing cabins and apartments owned by Eureka (see item (a) above); and
- the lump sum repayment of \$1.59 million being received by Eureka (see item (b) above).

(e) Releases

On satisfaction of the conditions precedent, Eureka will release the parties from the existing loan agreements, the entitlement to 30% of the proceeds of the sale of certain management and infrastructure rights related to the Couran Cove Resort, and will release the security it holds, other than the real property mortgage referred to above.

At completion, scheduled for 6 September 2018, the following is expected to occur:

- The existing cabins and apartments owned by Eureka will be transferred, leaving Eureka with no existing cabins and apartments at the Couran Cove Resort.
- Eureka will receive \$3.60 million in cash from the sale of the cabin and apartments and partial repayment of the \$2.26 million loan.
- Loans of \$0.35 million and \$0.32 million, totalling \$0.67 million, will become the responsibility of Lachlan McIntosh and CCH Developments No 1. Pty Ltd.
- Eureka will retain rights in relation to 60 proposed cabin sites.

Financial outcome

The financial impact of these transactions is summarised below:

- a loss of \$1.12 million on sale of the cabins including costs for the overall transaction; and
- a \$1.76 million write down of the existing \$3.00 million asset relating to the 60 proposed cabin sites. This write down will result in an adjusted fair value of \$1.24 million to reflect the period of time over which the amount owed is expected to be recovered.



The financial impact of the transactions on asset values and transaction costs will be included in the 30 June 2018 financial statements.

Summary

The completion of these transactions will result in Eureka receiving a substantial amount of cash of \$3.60 million and a pathway to a further \$0.67 million within 6-18 months.

Eureka's ongoing intention will be to facilitate, via one or more developers, the successful development of the proposed cabin sites to maximise the recovery to Eureka over time.

Eureka Executive Chair, Murray Boyte said "The completion of this transaction and the settlement of Couran Cove issues is a pragmatic resolution given the financial challenges that are being faced by Onterran Limited. While it is not entirely satisfactory due to the asset write downs and losses incurred on this investment, the independent directors are of the view this settlement is in the long term interests of Eureka and is the best outcome in the circumstances."

For further information, contact Murray Boyte, Executive Chair on 07 5568 0205.

About Eureka Group Holdings

Eureka Group Holdings is a publicly listed company with offices in Brisbane and the Gold Coast and is one of the largest providers of quality and affordable senior's rental accommodation in Australia.

Eureka owns or manages over 40 villages comprising over 2,000 individual units of quality accommodation throughout Queensland, New South Wales, Victoria, South Australia and Tasmania.