

Elliott Harvey  
Investment Scheme  
ARSN 090 577 656

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# Product Disclosure Statement

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# EHS



Elliott **Harvey** Securities Ltd

**ISSUER AND HOLDER OF  
AUSTRALIAN FINANCIAL  
SERVICES LICENCE  
NO. 244382**

**1 May 2008**

**[Click here to visit our Supplemental Disclosure Statement](#)**

**[Click here to view the financial update to our Product Disclosure Statement applied on Jan 14, 2009](#)**

## Corporate Directory

### Issuer

Elliott Harvey Securities Limited  
ACN 089 156 605  
AFSL No 244382

### Address

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Chevron Island QLD 4217  
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Freecall: 1800 064 688 between  
8.30 a.m. and 5.00 p.m. (Qld time)  
weekdays

### Auditors of EHS and the Scheme

The Barr Group  
Suite 3, 33 Sanders Street  
Upper Mt Gravatt Q 4122

### Auditors of the EHS Compliance Plan

PKF Gold Coast  
Level 5, RSL Building  
9 Beach Road  
Surfers Paradise QLD 4217

## Notice and Disclaimer

This product disclosure statement (**PDS**) is dated 1 May 2008. Elliott Harvey Securities Limited ACN 089 156 605 holds an Australian Financial Services Licence No.244382 authorising it to be the responsible entity of the Elliott Harvey Investment Scheme ARSN 090 577 656.

This PDS provides information for Investors to decide if they wish to invest in the Elliott Harvey Investment Scheme and should be read in conjunction with the Investment Proposal which relates to a particular mortgage investment in which an Investors funds may be invested. We will provide a copy of the Investment Proposal and PDS free of charge to Investors on request. Neither Elliott Harvey Securities Limited, its directors, officers or employees guarantees the performance of your investment in the Elliott Harvey Investment Scheme, the repayment of capital or rate of return, if any, on capital. The risk factors that could affect the financial performance of the Elliott Harvey Investment Scheme and any particular Mortgage Investment in which an Investors funds may be invested should be examined. Investors should consider carefully these factors in light of their personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, lawyer or other professional adviser before deciding whether to invest. The offer of Interests in the Scheme made in this PDS is available to Australian residents in each State and Territory of Australia. The distribution of this PDS in jurisdictions outside Australia may be restricted by law and therefore persons who obtain this PDS should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law. This PDS does not constitute an offer in any place where, or to any person to whom, it would not be lawful to make such an offer. No person is authorised to provide any information or to make any representation in connection with the offer of Interests in the Scheme described in this PDS which is not contained in this PDS with Investment Proposal. Any information or representations not so contained may not be relied on as having been authorised by Elliott Harvey Securities Limited or any other person in connection with EHS or the Scheme.

All financial amounts shown in this PDS are expressed in Australian dollars unless otherwise stated. The assets depicted in photographs in this PDS are not assets of the Elliott Harvey Investment Scheme unless otherwise stated. This PDS is available in electronic form via [www.ehsl.com.au](http://www.ehsl.com.au). Applicants using the Application Form attached to the electronic version of this PDS must be located within Australia. Persons who receive an electronic version of this PDS should ensure they download and read the entire PDS. Persons who received a copy of this PDS in its electronic form may obtain a paper copy of the PDS (free of charge) by telephoning 1800 064 688 (within Australia). Applications to invest in the Elliott Harvey Investment Scheme may only be made on the Application Form attached to this PDS, a supplementary PDS or in its paper copy form as downloaded in its entirety from [www.ehsl.com.au](http://www.ehsl.com.au). A number of words and terms used in this PDS have defined meanings that appear in the Glossary Section.

**THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY**

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## Chairman's letter

Dear Investor

EHS identified an investment need for a stable investment secured by mortgages over real property. It received its first ASIC Dealer's Licence on 9 December 1999.

It subsequently applied for and received an Australian Financial Services Licence on 5 January 2004.

Since its beginning on 9 December 1999 it has, in the aggregate, made 40 loans to the amount over \$192 million.

It has in that time also achieved an active Investor base of over 600 Investors. It continues to see a need for this particular investment as is indicated by its increasing Investor base.

We invite your participation and look forward to 'Earning you More'.

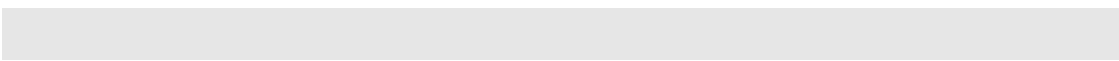
Michael Harvey

**Chairman**

## Key features

	Summary	Section
<b>Objective</b>	<p>Our objective is to provide a range of investments with:</p> <ul style="list-style-type: none"> <li>• stable income; and</li> <li>• security of a registered mortgage over property.</li> </ul>	2
<b>Security</b>	<p>All loans are secured by a registered mortgage over property. The LVR must not exceed 80% if the loan advance is secured by a first mortgage.</p> <p>In other circumstances where the loan advance is secured primarily by a second or subsequent mortgage this will be clearly disclosed in the Investment Proposal. In this instance the LVR may exceed 80%.</p>	6
<b>Transparency</b>	<p>You choose the mortgage which suits your investment requirements. Investors will be provided with an Investment Proposal which details the specific Mortgage Investment opportunity. An Investors funds will not be placed in this Mortgage Investment unless the Investor has specifically chosen this Mortgage Investment.</p>	6
<b>Minimum Investment</b>	<p>\$5,000, increasing multiples of \$1,000.</p>	2
<b>Distributions</b>	<p>Monthly direct credit to your financial institution account or by cheque, after draw down of your chosen mortgage.</p>	2
<b>Distribution Rates</b>	<p>Historical Distribution rates of between 8%pa and 12%pa. The proposed distribution for each Mortgage Investment will be detailed in the Investment Proposal. Past performance is not necessarily a guide to future performance.</p>	
<b>Choice of investment term</b>	<p>You select the mortgage with the investment term that suits you.</p>	
<b>Fees and Costs</b>	<p>Entry fee – Nil</p> <p>Withdrawal fee – Nil</p> <p>Investment Management fee – Generally between 2% pa and 5 % pa of the loan amount.</p>	4

<b>Risks</b>	<p>All investments involve risk. There are many variables which may impact upon the performance of the Investment Proposal, some of which are outside of our control and other that may be unforeseen. Risks include:</p> <ul style="list-style-type: none"> <li>• capital risk;</li> <li>• valuations;</li> <li>• interest rate market conditions;</li> <li>• taxation;</li> <li>• illiquid nature of underlying security;</li> <li>• delays in repayment; and</li> <li>• development and construction loans.</li> </ul>	7
<b>Taxation</b>	<p>The Scheme will not pay tax, but will fully distribute net taxable income to Investors. The taxable component of any Distribution will form part of your assessable income. Capital gains tax may apply to you when you redeem your investment. You should seek your own independent tax advice.</p>	8
<b>Cooling Off</b>	<p>There is no statutory cooling off period. Investors may apply to withdraw their funds before their Mortgage Investment proceeds.</p>	8
<b>Complaints Resolution</b>	<p>Any complaints can be made to:  The Dispute Resolution Officer  Elliott Harvey Securities Limited  17 Burra Street  Chevron Island QLD 4217  Freecall: 1800 064 688</p>	8



## 1. Investing is easy

Investing with us is a two-stage process.

### **Stage one: Registration**

Registering in the Scheme is easy. Simply complete the Acknowledgment Form attached to this PDS and forward it to us.

### **Stage two: Investment**

As a registered member, we will supply you from time to time with an Investment Proposal which sets out details of a Mortgage Investment in which you may be interested in participating. The Investment Proposal includes details of:

- the Borrower/s and their creditworthiness;
- the mortgage and the rights that go with it;
- the description of the property or properties provided as security;
- how the security property has been valued and what is its value;
- the loan to valuation ratio (LVR);
- any prior securities over the security property;
- the interest payable by the Borrower and the proposed Distributions to be paid to you; and
- the expected term of the Mortgage Investment.

## 2. Information for Investors

### **Benefits of investing in a Mortgage Investment**

There are several good reasons to consider an investment in a Mortgage Investment:

- you receive a monthly Distribution payment directly deposited into your bank account or by cheque, as you prefer.
- your funds are invested for a relatively short term (generally 12 months) which gives you flexibility and allows you to adjust your investments with movements in market interest rates;
- we have extensive management experience in investing in Mortgage Investments;
- all costs associated with the establishment of a Mortgage Investment are paid by the Borrower;
- you select your own investment as offered by us;
- you receive details of the particular Mortgage Investment offered in an Investment Proposal.

### **Returns of the Scheme**

Details of the historical returns paid by the Scheme to Investors are contained in the Loan Portfolio section of this PDS proposal. Distribution rates for each Mortgage Investment are set out in the Investment Proposal.

### **Distributions**

Distributions occur monthly directly to your nominated account or by cheque, as you prefer.

Distributions are processed within 5 business days of receipt from the Borrower of interest on the due date for payment under each Mortgage Investment in which you have invested. The date of the month and the proposed amount of each Distribution is contained in a letter and investment summary subsequently sent when the Mortgage Investment commences.

### **Minimum investment**

You may contribute as little as \$5,000 to any Mortgage Investment offered by us.

### **Where are your monies held pending investment?**

Your and other Investors' funds are deposited into an applications account until sufficient money has been raised to proceed with the Mortgage Investment.

The applications account will be an interest bearing account. Accordingly, when funds are deposited into the account, interest will begin to accrue. All interest earned on an Investors' funds for the first two months, while in the applications account, is payable to EHS. All interest earned on Investors' funds from the date two months after the funds are deposited into the account, is payable to Investors.

## **Commitment to a Mortgage Investment**

Mortgage Investments are generally for a relatively short term investment. Most loans are generally for an initial term of 12 months. Accordingly, you may not be locked into an investment with a lower return for an extended period of time if market interest rates rise. If there is a delay in the Borrower repaying the principal at the end of their loan, there may be delays in investments being returned to Investors.

## **Withdrawal of Investors money**

Once a loan is drawn down, Investors may not withdraw their money until that loan matures and the principal repaid by the Borrower. Provided the loan has not been drawn down, Investors may, at 48 hours notice, apply for return of their moneys.

## **Typical Borrower**

EHS generally lends to Borrowers seeking a loan for business, development or investment purposes. Various real property is offered as security for mortgages including residential, commercial, industrial, rural or retail property. EHS does not generally engage in lending activities which may be subject to the Consumer Credit Code.

## **Types of Mortgages involved**

EHS primarily lends on security of first mortgage. In some instances additional collateral security may be obtained from the Borrower such as guarantees, fixed and floating charges and second mortgages. This collateral security is not assessed when calculating the loan to valuation ratio of the loan.

Where the Mortgage Investment is primarily a second mortgage then this will be clearly indicated in the Investment Proposal and how EHS has calculated the loan to valuation ratio will also be clearly explained.

## **Why do Borrowers use Elliott Harvey?**

Borrowers who come to EHS tend to be those with a project or need which does not necessarily conform to standard banking criteria either in respect of type or size and do not have an existing banking connection sufficient for their purposes. They prefer EHS because of our ability to deal instantly with their particular requirement with continuity of personnel and policies.

## **If the Borrower is late in making payments or otherwise defaults under any terms of the Loan**

The loan documents provide for a high interest rate, with a reduced interest rate applying provided the Borrower makes interest payments on time.

The securities are in the name of EHS and all rights under that are exercisable by EHS on behalf of Investors in that Mortgage Investment.

As responsible entity of the Scheme, EHS determines:

- what is a material default by the Borrower under the loan agreement and security documents; and
- when and whether specific securities will be enforced against the Borrower and how quickly other enforcement steps will be taken, including whether the higher rate of interest will be immediately demanded of the Borrower in the event of late payment.

When necessary, in EHS's judgement, action will be taken to recoup the loan and interest which has accrued. If, there is merely a delay in repayment of the loan principal because of a delay in the refinancing of an existing loan (or otherwise), EHS may exercise its discretion not to charge default interest if payment of the principal occurs within a short and acceptable period of time after the loan repayment date, taking into account all relevant circumstances. These may include circumstances where EHS has allowed the Borrower to refinance the loan.

In such instances, the lower rate of interest will continue to accrue and be payable on a monthly basis until an agreed period has passed, or it becomes clear that the refinancing is unavailable.

Should the loan principal not have been repaid within six months from the original date of repayment of the loan, then the Borrower is charged default interest. Whether any shorter grace period will apply to the Borrower before default interest will be charged is in the discretion of EHS.

### **Mortgage Investment details**

Each Investment Proposal will detail the funds required by the Borrower.

Other information the Investment Proposal will contain is:

- address and type of security property;
- valuation of the security property;
- total amount to be lent to the Borrower;
- details of the Borrower including credit assessments;
- purpose of the loan;
- details of the development proposed (if applicable);
- details of the security property; and
- the Borrower's 'exit strategy' to repay the loan.

### **Market rate interest rate changes and impact of Distributions**

An interest rate on the loan is fixed for the term.

### **Borrowing by the Scheme**

Whilst EHS has the capacity to pledge the assets of the Scheme as security for additional borrowings, EHS has no intention of borrowing funds using the assets of the Scheme.

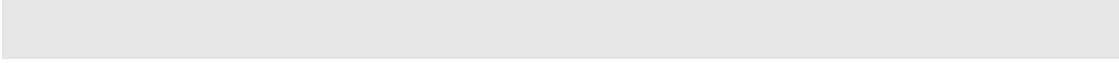
**To invest, complete and return the Application Form attached to the relevant Investment Proposal together with your cheque.**

Investors should note that where the Mortgage Investment is for construction or development, we may elect to structure the loan in a way whereby the funds are provided to a Borrower in several instalments as the construction proceeds. We may advance the initial funds to the Borrower without having received the entire loan amount.

When all our security and other requirements have been completed by the Borrower the money is advanced to the Borrower (either in full or by instalments). This is the

commencement date of the term of the Mortgage Investment for relevant Investors and the date from which interest payment dates for that mortgage are set.

No application money is allocated to a Mortgage Investment unless we hold your signed Application Form relevant to the particular Investment Proposal.



### 3. Elliott Harvey Securities Limited

#### Corporate Governance

The Board consists of one executive and three external Directors. The full Board meets at least bi-monthly. Consideration is given to the experience, skills, and knowledge of the industry and likely contribution prior to appointing any new Directors.

The credit committee is responsible for assessing Borrower applications to determine compliance with our credit standards. The Members of the Credit Committee include at least the executive Director Michael Harvey and the loans manager.

Loans in excess of \$1 million must be approved by the full Board.

The Members of the Credit Committee are experienced in relation to property law, project management, banking and finance, credit control and lending legal practice and comprise the credit committee.

The compliance officer monitors and reviews the compliance programs to ensure that all compliance and quality systems are followed. In addition, our management and compliance systems are independently audited by an external auditor each year. This audit ensures that our compliance and quality systems implemented are functioning properly and any breaches are reported promptly to the Board.

Independent audits of the Scheme, EHS and EHS's compliance program are performed annually. These are separate audits undertaken by two independent auditors.

EHS is required to and maintains at all times net tangible assets of an amount not less than the greater of \$50,000.00 or 0.5% of the Scheme's Property.

#### Directors

**Michael James Harvey** as chairman of the Board is responsible for the overall control and structure of EHS. As a partner in the legal firm of Elliott & Harvey, Michael has over 30 years experience in commercial property. Michael has operated in the real estate, investment and property development market advising many clients of their risks and responsibilities. Michael spent 5 years as a director of Creditcorp Finance which was the commercial lending subsidiary of Credit Union Australia, which is Australia's largest credit union. Prior to commencement of EHS, Michael operated for over 7 years a successful mortgage lending business.

**Gerald Peter Birt** as a Director is an engineer with a long working history with government instrumentalities.

**Jeffrey Anthony Stella** as a Director has extensive experience in the financial planning industry. While Jeff currently owns and operates his own independent financial planning business as a proper authority holder, Jeff's experience since 1978 in the financial services industry includes administrative roles within the life insurance industry, marketing and developmental roles as a financial planner. In his current role Jeff is required to be up to date with the legislative and structural changes occurring within the financial planning industry.

**Thomas Robert Veivers** as a Director has been a Radio Station Executive, Marketing Manager, Member of the Queensland Parliament, Commissioner-General of the Australian Section of Expo-88, Chairman of the Queensland Institute of Medical Research Trust and a Corporate Development Consultant. Tom is a former Test Cricketer (21 Tests) for Australia and a former President of Queensland Cricket.

## 4. Fees and other costs

### Consumer advisory warning

The warning below is required by law. The fees and other costs associated with investing in the Scheme are described in this section.

#### Did you know?

**Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 - year period (for example, reduce it from \$100,000 to \$80,000).**

**You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the Scheme or your financial adviser.**

#### To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities and Investments Commission (ASIC)** website ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different fee options.

### Fees

The table below shows the fees and other costs Investors may be charged when investing in the Scheme. These fees may be deducted from an Investors account balance or from the distributions on their investment or from the Scheme as a whole.

Fees for particular investment options may also appear separately.

Investors should read all the information about fees and charges, as it is important to understand their impact on an Investors investment in the Scheme.

Type of fee or cost	Amount	How and when paid
<b>Fees when your money moves in or out of the fund</b>		
<b>Establishment fee</b> The fee to open your investment	Nil	Not applicable
<b>Contribution fee</b> The fee on each amount contributed to your investment	Nil	Not applicable

Type of fee or cost	Amount	How and when paid
<b>Withdrawal fee</b> The fee on each amount you take out of your investment	Nil	Not applicable
<b>Termination fee</b> The fee to close your investment	Nil	Not applicable
<b>Management costs</b>		
The fees and costs for managing your investment <sup>1</sup> :	This fee is generally between 2% pa and 5% pa of the Mortgage Investment paid on a recurring basis.	These fees are paid to EHS as a component of the interest payments made by the Borrower to the Scheme.
<b>Service fees</b> <sup>1</sup>		
<b>Investment switching fee</b> The fee for changing investment options	Nil	Not applicable

<sup>1</sup> The management costs do not include loan establishment fees which EHS receives directly **from the Borrower** on the establishment of and during a Loan. These fees are generally in the range of 1% to 6% of the principal advanced, are paid directly by a Borrower and are not an additional cost to you or the Scheme. These costs are for amounts that can only be estimated. The indirect cost ratio determined for the financial year before this PDS was issued has been used as the estimate.

## Additional explanation of fees and costs

### GST and stamp duty

All fees stated in this PDS include (if applicable):

- (a) GST less any reduced inputs tax credits; and
- (b) Stamp duty.

### Fee changes

The level of management costs is an estimate and can change without recourse to Investors.

### Adviser remuneration

EHS does not pay adviser fees.

### Legal Fees

Elliott Harvey Solicitors (of which Michael Harvey is a partner), may prepare mortgage documents for the Scheme and may provide other legal services to EHS and the Scheme. These legal services are provided on commercial arms length basis.

## Example of annual fees and costs

This table gives an example of how the fees and costs for this product can affect your investment over a one year period. These fees and costs may be deducted from Scheme Assets. The example assumes that a balance of \$50,000 has already been invested in a Mortgage Investment, that it remains in the Mortgage Investment for the whole of the year and that an additional investment of \$5,000 is made in another Mortgage Investment. You should use this table to compare this product with other managed investment products.

<b>Example</b>		<b>Balance of \$50,000 with total contributions of \$5,000 during year</b>
Contribution fees:	Nil	For every additional \$1,000 you put in, you will be charged Nil.
<b>PLUS</b> management costs	Between 2%pa and 5%pa of the total funds invested	And, for every \$50,000 you have in the Scheme, you will be charged (indirectly) between \$1,000 and \$2,500 each year.
<b>EQUALS</b> cost of Scheme investment		If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year, you would be charged additional (indirectly) fees of between \$1,000 and \$2,500.  <b>What it costs you will depend on the investment option you choose.</b>

### Note:

**The actual fees and costs are deducted from the income of the Scheme and not from an Investors investment balance. Proposed Distributions advised to Investors in the Investment Proposal are NET of all fees and expenses.**



## 5. Loan Portfolio

### Historical performance of the Scheme to 30 June 2007

Since the establishment of the Scheme, 40 loans in aggregate of \$192,224,000 have been made by the Scheme to various Borrowers.

### Loan portfolio

The Scheme portfolio as at 30 June 2007 is set out in the following tables:

**Table A**

<b>Item</b>	<b>Total</b>
Scheme Assets	\$42,547,559
Value of Loans	\$38,437,000
Number of Loans	1
Number of Investors	658
Number of Loans secured by first mortgage	1
Number of Loans secured by second mortgage or other	NIL

**Table B**

<b>Type of Security Property</b>	<b>% of loan money</b>
Commercial	100

**Table C**

<b>Location of Assets secured by Loan</b>	<b>% of Loans</b>
Queensland	100

**Table D**

Loan Maturity date	28 June 2008
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### Loans in default as at 30 June 2007

NIL

### Default situation

A concentration of credit risk has arisen with 100% of loans receivable owing from one Borrower, as at 30 June 2007. The Directors of EHS have not provided for non-recovery of this amount as the loan is performing appropriately and the amount is

considered to be fully recoverable and supported by adequate security should default occur.

There is no provision for loans in default as it is the belief of the Directors of EHS that all loans are recoverable in full and the loans were settled and redrawn on 28 September 2007.

### **Updated Scheme details**

Updated financial information in relation to the Scheme is published quarterly on EHS's website [www.ehsl.com.au](http://www.ehsl.com.au). The most recent financial report for the Scheme is available at [www.ehsl.com.au](http://www.ehsl.com.au) or by telephoning 1800 064 688. Information relevant to the Scheme that is not materially adverse to Investors that is subject to change from time to time (including the information contained in this section) will be updated by EHS on its website and a paper copy of any updated information will be provided to Investors upon request without charge.

## 6. Lending procedures

### Introduction

We adopt stringent risk management procedures for all loans. We carefully review each loan application and undertake a thorough due diligence on each Borrower before funds are advanced. Some of our procedures are discussed below. We only advance funds where:

- the type of real estate and chattels offered for security is acceptable to us;
- a mortgage must be able to be registered on the security offered for the mortgage;
- the value of the property must be established in accordance with our valuation policy;
- when assessing whether or not to approve a mortgage; and
- whenever a mortgage involves a development loan, we ensure persons with relevant project management experience supervise the loans.

### Investment approach

The following criteria must be met for all loans made by the Scheme:

- satisfactory valuation of the security property, by an independent approved valuer, appointed by EHS;
- security for the loan is provided by way of a registered first mortgage over the security property, together with additional security if EHS considers it appropriate;
- the security is over real property of acceptable quality; and
- the mortgage is registered with the appropriate authorities.

All loans are secured by registered mortgages over real property and in certain circumstances, the Scheme may take further collateral security, such as additional registered mortgages, fixed and floating charges and corporate and personal guarantees.

Interest payable on loans may be capitalised for the term of the Mortgage Investment. Where this occurs, EHS will retain from the loan sufficient money to fund the interest payments during the term of the loan. If there are additional interest costs over this calculated amount they are to be provided by the Borrower or at EHS's discretion, the loan amount may be increased provided it remains within the limits required by EHS's lending criteria. Where EHS requires a Borrower to make periodic loan repayments, an assessment of their ability to service these payments is undertaken during the loan approval process.

### Valuation practices of EHS

All loans made by the Scheme are subject to valuations conducted by independent approved valuers who are chosen from EHS's panel of valuers. The valuer must be authorised under the law of the State or Territory where the valuation takes place to practice as a valuer and have at least 5 years continuous experience in valuation.

EHS's valuation policy states:

- all real estate security must be valued by a registered valuer appointed in accordance with the external service providers provisions detailed in the Compliance Plan;
- EHS will instruct the valuer;
- the valuation must be addressed or assigned to EHS;
- the original valuation report must be placed in the security packet for the particular Mortgage Investment held by EHS in a fire resistant security cabinet;
- the valuation must be updated at least once every 3 years during the term of the Mortgage Investment;
- no one valuer will conduct any more than 3 consecutive valuations of the same property;
- valuations must be carried out by valuers acceptable to EHS. Each valuer must be a properly qualified, licensed and reputable property valuer. In addition, the valuer must not have any direct interest in either EHS or the property that may conflict with the provision of a proper valuation; and
- the valuation report must contain a minimum of the following details:
  - (i) land description including full street address and legal description;
  - (ii) name of the registered proprietor;
  - (iii) current/previous usage;
  - (iv) description of any improvements;
  - (v) comments on particular location of property;
  - (vi) comments on existing/best use;
  - (vii) description of property proximity to local facilities, amenities and services;
  - (viii) advice on the current level of properties for sale/lease in the surrounding area or comparable sales if available; and
  - (ix) definition of valuation rationale.

In valuing a property to be used as security for a loan, EHS requires the valuer to:

- assume that the property is reasonably exposed to the market;
- value properties for development and construction loans both on the basis of current unimproved value ('as is') of the property and also on the completion value ('as if complete'); and
- value the property on the basis that there is a buyer and seller that are both willing but not anxious;
- assume that a reasonable period has been allowed for a sale, having regard to the nature of the property and the state of the market for properties of the same kind;
- assume that no account is taken of any higher price that may be paid by a person with a special interest in the property; and

- assume that reasonable resources are available to negotiate the sale and market the property.

All security properties are valued by independent approved valuers who have confirmed to EHS that they have no interest in either the security property being valued nor are they in any way related to the Borrower.

The independent approved valuers who make up EHS's panel of valuers are from time to time appointed and removed with the approval of the Board. Valuers are appointed based on their demonstrated experience in valuing the relevant types of security property and their knowledge of the local property industry. All valuers are required to hold appropriate professional indemnity insurance.

For development and construction loans the LVR is calculated on the loan amount approved measured against the project valuation 'as if complete'. For each construction and development loan an 'as is' and an 'as if complete' valuation is obtained. The progress of the Loan is monitored during the development phase to ensure that at all times there are sufficient loan money retained by EHS to complete the project.

At the time of considering an application for a loan, the valuation must be not more than three months old.

During the term of a loan, EHS will, when appropriate, review the security property valuation. EHS may request an updated valuation report where it considers this to be in the best interests of Investors. In assessing whether a revaluation is required, EHS will consider issues such as delays in the development of a project, significant changes in the property market or tenancy status of the security property. The improvements on a security property must be insured to replacement value.

### **Loan management**

EHS has an arrears management process in the event a loan goes into default. These processes include:

- in the case of a loan moving into arrears, EHS contacts the Borrower to ascertain the reason and determine whether the Borrower can rectify the arrears immediately; and
- if EHS is not satisfied the arrears will be rectified within 90 days or an appropriate arrangement is not agreed between the Borrower and EHS, the Borrower will be advised that proceedings to recover the amounts owing will be initiated.

Though past performance should not be used as a guide to future performance, EHS has a sound history of credit management. EHS proactively works with Borrowers to overcome repayment issues so loans can remain performing.

### **Specialty lending**

Where the purpose of the loan is construction or development, EHS is aware that this type of loan requires stricter lending guidelines.

Accordingly, EHS usually limits the LVR to the vicinity of 70% (but it may go to 80%) and the loan is structured as follows:

- an initial amount only is advanced against the value of the land; and

- any further monies advanced towards the cost of development are only done so after receipt of certification from an expert such as a quantity surveyor or an engineer.

In addition, the valuation must contain the following:

- the value of the property 'as is' prior to any development; and
- the market value of the property on completion of development including:
  - (i) a feasibility analysis including all development costs (demolition, subdivision, construction, marketing and sale expenses) allowing a profit and stating the value of the land; and
  - (ii) a gross realisation value based on comparable sales evidence for the final product.

### **Valuation assessment**

EHS understands that defects or inadequacies of the valuation report may pose a risk for Investors' funds. Accordingly, all valuations are subject to EHS's strict review.

## 7. Risks

This section identifies the areas that are believed by EHS to be the major risks associated with an investment in the Scheme.

Like all investments an investment in the Scheme is subject to risk factors, both specific and of a general nature. Individually, or in combination, these might affect the future operating performance of the Scheme and the value of an Investors investment in the Scheme and more specifically a Mortgage Investment.

There is no guarantee the Scheme will achieve its stated objectives or that the distributions forecast in an Investment Proposal will eventuate. An investment in the Scheme should be considered in light of relevant risks, both general and specific.

The risk factors set out in this PDS are not to be taken as being comprehensive of all of the risks that may be attributable to an investment in the Scheme. These risks, as well as other risks, which have not been specifically identified, may in the future affect the performance of the Scheme and distributions to Investors.

### **Specific risks**

#### **Capital risk**

The investments of the Scheme are not capital guaranteed. Changes in the value of property taken as security under Mortgage Investments may change in accordance with cycles in the property market and other factors beyond the control of EHS. In the event there is default and power of sale exercised, it is possible for the security property to be sold at a price less than the amount required to satisfy the loan amount, capitalised costs and accrued interest in which case an Investors capital may be lost.

EHS manages capital risk by strictly complying with its lending guidelines, its Compliance Plan and its reliance on the efficiency of its collection systems. All Mortgage Investments are reviewed on an ongoing basis with updated valuations at appropriate dates.

Because each Mortgage Investment is different, a default or delayed interest payment by a Borrower in one Mortgage Investment will not affect Investors in other Mortgage Investments.

Investors may wish to consider investing in a number of Mortgage Investments to diversify the risk of one Mortgage Investment defaulting.

#### **Valuations**

Despite careful valuation practices, it is possible that a valuation may not accurately reflect the current true value of a proposed security property. This risk is mitigated by the fact that EHS always consults with local real estate agents, and other experts (including quantity surveyors where necessary) to obtain independent support for the valuation.

Valuation risk is obviously only relevant if a mortgagee sale becomes necessary. EHS further limits this risk by lending only a conservative percentage of the valuation in context of the type and location of the security property, as well as by careful loan selection.

### **Interest Rate Market Conditions**

The Scheme operates in a market where there is substantial competition for suitable loans. This may impact on the return available to Investors.

Your Mortgage Investment will generally attract a fixed interest rate. Market interest rates may subsequently rise during your investment term.

### **Interest Rate Market Conditions**

The proposed Distribution rate will be disclosed in the Mortgage Investment proposal. The risk is that the Borrower does not pay and you will not get a distribution.

### **Taxation risks**

It is intended that all income under a Mortgage Investment to which an Investor is entitled will be distributed to Investors and will be taxable in the hands of the Investors. The Scheme will therefore not generally be liable to pay any income tax. Tax will be withheld from distributions to non-resident Investors and resident Investors who have not quoted a tax file number or exemption. Investors should discuss this with their financial adviser.

Australian tax laws are constantly in a state of flux with the introduction of various taxation reform proposals, which may affect Investors.

EHS is not responsible for taxation or penalties incurred by Investors. Investors should obtain their own advice considering taxation implications arising from their investment in the Scheme.

### **Illiquid nature of underlying security**

Investments in a Mortgage Investment are for a minimum term. Investors are unable to borrow against their investment or grant it as security in the ordinary course of business. Repayment can only be obtained when the Borrower repays the loan or when a sale of the security property is effected. Delays could occur between a loan going into default and sale of the security property. These delays would affect interest accruing on the loan, but not paid and, in these circumstances, would not be available for distribution to Investors.

### **Delays in repayment**

There may be a delay in the repayment of capital invested at the end of a Mortgage Investment if the Borrower is unable to repay the loan amount. Delays in repayment may also occur beyond the end date for the Mortgage Investment for a wide variety of reasons including the risk that construction or redevelopment does not proceed on schedule.

### **Development and construction loans**

Where a loan to a Borrower is for construction or development and we have not received the full loan amount before settlement of the loan, there is a risk we may not be able to source additional Investor funds as required by the Borrower. As a result this may cause delays in the construction or development. We address this risk by conservatively assessing the amount of funds required by a Borrower at the likely time they will be required before a loan by instalments is approved.

These types of loans require a high degree of experience in their assessment, and management and EHS has in place specific procedures to monitor pre and post settlement conditions to ensure that the security position is maintained and risk

minimised. Refer to the lending procedures section of this PDS for EHS's policy in relation to construction and development loans.

### **Environmental risks**

There is no guarantee that properties provided as security for a Mortgage investment are not contaminated, placing the investment made by the Scheme at risk which may affect the value of the Scheme and the return, if any, to Investors.

## **General Risks**

### **Changes in legislation**

Changes to the regulatory environment relating to financial services, taxation and other regimes may adversely affect the interests of the Scheme and your investment.

### **General economic conditions**

The Scheme's operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates, could be expected to have a corresponding adverse impact on the Scheme's operating and financial performance.

### **Returns on investment**

An investment in the Scheme is subject to general investment risk, including possible delays in payment of returns and loss of the principal invested. Neither EHS nor the Directors guarantee the performance of:

- the Scheme;
- an Investors investment;
- a payment of capital;
- a rate of return, if any, to Investors on capital; or
- the value of an investment in the Scheme.

### **Risk Management**

EHS has adopted strict guidelines for lending to minimise the risk of default. The staff and officers of EHS have broad experience in the area. EHS has internal risk management procedures, EHS relies on its appointed solicitor to certify the title in relation to the security property, and in doing so, a range of searches appropriate to the particular property are carried out.

## 8. Additional information

### **Documents that will be provided to Investors**

EHS will provide, as a minimum, the following:

- acknowledgement of registration;
- confirmation of investment;
- an annual report;
- a yearly distributions advice statement; and
- an annual tax statement.

### **Complaints procedure**

Investors may make a complaint by lodging a written complaint or by telephoning EHS.

Complaints will be referred to EHS's complaints officer.

The complaints officer has 14 days to acknowledge the complaint and satisfactorily resolve the complaint.

If you feel your complaint has not been satisfactorily resolved the complaints officer must refer your complaint to the Board.

The Board has 30 days to satisfactorily resolve your complaint.

If you feel your complaint has still not been satisfactorily resolved, an Investor may complain to the Financial Industry Complaints Service Limited (FICS) at PO Box 579, Collins Street, West Melbourne, Vic 8007, Phone 1300 780 808 or Fax (03) 9621 2291. EHS is a member of FICS.

### **Documents available for inspection**

Copies of the following documents are available for inspection during normal office hours at our registered office upon request:

- the Constitution and Compliance Plan;
- the consents referred to this section; and
- the annual financial reports of the Scheme and EHS.

### **Taxation information**

EHS's policy is to distribute all net taxable income of the Scheme each financial year. The current income tax legislation is such that a trust operates as a flow through vehicle such that the taxable income of the Scheme when distributed, retains its character as it 'flows through' the Scheme to you and EHS as trustee is not generally liable to pay tax with respect to the Scheme.

Any interest income received by the Scheme from its activities when distributed by the Scheme will flow through the Scheme to you and will retain that character in your hands. This has the consequence for you that you will be required to include your entitlement to the net interest income of the Scheme in your income tax returns and that it should be included in your taxation return when your entitlement to that

Distribution arises. This entitlement arises irrespective of whether you receive the income during the year, after the end of the year or is reinvested in the Scheme.

EHS will send (within three months of 30 June) your annual taxation statement. You should not complete your taxation return until you receive this statement.

In the Application Form, you are also asked to provide an Australian Tax File Number (TFN) or relevant exemption. Providing this information is not compulsory but consequences flow where this information is not provided (refer to the Guide to the Application Form).

### **Overseas Investors**

If you are not an Australian resident for taxation purposes, you must (when completing the Application Form) provide your overseas address. Where an overseas address is provided, we are required by law to deduct withholding tax from all Distributions.

### **Social Security**

Your investment in the Scheme will be classified as a financial investment by the Department of Veteran Affairs (DVA) and Centrelink and therefore included in the Income and Assets Tests by the DVA and Centrelink. Government Policy in this area can often change and EHS recommends that you should consult your financial adviser, the DVA or Centrelink for any further information on how your investment in the Scheme may affect you and your benefits.

### **Goods and Services Tax**

Goods and services tax (GST) is not directly applicable to your investment in the Scheme when you invest or redeem your investment. The Scheme may incur GST in respect of various expenses and the Scheme may not be entitled to input tax credits with respect to all the GST the Scheme incurs.

Taxation law is constantly under review and changing. The comments above are accurate at the date of this PDS. Tax law is complex and your individual circumstances are different. EHS recommends that you seek professional independent taxation advice on your investment.

The Scheme does not generally pay tax on distributions to Investors. It is EHS's intention to distribute all income in the year received. Income received by each Investor will generally be taxable at the Investor's own marginal tax rate. The taxation information contained in this PDS is of a general nature only. All tax liability rests with Investors. As each Investor's taxation position is different, EHS recommends that each Investor seek professional advice prior to investing.

At the end of each financial year, EHS will provide Investors with a taxation summary detailing the investments they have made and the distributions made to them during each financial year. Investors should not lodge their income tax return before receiving this information.

### **Summaries of material documents**

#### **Constitution**

The main rules governing the operation of the Scheme are set out in the Constitution. The Corporations Act, exemptions and declarations by ASIC and the general law relating to trusts are also relevant to the rights and obligations of EHS

and Investors. The main provisions of the Constitution that deal with the rights and obligations of Investors are:

#### **Interests in Scheme**

An Investor's Interest in the Scheme is as tenant in common in the proportion an Investor's application money allotted to a particular Mortgage Investment bears to the total amount of the Mortgage Investment. The Mortgage is registered in the name of EHS as Mortgagee. EHS holds the mortgage for the relevant Investors.

#### **Withdrawals**

Investors may only withdraw from the Scheme where the Investors monies are not part of a Mortgage Investment.

#### **Winding up the Scheme**

The term of the Scheme is 80 years but may be wound up before that time if:

- Investors pass an extraordinary resolution directing EHS wind up the Scheme;
- an order is made by a court;
- Investors vote to remove EHS as the responsible entity and do not, at the same time, appoint a new responsible entity; or
- EHS considers that the purpose of the Scheme has been accomplished or cannot be accomplished.

#### **Indemnity and liability**

EHS is not liable for any loss or damage to any person including any Investor arising out of any matter unless, in respect of that matter, it acted both:

- otherwise than in accordance with the Constitution and its duties; and
- without a belief in good faith that it was acting in accordance with the Constitution or its duties.

To the extent permitted by the Corporations Act, the liability of EHS in relation to the Scheme is limited to the Scheme Property from which EHS is entitled to be and is in fact indemnified.

In particular, EHS is not liable for any loss or damage to any person arising out of any matter where in respect of that matter:

- to the extent permitted by the Corporations Act, EHS relied in good faith on the services of, or information or advice from, or purporting to be from, any person appointed by EHS;
- it acted as required by the Corporations Act;
- it relied in good faith upon any signature, marking or documents.

In addition to any indemnity under any law, EHS has a right of indemnity out of the Scheme Property on a full indemnity basis in respect of a matter unless, in respect of that matter, EHS has acted negligently, fraudulently or in breach of trust.

#### **Changing the Constitution**

The Constitution may be modified or repealed or replaced:

- by special resolution of the Investors in the Scheme; or

- by EHS if EHS reasonably considers the change will not adversely affect the Investors' rights.

### **Transfer/Transmission**

An Investor may, in accordance with the requirement of the Corporations Act, with the consent of EHS assign, sell or transfer (**transfer**) their Interests. Where an Investor requires EHS to provide administrative services to assist in the transfer of their Interests (other than solely amending the Investor register) EHS may charge a fee of up to 1% of the value of the Interests transferred. Investors should note that stamp duty and taxes may also be payable of any transfer.

In the event of transfer or transmission on death, an Investor's Interest/s may be transmitted in accordance with the terms of the Constitution.

### **Change of responsible entity**

EHS may retire as the responsible entity as permitted by the Corporations Act and EHS must retire when required by the Corporations Act.

### **The Compliance Plan**

Under the Corporations Act, the Compliance Plan has an important role in the measures adopted to protect Investors.

The scope of the Compliance Plan is to ensure Investor's Interests are protected by:

- describing how EHS will comply with its duties and obligations under the Corporations Act and the Constitution;
- identifying the risks associated with running the Scheme; and
- establishing measures designed to address and manage these risks.

### **Disclosure of interests**

Michael Harvey, the principal of Elliott & Harvey Solicitors, will be engaged by EHS to provide legal services to the Schemes. Elliott & Harvey Solicitors is entitled to receive a fee for these services at commercial rates.

One director Michael Harvey and the secretary, Kerrie Guy, are shareholders of Nerang Legal Services Pty Ltd which may from time to time be engaged by EHS to provide management, banking, accounting and other services at a commercial fee. Fees paid to Nerang Legal Services Pty Ltd are paid from EHS's own funds and not generally reimbursed from the Scheme Property.

EHS, Directors and employees of EHS may apply for and acquire Interests under this PDS. Where these Interests are acquired this occurs on the same basis as other Investors.

### **Cooling-Off Period**

No statutory cooling off period applies as the Scheme is a non-liquid managed investment scheme.

Whilst an Investor's monies are not invested in a Mortgage Investment, the Investor is not a member of the Scheme and an Investor may withdraw the monies by giving 48 hours notice to EHS.

Once the chosen Mortgage Investment is drawn down the Investor becomes a member of the Scheme and funds cannot be withdrawn until the Mortgage Investment is repaid by the Borrower.

### **Social, ethical and other considerations**

Labour standards, environmental, social or ethical considerations are not explicitly taken into account when making, retaining or realising an investment in the Scheme.

### **Consent to issue of the PDS**

Each of the Directors has consented to and authorised the issue of this PDS.

### **Tax File Number**

Unless you advise details of your tax file number to EHS, EHS will be required to withhold tax at the highest marginal rate (plus Medicare levy) from interest payable on your investment.

### **Disclosure of related party interests and borrowings**

Directors (or their associates) have a beneficial interest in shares and options in EHS. Directors receive Directors' fees for carrying out their duties as Directors of EHS.

Related parties of EHS may have investments in the Scheme from time to time. Where this occurs those investments will be acquired and dealt with on the same terms as any other Investor in the Scheme. Related parties of EHS may borrow monies from the Scheme from time to time. Where this occurs the terms of the Loan and any fees will be on arms length commercial basis, in line with other unrelated parties. Details of related party loans are contained in the Scheme portfolio available at [www.ehsl.com.au](http://www.ehsl.com.au) or by calling 1800 064 688.

## GLOSSARY

Acknowledgement Form	The acknowledgement form included in this part of the PDS
Applicant	A person or entity who submits an Application Form
Application Form	The application form included in the Investment Proposal
ASIC	The Australian Securities & Investments Commission
Borrower	Any person who borrows funds from the Scheme
Compliance Plan	The Compliance Plan dated 24 November 1999 (and amended from time to time) that establishes a framework for monitoring the operation of the Scheme
Constitution	The constitution of the Scheme dated 10 December 1999 (and amended from time to time) which has been lodged with ASIC
Corporations Act	Corporations Act 2001 (Commonwealth)
Director	A director of EHS
Distributions	Payments forecast to be made to Investors from the Scheme
EHS	Elliott Harvey Securities Ltd ACN 089 156 605
Interests	An interest in the Scheme
Investor, you, your	A holder of an Interest in the Scheme
Investment Proposal	The document which describes each Mortgage Investment and which will be a supplementary product disclosure statement to this PDS
LVR	Loan to valuation ratio. The ratio of each loan provided to a Borrower and the value of the real property given as security under each Mortgage Investment
Mortgage Investment	The loan facility secured by a registered mortgage as described in each Investment Proposal issued by EHS from time to time.
Offer	The offer of Interests under this PDS
PDS	This product disclosure statement and includes each Investment Proposal
We, us or our	Elliott Harvey Securities Ltd ACN 089 156 605
Scheme	Elliott Harvey Investment Scheme ARSN 090 577 656
Scheme Property	All of the assets of the Scheme



6. Resident of Australia? (please circle) Yes No

7. Tax file number/s or exemption category \_\_\_\_\_

EHS recommends you disclose your Tax File Number (TFN) on the Acknowledgement Form. If you choose not to disclose your TFN tax may be deducted from any Distributions at the highest marginal tax rate plus Medicare levy.

I/We hereby apply for registration in the Elliott Harvey Investment Scheme. I/we acknowledge, agree and understand that:

1. I/we declare that the details given in this form are true and correct.
2. I/we agree to be bound by the terms of the Constitution.
3. I/we acknowledge and accept EHS will send me/us a PDS and Investment Proposal/s in respect of investment opportunities from time to time.
4. I/we acknowledge that I/we have received and read a copy of this PDS but may invest only on the Application form attached to the respective Investment Proposal for the Mortgage Investment chosen by me/us.
5. I/we acknowledge that the minimum investment under each Investment Proposal is \$5,000.00.
6. I/we acknowledge that any investment in joint names shall, unless EHS is advised otherwise at the time the investment is made, be on the basis of a joint tenancy.

..... <b>Investor signature (Director if company)</b>	..... <b>Date</b>	<b>Company seal</b>
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..... <b>Investor signature (Individuals, including Partnerships)</b>	..... <b>Date</b>
--	----------------------

..... <b>Investor signature (Individuals, including Partnerships)</b>	..... <b>Date</b>
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*If signed under power of attorney the Investor/s certifies that he or she has not received notice of revocation of that power. A copy of the power must be forwarded to EHS with this Acknowledgement Form including an express authority to grant the limited power of attorney as set out in this Acknowledgement Form. An Acknowledgement Form by a corporation must be executed under common seal. The party signing must indicate the capacity (i.e. director or secretary) in which they do so. The signing parties attest that the common seal was affixed in accordance with the company's constitution or articles of association.*

**DO NOT USE THIS FORM UNLESS ATTACHED TO THE PDS**