



22 June 2009

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Update for Investors in Timbercorp and Great Southern MIS Projects

We provide this update as a service to our clients. It will cover frequently asked questions and give further insights and reassurance to each of our clients.

Part A covers Timbercorp and Part B covers Great Southern.

A. Timbercorp

Telephone Calls, Demand Letters and Default Notices

- If you receive a call, simply say your matter is being handled by lawyers and any communication should be directed to M+K
- Demand letters and Default Notices are system generated and have been sent out "automatically". You need not send us copies of them
- The higher interest rates threatened to be applied can be ignored - the letters we've sent to KordaMentha already have answered that by asserting that the subject loans should be regarded as legally unenforceable (meaning borrowers are to be excused from paying anything under those loans)
- The threat made that the entire loan balances are now to be paid can likewise be ignored, for exactly the same reason
- If the matter was to end up in Court we would argue that the Court should rule each of the subject loans to be invalid, which means Timbercorp Finance Pty Ltd would have to write them off as unrecoverable. We will be in touch with clients later about how we would handle Court proceedings and the sharing of costs among our investor client base
- Nobody should suffer adverse credit rating reports and we have told KordaMentha they will be held accountable if they make any "default report" in these cases
- The "subject loans" are those taken out in 2008 and possibly also those in 2007 (depending on evidence we find)
- If payments are being withheld on loans first taken out in prior years we suggest people keep money aside to cover any negotiated payout that might happen at a later date if it turns out something does need to be paid for loans taken out in 2006 or prior years.

Dandenong
Melbourne

New South Wales
Sydney

Business contracts + advice

Corporate insolvency

Corporate, mergers + acquisitions

Employment + industrial relations

Intellectual property + trade

Litigation/dispute resolution

Property + construction

Tax + superannuation

Family law

Wills + estate planning



M+K is a member of Multilaw the worldwide association of independent law firms.

What happens if you receive Court proceedings regarding your loan?

- You should immediately contact our Timbercorp Co-ordinator Katrina Slifka on (03) 9794 2620 and email katrina.slifka@mk.com.au a copy of the Court documents.

Voting for replacement Responsible Entity for some Projects

- This initiative has been taken by grower representatives on the Committee of Creditors
- M+K supports the initiative and encourages investors to get behind it and make their vote count
- The initiative is very much focused on individual projects themselves, designed to allow them to survive even if Timbercorp itself does not.

Voting for placing Timbercorp into Liquidation

- This does not concern the individual MIS Projects themselves
- Rather it concerns the actual Timbercorp companies and a change from a temporary "voluntary administration regime" to a terminal "liquidation regime"
- KordaMentha administrators are required by law to hold the upcoming meeting of creditors
- We expect nothing unusual will happen and we do not believe any difference will be made by any vote cast by any investor in any MIS Project. It is inevitable that the Timbercorp companies will be placed into liquidation.

Court action relating to Olives and Almonds Projects: Victorian Supreme Court

- We view the result achieved by Chris Garnaut and his colleagues on 17 June 2009 as favourable. In conjunction with their lawyers Clarendons and their barrister they have stopped KordaMentha getting things all their own way
- Far from allowing KordaMentha to obtain quick orders providing for the 14 affected Projects being wound up, the Court required much more specific detail from KordaMentha concerning each individual Project.
- Further Affidavit material needs to be filed with the Court in the lead-up to a trial to be held over 1 or 2 days commencing 15 July 2009.

Letters sent by M+K to Timbercorp Finance Pty Ltd and Timbercorp Securities Limited

- We are continuously sending batches of letters on behalf of investor clients by courier twice a week
- This will continue to happen until all investors represented by M+K have been accounted for. Clients will receive copies of such letters for their information.
- We are yet to receive any response from KordaMentha to the legal arguments set out in our letters

- Again, we emphasise that if any of our clients are sued in relation to unpaid loan payments we should be notified immediately. Telephone Katrina Slifka on (03) 9794 2620 and email katrina.slifka@mk.com.au a copy of the Court documents.

Chairman of ASIC has responded to M+K's letter

- Many of you will already know that on 10 June 2009 we made a lengthy written submission to the Chairman of ASIC, Mr Tony D'Aloisio, calling for active intervention by ASIC to ensure the rights of MIS investors were well looked after. We were particularly concerned that investors would not lose whatever value in MIS Projects is lawfully attributable to their investments, especially where conflicts of interest arose as between the Responsible Entity's interest and the investor's interest
- We received a reply on 12 June 2009 from ASIC's Secretariat Officer which noted:

"The Chairman has referred the matter you have raised to the appropriate area in ASIC for consideration on his behalf.

Thank you for bringing this matter to ASIC's attention".

As expected by M+K, most of the loan money paid to Timbercorp Finance is being passed to Banks who have security over Timbercorp's Loan Book

- KordaMentha issued a lengthy report on 18 June 2009 (the "Report").
- Appendix 18 noted the Administrators had received payments on behalf of Timbercorp Finance Pty Ltd to 31 May 2009 of \$6.5 million
- Of that amount \$1.9 million was held as cash at bank while significant distributions were made from the remainder as follows:

To ANZ as security holder	\$3,779,000
To Perpetual as security holder	\$ 427,000
To Trust Company as security holder	\$ 121,000

Performance of Timbercorp's Loan Book since Administrators were appointed on 23 April 2009

- Across 14,500 individual loans there was a total of \$477.8 million outstanding when KordaMentha became Administrators of Timbercorp Finance Pty Ltd (refer page 7 of the Report)
- Page 10 of the Report reveals that by 14 June 2009 \$19.6 million of that amount was in arrears
- After the end of this month the arrears figure will grow significantly
- Tucked away at page 19 of the Report, we observe that even before KordaMentha took the appointment as Administrators Timbercorp Finance Pty

22 June 2009

Ltd had already increased its provision for doubtful debts to an estimated \$42 million as at 28 February 2009

- Tucked away in the detail buried in Appendix 9 to the Report we note that the Timbercorp Directors as at 23 April 2009 expected only about 45% of the securitised Loan Book of Timbercorp Finance Pty Ltd to be collected
- With the very large number of Timbercorp borrowers now represented by M+K we believe the total collections by Timbercorp Finance will be well below even the Timbercorp Directors' expectations.

Timbercorp companies unable to pay what they need to pay for ongoing Project costs

- In a statement we believe is helpful to the cause of our clients Mark Korda as Administrator noted on page 17 of the Report

"Due to direct and joint venture ownership in a number of the Schemes, the Group is required to contribute to ongoing Scheme costs, however the Group does not have the financial capacity to meet these ongoing obligations".

- It is worth noting in the list of inter-company loans set out in Appendix 8 to the Report that as of 23 April 2009 \$156.3 million was owed by Timbercorp Finance Pty Ltd to Timbercorp Limited and \$79.2 million was owed by Timbercorp Limited to Timbercorp Securities Limited
- Why would anyone think it is fair that investors who borrowed from Timbercorp Finance Pty Ltd should keep making payments on their loans while one of the joint venture participants Timbercorp Securities Limited has not been paying its own way in connection with those Projects?

B. Great Southern

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- The higher interest rates threatened to be applied can be ignored - the letters we are sending to Ferrier Hodgson and Bendigo and Adelaide Bank will answer that by asserting the subject loans should be regarded as legally unenforceable (meaning borrowers are to be excused from paying anything under those loans)
- The threat made that the entire loan balances are now to be paid can likewise be ignored, for exactly the same reason
- If the matter was to end up in Court we would argue that the Court should rule each of the subject loans to be invalid, which means Great Southern Finance Pty Ltd or Bendigo and Adelaide Bank would have to write them off as unrecoverable. We will be in touch with clients later about how we would

22 June 2009

handle Court proceedings and the sharing of costs among our investors client-base

- Nobody should suffer adverse credit rating reports and we will tell Ferrier Hodgson and Bendigo and Adelaide Bank they will be held accountable if they make any "default report" in these cases
- The "subject loans" are those taken out in 2007 and 2008 and possibly also those in 2006 (depending on evidence we find)
- If payments are being withheld on loans first taken out in prior years we suggest people keep money aside to cover any negotiated payout that might happen at a later date if it turns out something does need to be paid for loans taken out in 2005 or prior years.

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Thank you for bringing this matter to ASIC's attention".

Letters sent by M+K to Great Southern Managers Australia Limited, Great Southern Finance Pty Ltd, Bendigo and Adelaide Bank Limited and in some instances Javelin

- We are continuously sending batches of letters on behalf of investor clients by courier twice a week
- This will continue to happen until all investors represented by M+K have been accounted for. Clients will be sent copies of such letters for their information
- We will let you know of any response from Ferrier Hodgson and Bendigo and Adelaide Bank to the legal arguments set out in our letters
- We emphasise that if any of our clients are sued in relation to unpaid loan payments we should be notified immediately. Telephone Tonya McDougal on (03) 9794 2690 and email tonya.mcdougal@mk.com.au a copy of the Court documents.

Massive jump in Great Southern's provision for doubtful debts as at 31 March 2008

- The half-year financial statements showed that as at 31 March 2007 the doubtful debts provision in the company's books stood at \$778,000. A year later, on 31 March 2008 it stood at \$37.2 million, an increase of greater than \$36.4 million.

- That weighed heavily in producing the reported half-year result of a loss of \$49 million for the six months ended 31 March 2008.

More needs to be found out about the reason for the jump in doubtful debts

- M+K will press for information about that astonishing figure.
- Meanwhile, it appears from Note 3 (ii) (b) on Page 10 of the half-year financial statements of Great Southern for the half-year ended 31 March 2008 that, in the words of the Chairman and the Managing Director:

"The increase in the doubtful debt provision reflects recent general market volatility and credit uncertainties and includes provisioning in respect of a particular group of investors who no longer do business with the Group".

- Naturally, M+K and all of its clients would like to know more about the reasons behind that manner of handling the situation.

ASX announcement on 26 May 2008

- In submitting its half-year result to the ASX, the Managing Director, Cameron Rhodes, cryptically commented on the increase in the doubtful debt provisioning, saying it *"...is of course particularly disappointing and unacceptable and in that regard we have fully reviewed our loan approval and collection processes to improve the quality of any future loans."*
- M+K has heard from some people connected with Great Southern insiders that Great Southern *"loan approval procedures were appalling and often non-existent, resulting in many people being granted finance when they couldn't really afford it"*.

Bendigo and Adelaide Bank - A question of transparency

- Many investors have told us they were mystified to learn their loans were with Bendigo and Adelaide Bank ("BAB") when all along they thought they were obtaining finance from Great Southern Finance Pty Limited. M+K is investigating this matter further.
- Meanwhile, an item of interest is a recent announcement by BAB to the ASX relating to Great Southern MIS investors. According to that announcement issued on 26 May 2009, the Bank's head of investor relations wrote that BAB had:

"over the past six years, lent money to approximately 8,200 customers who have invested in Managed Investment Schemes (MIS) through [Great Southern].

These loans are full-recourse to each individual borrower, with an average exposure of \$75,000 and are spread across every state and territory of Australia".

Auditor concluded that as at 30 September 2008 there was grave uncertainty about Great Southern's ability to continue as a going concern

- At Page 140 of the Annual Report for Great Southern for the year ended 30 September 2008, Ernst & Young as auditors drew attention to the fact there was *"significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they become due and payable..."*

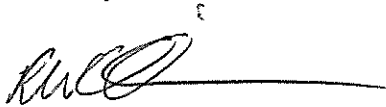
22 June 2009

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- Among all of the information M+K has received or examined so far we are yet to see anything which suggests that Great Southern ever informed its MIS investors of any doubt about the company's ability to continue as a going concern.

Comment on offer of legal representation by Dennis & Co

- M+K is aware of steps taken by Dennis & Co to bring forward claims on behalf of investors in Great Southern's 2005 and 2006 plantation projects.
- The claim which we understand is being explored by that firm is quite different from, and much more narrow than, the nature of the claims being pressed by M+K.
- MIS Investors are free to retain whoever they choose to act as their lawyers.
- M+K remains firmly of the view that nobody will receive better service or value for money than what they will be receiving from M+K.

Yours faithfully



Macpherson + Kelley

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