

12 August 2010

Dear Bond Holder

**TIMBERCORP LIMITED (IN LIQUIDATION) ("Timbercorp") - TIMBERCORP  
FINANCE BOND INFORMATION**

This letter is a further update for investors issued by The Trust Company (Australia) Limited (formerly Permanent Trustee Company Limited and Trust Company Fiduciary Services Limited), which is the Trustee for the holders of Timbercorp Finance Bonds ("Bond Holders").

***Security and Arrears***

As previously advised:

- the limited security supporting this borrowing by Timbercorp consists of a Fixed and Floating Charge held by the Trustee over certain loans advanced to Growers in Timbercorp silvicultural projects by a Timbercorp group company, Timbercorp Finance Pty Ltd (in Liquidation) ("TFP"); and
- the arrears position has continued to deteriorate in recent months and, as a result, the Liquidators have not had sufficient funds to make quarterly interest payments to the Bond Holders and it was impossible for the Bonds to be repaid at maturity, on 31 March 2010.

***Meeting of the Bond Holders, Enforcing the Fixed and Floating Charge and Appointing a Receiver***

The non-payment of interest and non-repayment of the Bonds are monetary Events of Default defined in the relevant Trust Deed. The administration and liquidation of Timbercorp are also Events of Default under the Trust Deed. The Trust Deed requires the Trustee to convene a meeting of the Bond Holders "as soon as reasonably practicable after receiving notice of an "Event of Default".

The Trustee continues to consider whether it is in the interests of the Bond Holders to take enforcement action and call a meeting of the Bond Holders. In the current circumstances, the Trustee is of the view that whilst an Event of Default has occurred, it would not be in the interests of the Bond Holders to either call a meeting or enforce the Fixed and Floating Charge referred to above, including the appointment of a receiver to the uncollected portion of TFP's loan book.



Whether these actions can and should be taken needs to be continually weighed up against factors including:

- an undertaking by the Liquidators to carry out the same tasks that a receiver would (at no additional cost to the Bond Holders);
- access to Timbercorp's premises and experienced collections team;
- real-time access to Timbercorp's information management system as opposed to a download of the relevant loan details at a particular point in time; and
- the additional cost of a receiver and the state of the market for loans referable to potentially discontinued Timbercorp agricultural projects.

As previously advised, crystallization of the Fixed and Floating Charge will enable future payments to Bond Holders to initially consist of return of capital, rather than taxable interest. However, there is currently no imperative to take this action while insufficient funds are being collected to make any meaningful distribution to the Bond Holders. The Trustee will reconsider the position when the matter of collections – currently before the courts – has been resolved and, as is expected, loan repayments resume or, if so determined by the court, do not need to be made.

### ***Loan Book Collections***

The Liquidators have informed the Trustee that loan book collections continue to be adversely affected by the class action against TFP by Macpherson + Kelley Lawyers (M+K), representing 64% of the 113 individual growers who had borrowed funds from TFP and whose loans secure the Bonds. According to the Liquidators, M+K appears to have advised a number of their clients to cease payment of their loans and cancel direct debit authorisations. The following table summarises the current status of the portion of the loan book attributable to the Timbercorp Finance Bond:

Loans outstanding (30 June 2010)	\$14,100,945
Number of loans	144
Number of individual Borrowers	113
Arrears (30 June 2010)	\$2,517,240
Number of loans in arrears	117
Average loan size	\$97,923
Average maturity date	30 January 2015

The Liquidators have confirmed that outbound calls are made each month to all contactable borrowers in arrears with the exception of M+K clients who may not be so contacted. The focus of such calls during June 2010 was to bring about an acceleration of payments on or payouts of loans by Forestry, Almond and Olive Project borrowers by obtaining their directions to pay their proceeds entitlements from the Projects to reduce the amounts they owe.

Demand letters continue to be sent to borrowers who miss a scheduled payment, giving them 14 days to rectify the arrears and final demand letters are sent to those who fail to rectify arrears, making the full balance of the loan to be due and payable. Given the arrears position and these and other actions taken by the Liquidator in an attempt to recover monies owing to Finance Bond investors, the Trustee is currently unable to justify the convening of a meeting of the Bond Holders or appointment of a receiver.

All loan moneys collected continue to be banked in an interest bearing bank account controlled by the Trustee.

The following is a summary of collections to date:

	<b>Amount (\$)</b>
Opening balance (23 April 2009)	13,000,280
Less collections	(795,769)
Other movements	9,993
Add interest	1,886,441
Closing balance (31 January 2010)	14,100,945
Average monthly collections	56,841
Total collections in June 2010	48,413

The Liquidators have advised that at 23 April 2009, when they were initially appointed as Administrators, total arrears were \$109,968. Arrears have increased since their appointment to \$2,517,240, primarily due to the large representation of borrowers in the Finance Bond loan pool by M+K. Borrowers represented by M+K are responsible for 100% of total arrears. The aging of arrears by days as at 30 June 2010 is broken down as follows:

	<b>Amount (\$)</b>	<b>%</b>
30 days	217,616	8.6%
60 days	217,616	8.6%
90 days	215,032	8.6%
120 days	215,032	8.6%
120+ days	1,651,944	65.6%
<b>Total</b>	<b>2,517,240</b>	<b>100%</b>



The Liquidators have provided a further update to the Trustee as follows:

### ***Individual Proceedings***

On 3 July 2009, proceedings were filed by the Liquidators on behalf of TFP against 20 Borrowers in the Supreme Court of Victoria who had not complied with the final demand issued. These proceeds are ongoing and their current status is summarised as follows:

- two claims have been settled;
- seven defendants have become bankrupt and the proceedings dismissed against them;
- judgement in default of appearance and defence has been obtained against one defendant;
- one defendant has advised of their intention to file for Bankruptcy; and
- the remaining nine claims are on foot and are being defended.

The Liquidators anticipate the outcome of these proceedings, and of the Class Action referred to below, will indicate the future collectability of TFP loans in default, including the loans within the Finance Bond loan pool.

### ***Class Action***

On 28 October 2009 M+K served the Liquidators on behalf of TFP with documents commencing a class action, including a Writ, Statement of Claim, Summons (seeking orders that the plaintiff be granted leave to proceed under s500(2) of the Corporations Act) and an affidavit sworn by Robert Hamilton Downing (M+K solicitor). Leave to proceed under s500(2) was granted by the Court on 29 April 2010.

In order to reduce litigation costs, both the individual proceedings and the class action are being managed concurrently by Justice Judd in the Supreme Court of Victoria.

The court in its directions hearing on 30 July 2010 considered it was appropriate to split the trial into two stages. The first stage will deal with the questions of breach, reliance, causation and whether damage had been suffered while the second stage will address questions as to proportionate liability, indemnity and contribution.

The court also made certain rulings and orders. Mr Woodcroft- Brown, the named plaintiff in the class action, was granted leave to file and serve an expanded and amended statement of claim. The court also made consequential orders for the filing and service by the defendants and third parties (Timbercorp Securities Limited, TFP and former Timbercorp directors) of pleadings as a result. The court also urged the parties to work together to add a representative for "early investors", so that the key integers of the claims made in the proceeding by those investors, can be heard and determined in stage 1 of the trial. If this cannot be achieved by the parties, the court will make the necessary orders to effect the appointment and joinder of an appropriate sub-group representative.

The next directions hearing has been scheduled for 8 October 2010 and stage 1 of the trial is expected to commence in the second calendar quarter of 2011.

### ***The Way Forward***

The eventual monetary return to the TFP Bond Holders will depend on whether the Liquidators' team – in future with a receiver's supervision - succeeds in collecting in full the moneys owed to the Bond Holders. This, in turn, will be contingent upon the outcome of the Liquidators' legal proceedings against individual TFP borrowers and the class action.

#### **On the basis of information currently available to the Trustee:**

- **it was not possible to repay the Bonds at maturity, on 31 March 2010; and**
- **it is not possible for the Bonds to pay interest – at least for the foreseeable future**

**As previously advised, even if interest on the loans was being collected in full, it would not have been possible to repay the Bonds at maturity since the loans underpinning them have a significantly longer maturity profile than the Bonds.**

The Trustee will continue to monitor the situation and assess what action (if any), including the calling of a meeting of Bond Holders, should be taken in their interests as further information on the progress of this liquidation/receivership comes to hand.

The Trustee will endeavour to post further updates (as may be required) on the Liquidators' website.

Yours faithfully



**STEN SILAVECKY**  
**HEAD OF STRUCTURED FINANCE SERVICES**

Contact details for investor questions – please direct any questions relating to the liquidation to the Liquidators (KordaMentha Pty Ltd):

**Timbercorp Hotline: 1800 628 188** or:

KordaMentha Pty Ltd  
Level 24, 333 Collins Street  
Melbourne 3000

Tel. (03) 8623 3333  
Fax (03) 8623 3399

In the event your question is of a type that only the Trustee may answer, your query will be referred to the Trustee by the Liquidators.