

**Great Southern Limited
ACN 052 046 536
(Administrators Appointed)
(Receivers and Managers Appointed)**

**and subsidiaries as set down in
Annexure 1**

**Consolidated Group Report
by Administrators Pursuant to
Section 439A(4)(a) of the
Corporations Act 2001**



**GREAT SOUTHERN
LIMITED**



**Martin Jones, Andrew Saker
Darren Weaver and James Stewart**

9 November 2009

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Abbreviations

Abbreviation	Description
ABL	ABL Nominees Pty Ltd
ACF	Australian Cotton Fund
ACT	Corporations Act 2001
ADE	Adelaide Bank Limited
AIT	Agricultural Income Trust Fund
Almondco	Almondco Australia Limited
ANZ	Australian and New Zealand Bank Ltd
APEC	Albany Plantation Export Company Pty Ltd
Argonaut	Argonaut Capital Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BankWest	The Bank of Western Australia Limited
BBSY	Bank Bill Swap Bid Rate
BDMT	Bone Dry Metric Tonnes
BEN	Bendigo and Adelaide Bank Limited
BHPL	Beagle Holdings Pty Ltd
BML	B.M. Pty Limited
BMPL	Beagle Management Pty Ltd
CBA	Commonwealth Bank of Australia Ltd
CIF	Chicken Income Fund
Club Banks	ANZ, Mizuho, BankWest and CBA
Consulting Firm	Deloitte Touche Tohmatsu
COPP	Code of Professional Practice
COGS	Cost of Goods Sold
DCF	Discounted Cash Flow model
DOCA	Deed of Company Arrangement
ERV	Estimated Realisable Value
FH	Ferrier Hodgson
FY09	Eight and half months to 16 May 2009
FY08	Twelve months to 30 September 2008
FY07	Twelve months to 30 September 2007
FY06	Twelve months to 30 September 2006
GEERS	General Employee Entitlements Redundancy Scheme
GPCON	Pensyl Constructions Pty Ltd
GPEN	Pensyl Pty Ltd
GSL	Great Southern Ltd
GS Group Companies	Great Southern Ltd and subsidiaries as referred to in Annexure 1
GS Group Company	Relevant Great Southern entity with the GS Group Companies
GS Group/the Group	Great Southern Ltd and subsidiaries as referred to in Annexure 1
GS Pine	Great Southern Pine Pty Ltd
GSAH	Great Southern Almond Holdings Pty Ltd
GSBGT	Great Southern Blue Gum Trust
GSCH	Great Southern Cattle Holdings Pty Ltd
GSCM	Great Southern Cattle Managers Pty Ltd
GSCOT	COT Trust No. 1
GSDH	Great Southern Property Trust Debenture Holdings Limited
GSEC	Great Southern Export Company Pty Ltd
GSF	Great Southern Finance Pty Ltd
GSFMF	Great Southern Farming Management Fund
GSFML	Great Southern Funds Management Limited
GSFNT	Great Southern Forestry NT Pty Ltd
GSHVT	Great Southern HVT Holdings Pty Ltd
GSIPL	Great Southern Infrastructure Pty Ltd
GSL	Great Southern Limited
GSLH	Great Southern Land Holdings Pty Ltd
GSMAL	Great Southern Managers Australia Limited

Abbreviations

Abbreviation	Description
GSMPL	Great Southern Managers Pty Limited
GSOH	Great Southern Olive Holdings Pty Ltd
GSOL	Great Southern Olives Company Limited
GSOP	Great Southern Olive Processing Pty Ltd
GSPH	Great Southern Plantations Holdings Pty Ltd
GSPHL	Great Southern Property Holdings Limited
GSPL	Great Southern Plantations Limited
GSPLT	Great Southern Plantations Trust
GSPML	Great Southern Property Managers Limited
GSPPL	Great Southern Plantations Pty Ltd
GSPT	Great Southern Property Trust
GSSPL	Great Southern Securities Pty Limited
GST	Goods and Services Tax
GSTH	Great Southern Timber Holdings Pty Ltd
GSTPL	Great Southern Timber Pty Ltd
GSVHPL	Great Southern Vineyard Holdings Pty Ltd
GSYL	Sylvatech Limited
GSYLFIN	Sylvatech Finance Pty Ltd
GSYLSEC	Sylvatech Securities Limited
HPE	High Productivity Equivalent
HPI	Hansol PI Pty Ltd
HR	Human Resources
HSAPL	Hampton Securities Australia Pty Limited
HSL	Hampton Securities Limited
HSPL	Hampton Securities Pty Limited
HVT	High Value Timber
IE	Independent Experts Reports
IPA	Insolvency Practitioners Association
IRR	Internal Rate of Return
JAM	Javelin Asset Management Pty Ltd
JPPL	Javelin Partners Pty Ltd
Leichardt	Leichardt Pastoral Pty Ltd
LFL	Lachlan Farming Limited
LMA	Land and Management Agreement
MCE	Main Camp Enterprises Pty Ltd
MGN	McGrathNicol in their capacity as Receivers and Managers
MIS	Managed Investment Scheme
Mizuho	Mizuho Corporate Bank Limited
NAB	National Australia Bank Limited
Och-Ziff	Och-Ziff Capital Management Hong Kong Limited
NBV	Net Book Value
NPA	Net Plantable Area
NDC	National Data Centre
NPV	Net Present Value
P&E	Plant and Equipment
P&L	Profit and Loss
PAYG	Pay as you go
PDS	Product Disclosure Statement
Pentarch	Pentarch Holdings Pty Ltd
PI	Principal and interest
PIPL	Pulpwood International Pty Ltd
PPE	Property Plant and Equipment
PWC	PricewaterhouseCoopers
R&M	Receivers and Managers or Receivers as the context determines
RAPT	Rural Agricultural Property Trust
RATA	Report as to Affairs
RBK	RFM Riverbank Fund

Abbreviations

Abbreviation	Description
RE	Responsible Entity
Receivership companies	As per section 2.1 of the main report
RFM	Rural Funds Management Limited
ROF	Rural Opportunities Fund (formerly Diversified Agricultural Fund)
ROT	Retention of Title
SPV	Special Purpose Vehicle
TBD	To Be Determined
Schemes	Refers to multiple Managed Investment Schemes
Sylvatech Group	Sylvatech Limited and its subsidiaries
TREES	Transferable Reset Exchangeable Securities
TREES2	Transferable Reset Exchangeable Securities Series 2
TREES3	Transferable Reset Exchangeable Securities Series 3
UPVF	Ultra Premium Vineyard Fund
VDM	Van Der Meer & Associates

Glossary of Terms

Term	Explanation
Impairment of Assets and Impairment adjustments	<p>Non financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These assets are carried at their Fair Value.</p> <p>An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets, "fair value" less costs to sell and value in use.</p> <p>For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (Cash Generating Units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.</p> <p>This adjustment at each balance date/reporting date is referred to in our report as "Impairment or Fair Value adjustments"</p>
Fair value (FV)	<p>Fair value represents value of asset at the reporting date based on quoted market prices. Alternatively for those assets that are not actively traded, this relates to the use of a method such as the Discounted Cashflow method to determine the fair value.</p> <p>A Discounted Cashflow Model (DCF) effectively estimates the present day value (NPV) of an asset from the assets estimated future cashflow after applying an appropriate risk adjusted discounted rate.</p>
Biological Assets	<p>Biological assets comprise of eucalypt and pine trees (standing timber), grape vines, olive trees, almond trees and beef cattle.</p> <p>Timber and horticulture biological assets are measured on initial recognition and each reporting date at fair value less estimated point of sale costs except when the fair value cannot be measured reliably. In this instance the biological asset is measured at its cost less any accumulated depreciation and any accumulated impairment losses until such time as its fair value can be reliably measured.</p> <p>Cattle are carried at fair value less point-of-sale costs, which is determined after assessing a number of key market indicators to ensure the values determined are representative of the herd. Trading cattle prices reflect the shorter term spot prices available in the market place. Fair value for the breeding herd reflects a longer term view of the cattle market relevant to the breeding cattle held.</p>
First and second rotation	<p>After the completion of the first rotation of plantation which occurs upon harvest of the scheme products, the schemes complete the full economic benefit for the current scheme and the land reverts to the relevant GS Group Company (subject to any investor rights to apply to extend their lease) for redevelopment of future rotations through replanting or regeneration via coppicing.</p> <p>Second rotation refers to the use of coppicing, the process in which new shoots from the stumps of harvest trees are culled and the retained shoots are managed to produce a new tree crop, after the completion of first rotation.</p>
Revenue recognition	<p>Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.</p>

Glossary of Terms

Term	Explanation
	MIS revenue for any one year will consist of MIS sales in the current period and MIS sales recognised from prior period (i.e. deferred revenue).
Related Parties	Includes a company Director, spouse of Director that controls GSL and any related entities of the Director and includes any entities within the GS Group Companies.
Related Entity	Has the meaning given by section 9 of the Act, and includes but is not limited to a director or member of the body or related body corporate, and a related body corporate.
Receiver and Manager (R&M)	A R&M is often responsible for the following: <ul style="list-style-type: none">• Takes possession of the assets which are covered by the registered security under which the R&M is appointed. This may be single nominated assets such as debtors or stock, or, as is often the case, it may be the whole of the assets of a company or group of companies;• Analyses the company's position with a view to adopting the best course of action to enable repayment of the secured creditor's debt. In some instances, this may involve trading on the business of the company with a view to repaying the secured creditor without major asset sales. In other instances, it will involve realising some, or even all, of the assets of the company to repay the secured creditor's debt.• Repays the secured creditor, either in full, or to the extent of assets available, and retires.
Voluntary Administrator	An Administrator's objective is to manage the business, property and affairs of an insolvent company in a way that: <ul style="list-style-type: none">• Maximises the chances of the company, or as much as possible of its business to continue in existence; or• If the business cannot be saved, realise a better return to the company's creditors than would result from an immediate liquidation

Executive Summary

1.1 Appointments

The Directors of the respective GS Group Companies appointed Martin Jones, Andrew Saker, Darren Weaver and James Stewart as the GS Group Companies Administrators on 16 May 2009 pursuant to section 436A of the Act. Creditors ratified our appointment as Administrators at the first meeting of creditors held on 27 May 2009. A Committee of Creditors was formed for each of GSL, GSMAL and GSDH.

The Committees of Creditors of GSL and GSMAL have met on nine occasions from the date of the first meeting of creditors until the date of this report.

On the 18 May 2009 Simon Read, James Thackray, Anthony McGrath and Colin Nicol of MGN were appointed as R&M over the entities listed in section 2.1 of this report. As a consequence of the appointment of the R&M and pursuant to section 442D of the Act, the Administrators' powers are limited and subject to the powers of the R&M. The R&M assumed control over the majority of the operating entities of the GS Group Companies, including GSMAL, being the RE.

1.2 Meetings of Creditors

It is at the second meetings of creditors that the GS Group Companies future will be determined. In this regard concurrent meetings have been convened for 19 November 2009, being consistent with the terms of the Court's orders made on 3 September 2009, which extended the Convening Period.

The concurrent meetings will be held in the **Melbourne Park Function Centre, Batman Avenue, Melbourne Park (adjacent to Rod Laver and Hisense Arena's) at 12.00 noon on 19 November 2009**. Notices of the concurrent second meetings of creditors accompany this report.

Only creditors of the GS Group Companies are entitled to attend and vote at the concurrent meetings of creditors. It is important to note that members of GS Group Companies MIS projects are not automatically creditors of any GS Group Company simply by reason of that investment. As such, in order to be recognised as a creditor of a GS Group company, a MIS member must provide adequate particulars of their claim as a creditor to the Administrators and have that claim accepted by the Administrators. Details of the matters that are required to be addressed by the MIS member are set out in the accompanying circular to this report.

Further details as to the Administrators' recommendations regarding the future of the GS Companies are provided below.

1.3 GS Group Companies Background

The GS Group Companies have developed from small scale forestry operation in the late 1980's, to a listed consolidated group in July 1999 with a significant market presence in the MIS agricultural sector. At the date of our appointment, the GS Group Companies:

- Comprised a parent company, GSL, with 34 subsidiaries;
- Employed over 400 employees across all states and the Northern Territory;
- Raised over \$2.2bn in MIS sales;
- Developed and managed MIS assets for over 52,000 investors (growers);
- Raised over \$260m in equity from shareholders, obtained over \$200m in unsecured convertible notes (TREES), and raised over \$600m in secured funding (Club Banks & RAPT Banks);
- Owned approximately 180,000 hectares of freehold forestry land;
- Leased approximately 64,000 hectares of forestry land;

Executive Summary

- Managed approximately 174,000 hectares of NPA of forestry plantations;
- Owned and managed a horticulture estate of approximately 6,700 hectares across olives vineyards and almonds;
- Owned approximately 1,400,000 hectares of pastoral freehold cattle land which included 9 cattle properties;
- Leased approximately 2,400,000 hectares of cattle land across 22 properties; and
- Managed approximately 217,000 head of cattle.

An overview of the consolidated business and operations has been presented in section 3 of this report (the GS Group Companies report). An overview of each individual GS Group Company has been provided at Annexures 3 to 37 of this report. Creditors that are concerned with the affairs of specific entities should refer to those relevant entity Annexures, an index of which is set out before Annexure 1.

1.4 Investigations

We have undertaken a preliminary investigation into the affairs of the GS Group Companies pursuant to our statutory obligations and in order to assist in formulating our opinion as to, amongst other things, what course of action is in the best interests of the creditors of each GS Company. Whilst we have set out our preliminary conclusions in this report arising from those investigations conducted to date, we note that the conclusions are only preliminary and that a liquidator (if appointed) would undertake further detailed investigations before forming any final opinions on these matters. We have noted in section 8 of this report some of the limitations in respect of the investigations undertaken to date.

A summary of our preliminary conclusions with respect to potential recoveries by a liquidator, in the event that all of the GS Group Companies were wound up, is presented below. The annexures to this report dealing with each individual GS Group Company set out the potential recoveries relevant to each entity in isolation:

Potential Recovery Item	Transactions of Interest (\$)
Unfair preferences	1,093,993
Uncommercial transactions	TBD
Unfair loans	-
Unreasonable Director related transactions	TBD
Transactions undertaken to obstruct creditors' rights	-
Compensation from Director for insolvent trading	TBD
Compensation from holding company for insolvent trading	-
Breaches of Directors duties	TBD
Avoidance of employee entitlements	-
Debts incurred by Company as trustee	-
Total	\$TBD

Our investigations indicate that GSL, GSMAL and predominantly all of their subsidiaries were insolvent as at 15 May 2009, and immediate steps were taken by the Directors to appoint a voluntary administrator to each entity. At this time, and given our limited review, the summary of events set out in this report are not conclusive of an earlier date of insolvency for the relevant GS Group Companies other than 15 May 2009. However, as our investigations are preliminary in nature, the relevant date may be found to be earlier and will be determined when we, or an alternative liquidator, is appointed and a further review and investigation is completed.

Ultimately the determination of the likely date of insolvency will impact potential recoveries available to a liquidator of the GS Group Companies. You will note from our report we recommend that further investigations be conducted into several transactions and events including Project Transform, the acquisition of the loan book by JAM, source and application of MIS funds, disclosures in respect to MIS project harvests and other matters.

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There have been a number of factors that have been cited by the Directors as reasons for failure of the GS Group Companies including, but not limited to, the impact of the global financial crisis, reduced investor confidence in MIS generally, the lack of MIS securitisation funding facilities, the appointment of voluntary administrators to one of the GS Group Companies major competitors causing further erosion of market confidence and the inability to raise further debt facilities. Based upon our limited review, the causes of failure also extended to the following:

- Inherent risks within agricultural businesses that were susceptible to fluctuating commodity prices and the limited ability to increase application fees to adequately fund future costs;
- The rapid pace of growth and asset acquisitions within the business model;
- Availability of adequate funding to meet the rising cost of land, together with the significant impact on financing costs;
- Failure of some agriculture projects and investments to deliver adequate returns (for various reasons) which ultimately required funding support from GSL;
- The compounding impact of significant loan write offs as a result of increasing borrower defaults; and
- Management of the risk associated with the GS Group Companies' heavy reliance on MIS sales as a predominant source of cash inflows and the consequential vulnerability to regulatory changes that impact on such sales.

1.5 MIS Viability Assessments

As at the date of this report we are yet to receive a substantial majority of the MIS viability assessments that have been conducted by the R&M in respect of the MIS projects. We are therefore unable to comment on those projects and how the members of those MIS projects are affected at this point in time.

Generally, the members (i.e. investors/growers) of GS Group Companies MIS projects are owners of property, usually trees. As noted above, it is important to understand that members of GS Group Companies MIS projects are not automatically creditors of any GS Group Company simply by reason of that investment.

The distinction between being an owner of property and a creditor of a company is important in an insolvency context. Firstly, an owner of property will have their own proprietary rights that they can exercise in relation to their property. Secondly, administrators and liquidators act in the interests of creditors and shareholders as a whole. Thirdly, only admitted creditors are able to vote at meetings of creditors.

In their capacity as creditors, an investor/grower will be entitled to vote at meetings of creditors of the relevant GS Group company if, as explained in our report, they provide adequate particulars about their claim before the meetings and the claim is accepted by the Administrators.

An outline in respect of the requirements to establish any such claims has been set out in this report and the accompanying circular.

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1.6 Restructuring & Divestment Proposals

Whilst the R&M are in control of GSMAL and are in control of the affairs of the RE, we have been in control of certain other GS Group Companies which hold certain underlying assets relevant to the MIS. In light of the uncertainty surrounding the future of the MIS, and in order to maximise the potential for a restructure of the MIS, aside from the restructuring efforts outlined below, we have not actively begun a realisation process for the individual underlying assets. The R&M have pursued a realisation process inclusive of those assets, notwithstanding that no security is registered over the land under our supervision.

We have focussed our attention on soliciting parties interested in restructuring the GS Group Companies as a whole through a DOCA process.

We commenced our solicitation process shortly following our appointment, and engaged the services of Argonaut on the 29 May 2009 to assist us in process. Together with Argonaut, we undertook the following steps:

- Identified a number of potential candidates for the restructuring of the GS Group Companies;
- Established a virtual data room for the conduct of preliminary due diligence; and
- Conducted briefings with senior executives of the GS Group Companies and interested parties.

Several expressions of interest were received by us through this process, culminating in one specific proposal being presented and recommended to the R&M, Club Banks and RAPT facility banks on 23 June 2009 for consideration. The proposal, together with its subsequent iterations, was rejected and was not able to be advanced.

Subsequently the R&M has sought and received several indicative offers from various interested parties in their marketing campaign for the sale of the GS Group Companies' assets, which is currently in progress. That process is in the control of the R&M and is commercially sensitive, and therefore cannot be outlined in this public document. Upon completion of any receivership it is usual to receive a full accounting for activities, realisations and costs from the R&M.

To date we have not received any DOCA proposal capable of being presented to creditors for consideration.

1.7 Options Available to Creditors

Pursuant to section 439A(4)(b) of the Act, we are required to provide creditors with a statement setting out our opinion separately for each GS Group Company on whether it is in the creditors' interests for the:

- Administration to end;
- Company to be wound up; or
- Company to execute a DOCA.

In regard to these options, it is evident that each of the GS Group Companies are insolvent and predominantly all of the Directors have resigned. Further, there has been no DOCA proposal made available for consideration by creditors. In the circumstances it is not appropriate for creditors to consider ending the administration and handing back control of the companies' affairs back to their Directors or in the absence of any proposal, that the companies execute a DOCA. We have therefore not been able to recommend those options.

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In the absence of a DOCA proposal, the winding up of each of the GS Group Companies should be considered by creditors. Given the nature, size and costs involved in determining the assets and potential recoveries in a liquidation scenario it is difficult to determine with any degree of certainty the likely level of return to unsecured creditors that would arise from liquidation.

Based on the above it is therefore our opinion and recommendation that creditors should resolve that each of the GS Group Companies be wound up.

If new and further information becomes available after the issue of this report, and creditors wish to allow further time to consider that information, then an alternative for creditors to consider is an adjournment of the concurrent second meetings of creditors. Such an adjournment may be for a period of up to 45 business days, which is the maximum period under the Act. This would be relevant where it is conceivable that a DOCA proposal was likely to be forthcoming.

1.8 Disclaimer

The information contained in this report has been obtained from a wide range of sources and knowledge obtained by us during the course of the Administration, including management. Given the complexity of the business and affairs, we have been reliant on information and representations provided to us.

This report does not guarantee or warrant the current or future position of the GS Group Companies. A significant amount of the information provided in the report is based on assumptions that we consider to be valid at the time of writing, but which may not ultimately prove to be valid.

An audit has not been performed by us, nor, except where otherwise indicated, has any test or verification work been carried out.

This report may not be referred to, reproduced or quoted from in whole or in part or used for any other purpose whatsoever without the Administrators' express written consent.

Pursuant to section 442E of the Act, we as the Administrators have qualified privilege in respect of a statement that we make, whether orally or in writing, (including this report) in the course of performing or exercising any of our functions and powers of Administrators of the companies.

2 Introduction

2.1 Purpose of appointment and this report

On 16 May 2009 Martin Jones, Andrew Saker, Darren Weaver and James Stewart were appointed Administrators of each of the GS Group Companies, pursuant to section 436A of the Act. Immediately following our appointment, we took control of the GS Group Companies assets and continued to carry on the GS Group Companies business.

On 18 May 2009 Simon Read, James Thackray, Anthony McGrath and Colin Nicol of McGrathNicol were appointed as R&M over the following entities:

Company	ACN
GSL	052 046 536
GSMAL	083 825 405
GSLH	087 074 093
GSVHPL	107 020 191
GSCH	113 922 642
GSPML	108 409 641
GSEC	113 408 549
GSPHL	121 245 047
GSCM	113 922 660
GSYL	073 019 093
GSFNT	084 646 435

Accordingly, control of the assets and the trading activities of the Receivership Companies transferred to the R&M upon their appointment.

Pursuant to section 435A of the Act, the objective of the appointment of Administrators to a company is to maximise the chances of the company, or as much of its business as may be possible, continuing in existence, or if not possible, to seek a better return to creditors and members than would result from an immediate winding up of the company.

During the administration period, creditors' claims and legal actions are put on hold and we are required to provide creditors with information and recommendations to assist creditors to decide upon each company's future.

Section 439A(4) of the Act explains the purpose of an Administrator's report in providing that the notice (of the second meeting) must be accompanied by a copy of:

- (a) *A report by the Administrator about the company's business, property, affairs and financial circumstances;*
- (b) *A statement setting out the Administrator's opinion about each of the following matters;*
 - *Whether it would be in the creditors' interests for the company to execute a Deed of Company Arrangement;*
 - *Whether it would be in the creditors' interest for the administration to end;*
 - *Whether it would be in the creditors' interest for the company to be wound up; and*
 - *His or her reasons for those opinions.*
- (c) *If a Deed of Company Arrangement is proposed – a statement setting out details of the proposed deed.*

In the available time, we have undertaken the preliminary investigations detailed in section 8 of this report. These investigations have assisted in forming an opinion about the companies' future. Our opinions are set out in section 11 of this report.

Introduction

2.2 First meeting of creditors

Creditors attended concurrent meetings of creditors held at the Melbourne Exhibition Centre on Wednesday, 27 May 2009 and ratified our appointment as Administrators of the GS Group Companies.

2.3 Committees of Creditors

At the first concurrent meetings of creditors the following Committees of Creditors were established:

GSMAL Representative	Creditor/Investor name
Peter Burke	Abbey Lea Investments (Investor)
Michael Butler	Australian Financial Services Limited (Investment Advisor)
Neil White	33 rd JAF Pty Ltd (Investor)
Tim O'Malley/Gary Tucker	BEN (Creditor)
Paul Sweeney	Tarello Pty Ltd ATF Blasi Family Super Fund (Investor)
Robert Quenby	Quenby Viticulture Services (Investment Advisor)
Mark Kailis	Kailis Olive Processing Pty Ltd (Creditor)
Peter Young	Complete Investments (Investment Advisor)
John Dehne	John Dehne (Investor)
Phillip Capicchiano	Phillip Capicchiano (Investor)

GSL Representative	Creditor/Investor name
Mark Sheldon-Stemm	CRC Forestry Limited (Creditor)
Phillip Joseph	Australian Executor Trustee Ltd ATF TREES Notes
Sandra Gibson	GSL Employee Representative
Tim O'Malley/Gary Tucker	BEN (Creditor)

GSDH Representative	Creditor/Investor name
James Thackray	McGrathNicol as representative for ANZ

To date, the following meetings of the Committees of Creditors have been convened:

GSMAL and GSL Date	Agenda Items
9 June 2009	<ul style="list-style-type: none"> To approve the extension of the convening period for the second creditors meeting for 3 months To approve the Administrators' remuneration
21 July 2009	<ul style="list-style-type: none"> Update on the progress of the Administration
28 August 2009	<ul style="list-style-type: none"> To approve the extension of the convening period for the second creditors meeting for 60 days
18 September 2009	<ul style="list-style-type: none"> Update on progress of receivership by MGN and resolutions as addressed in Notices of meeting
29 September 2009	<ul style="list-style-type: none"> Update on progress of Receivership and Administration
6 October 2009	<ul style="list-style-type: none"> Update on progress of Receivership and Administration
9 October 2009	<ul style="list-style-type: none"> Update on progress of Receivership and Administration
29 October 2009	<ul style="list-style-type: none"> Update on progress of Administration and resolutions addressed in Notices of Meeting

GSDH Date	Agenda Items
9 Jun 2009	<ul style="list-style-type: none"> To approve the extension of the convening period for the second creditors meeting for 3 months

2.4 Extensions of Convening Period

On 9 June 2009 the Committees of Creditors endorsed an application by the Administrators to extend the convening period for a period of three months. This application was approved by the Supreme Court of Western Australia on 11 June 2009 and extended the date by which the Administrators were required to convene the second creditors meetings to 14 September 2009. Subsequently on the 3 September 2009, a second application by the Administrators to extend the convening period to 13 November 2009 was approved by the Supreme Court of Western Australia.

Due to the size and complex nature of the GS Group Companies structure and affairs, the extended period of time was intended to enable us to:

- Review the viability of all forty-five MIS projects;
- Conduct our preliminary investigations into the GS Group Companies;
- Attempt to raise the required funding for the operations of certain trading entities;
- Consider and evaluate potential DOCA proposals from interested parties;
- Report to the secured creditors and the Committees of Creditors on potential DOCA proposals; and
- Present DOCA alternatives (and restructuring proposals) to meetings of creditors.

We are now in a position to convene the second meetings of creditors of the GS Group Companies.

2.5 Second Meeting of Creditors

Pursuant to section 439A of the Act, the second meetings of creditors of the GS Group Companies are convened for **19 November 2009** to be held at the **Melbourne Park Function Centre, Batman Avenue, Melbourne Park** (adjacent to Rod Laver and Hisense Arena's) **at 12.00pm**. At the second meetings, creditors will decide each company's future in voting on one of the following options:

- That the administration should end and control of the Company revert to its Directors;
- That the company should be wound up; or
- That the company execute a DOCA.

It is also possible to adjourn the meetings for a period not exceeding 45 business days if creditors so desire in order to provide further time to address any outstanding issues or uncertainties.

On 21 July 2009 the Supreme Court of Western Australia made orders on our application confirming that the section 439A report to creditors be prepared on a consolidated basis, and for the report to be posted to the FH website rather than sent by postal delivery to all creditors. The Administrators believe that this was in the best interests of creditors, given the large cost involved in distributing the report to all creditors due to its size and the multi-jurisdictional location of creditors.

2.6 Non Disclosure of Certain Information

There are sections of this report wherein we considered it inappropriate to disclose certain information to creditors. Such information included:

- a) Valuations of specific assets;
- b) Valuation of the business; and
- c) Commercially sensitive prospective financial information (for example, projections/forecasts).

We appreciate the need to provide creditors with complete disclosure of all necessary information relating to the GS Group Companies in order to make decisions. However, as this information is commercially sensitive, it is not in creditors' interests for us to disclose the information publicly at this stage.

The Committees of Creditors are privy to a greater level of information. The members of the Committee of Creditors have all signed and are bound by confidentiality agreements with the Administrators.

2.7 Declaration of Independence, Relevant Relationships and Indemnities

The Administrators provided a Declaration of Independence, Relevant Relationships and Indemnities to creditors with their first circular to creditors and also tabled the declaration at the first concurrent meetings of creditors.

We note that from time to time the Administrators and the partners of FH provide professional advice, either formally or informally to ANZ, BankWest, CBA, Mizuho and the other secured creditors of the GS Group Companies; however we have had no such involvement with those secured creditors in direct relation to the GS Group Companies.

Three of the Administrators of the GS Group Companies, Darren Weaver, Andrew Saker and Martin Jones were appointed Joint and Several Deed Administrators of Matilda Minerals Limited on 8 May 2009. Matilda Minerals Limited is a former mineral sand miner on the Tiwi Islands, in the Northern Territory. Matilda Minerals Limited was a debtor to GPEN at the date of our appointment for an amount of \$42,110 which was subsequently paid in full on 21 August 2009. The Administrators do not consider this is a conflict of interest.

Apart from the above, there has been no changes in the declaration since that time.

Martin Jones, Andrew Saker, Darren Weaver and James Stewart are partners of FH. FH is one of Australia's and the Asia-Pacific's largest independent corporate restructuring practice with 47 partners and over 440 staff throughout Australia and Asia. FH does not provide accounting, audit, legal or taxation services.

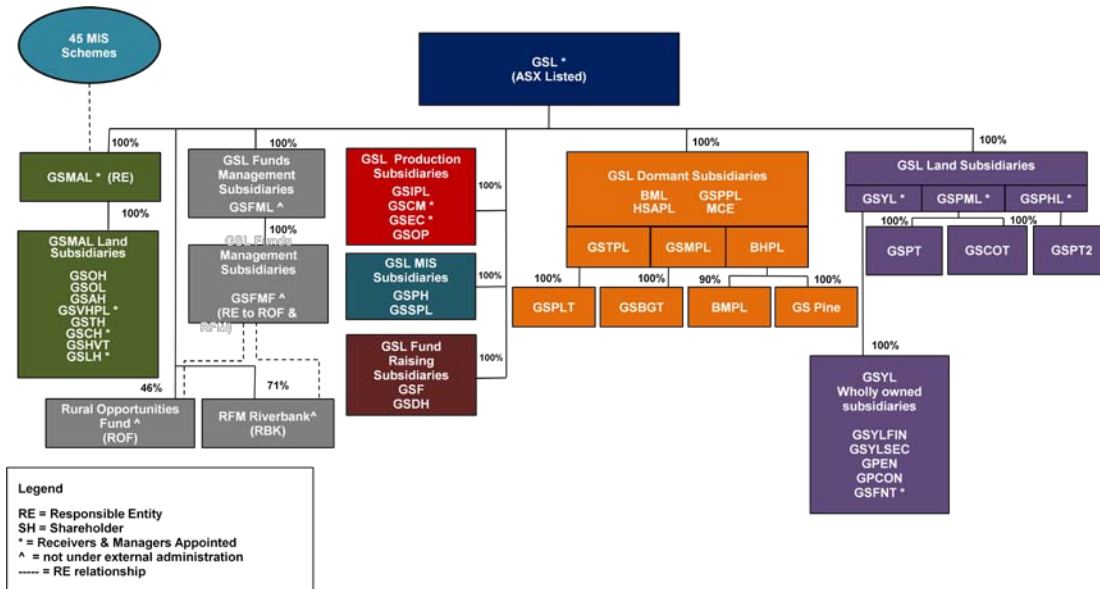
Martin Jones, Andrew Saker, Darren Weaver and James Stewart are Chartered Accountants, Registered Liquidators and members of the IPA with collectively over 71 years experience in corporate insolvency.

Further information regarding FH and the Administrators can be obtained from FH's website at www.ferrierhodgson.com.

3 Company information

3.1 GS Group Companies Structure

Set out below is a diagram of the GS Group Companies corporate structure as at the date of our appointment.



3.2 Statutory Information

We have set out various statutory information in the Annexures to this report. Specifically, we refer you to the following:

- Annexure 2 schedule of Directors of the GS Group Companies; and
- Annexure 2 schedule of charges held in against the GS Group Companies.

A search of the ASIC database revealed the following information regarding the parent company, GSL.

3.3 Incorporation Date and Registered Office

GSL was incorporated as Templegate Services Pty Ltd on 27 May 1991. Templegate Services Pty Ltd became an unlisted public company on 20 May 1999 prior to changing its name to GSPL on 21 May 1999. On 5 July 1999 it listed on the ASX as GSPL and finally changed its name to GSL on 12 February 2007.

GSL is a publicly listed company on the ASX with 643,234,118 issued shares held by approximately 14,600 shareholders. We note that an ASIC search reveals 243,519,647 issued shares. A reconciliation of the latest Appendix 3B lodged with the ASX indicates that 643,234,118 has been issued.

GSL's registered office is located at 16 Parliament Place, West Perth, Western Australia.

Company information

3.4 Company Officers

The GSL's officers as at the date of our appointment were:

Name	Position
David Charles Griffiths	Non-executive Chairman
John Carlton Young	Non-executive Director
Peter John Mansell	Non-executive Director
Alice McCleary	Non-executive Director & Chairperson of Audit Committee
Cameron Arthur Rhodes	Managing Director
Mervyn Leonard Peacock	Non-executive Director and Chairperson of Remuneration Committee
Phillip Charles Butlin	Executive Director & Deputy Managing Director
Neil John Hackett	Company Secretary

Please refer to the individual entities Annexures' in this report for a full listing of the GS Group Companies Directors.

3.5 Shareholders

The ASIC database discloses the GSL's top 20 shareholders to be:

Shareholder	Shares Held	% of Shares Held
Pirie Street Custodian Ltd	90,743,296	14.11
HSBC Custody Nominees (Australia) Ltd – A/c 3	64,547,340	10.03
JSJA Holdings Pty Ltd	27,356,049	4.25
HSBC Custody Nominees (Australia) Ltd	27,008,039	4.20
West Star Holdings Pty Ltd	13,231,650	2.06
Latitude Holdings Pty Ltd	8,291,196	1.29
Pacific Custodians Pty Limited	7,678,000	1.19
Citicorp Nominees Pty Limited	7,672,312	1.19
National Nominees Limited	6,727,530	1.05
ANZ Nominees Limited	6,453,904	1.00
JP Morgan Nominees Australia Limited	5,620,565	0.87
Ace Property Holdings Pty Ltd	3,000,000	0.47
William Joseph & Marjorie Ellen Seeman	2,364,000	0.37
Baldy Bay Pty Ltd	2,336,629	0.36
Jimmy Thomas & Ivy Ruth Ponniah	1,950,634	0.30
Victor Fazioli & Lynette Fazioli	1,400,500	0.22
Underhill Holdings Pty Ltd	1,300,000	0.20
CS Fourth Nominees Pty Ltd	1,236,973	0.19
Cameron Arthur and Belinda Christine Rhodes	1,233,333	0.19
Gregory Levvy & Laurel Moulynox	1,186,538	0.18
Top 20 Shareholders	281,338,488	43.74
Total Shares on Issue	643,234,118	100.00

3.6 Registered Chargeholders

Annexure 2 together with the individual company Annexures provide a full review of the charges registered against the entities in the GS Group Companies. However, we note that the key securities held against the GS Group Companies entities include (but are not limited to):

- The Club Bank's security by way of specific mortgages held over various cattle and pulpwood properties and fixed and floating charges over various entities. For further details refer to Annexure 2;
- The RAPT securities by way of specific mortgages held over certain properties held by GSPT and security over financial assets; and
- The BEN securities by way of charges held over GSF.

On 18 May 2009 the R&M were appointed by the secured creditors (i.e. Club Banks and RAPT lenders) over the Receivership Companies as outlined previously in section 2.1. The R&M's role is to:

- Collect and realise the charged assets to repay the debt owed to the secured creditors;
- Pay out the money collected in the order of priorities as required by law; and
- Report to the ASIC any possible offences or other irregular matters that they may identify.

Typically the R&M's primary duty is to the secured creditors. One of the primary obligations owed to the mortgagor company is an obligation to take reasonable care to sell charged property for not less than its market value or, if there is no market value, the best price reasonably obtainable (section 420A of the Act). A R&M is also defined as an officer of the company and is subject to the duties as set out in the Act.

The exception to the above statement is that the R&M have been appointed to GSMAL that acts as the RE of the various MIS projects. The RE is impressed with various duties and responsibilities to investors in the MIS projects pursuant to sections 601FD of the Act, the R&M as an officer of the RE is also impressed with various duties and obligations pursuant to section 601FE of the Act.

Otherwise the R&M have no obligations to report to unsecured creditors with respect to the conduct of the receivership. Further, certain information gathered by the R&M during their involvement may be confidential to their appointment and therefore not generally available to creditors.

The receivership will usually end when the R&M have collected and sold enough assets to repay the secured creditors, completed all their receivership duties and paid their receivership liabilities. If that were to occur, the R&M would then resign or be discharged by the secured creditor and the Administrators would resume control of the companies and any remaining assets.

3.7 Winding up Applications

There have been no winding-up applications against any of the GS Group Companies.

3.8 Chronology of Major Events

Summarised below the significant events of the GS Group Companies and the MIS industry from the date of its listing on the ASX to the date of our appointment:

Date	Event
Late 1990's	Federal Government announces its 2020 Vision for the Forestry Plantation Industry in Australia.
5 July 1999	Listed on ASX which involved a \$45m capital raising.
1999/2000	<p>Federal Government announces a range of tax changes in response to the Ralph Review Report. These include changes to the prepayment rules which allowed up front deductions for qualifying expenditure. As a result of these changes, prepayments would only be deductible over the period during which services would be provided.</p> <p>MIS sales significantly increased for the GS Group Companies as result of investors wanting to secure MIS investment before the tax changes took effect on 1st July.</p>
2000/2001	<p>ATO introduces new system of tax ruling which had a significant impact on the marketability of MIS products and the companies offering products with an ATO tax ruling. The competitive landscape changed and in August 2001, the ATO released a press statement supporting those companies with product rulings.</p> <p>GSL was the first company to meet the criteria behind the ATO's product ruling requirements.</p>
2001/2002	<p>Federal Parliament introduces further tax changes, including the introduction of the 12-month prepayment rule which further boosts investment incentive into industries such as forestry plantations. GSL's share price receives a boost.</p> <p>A special dividend was paid that year.</p>
2002/2003	<p>GSL announces MIS sales more than doubled during the financial year ending 2003 to \$109m and profits of \$41.4m.</p> <p>A flow on effect of the 12-month rule which was effective from June 2002 and GSL's share price surges.</p> <p>TREES Convertible Notes issued to raise \$55m.</p>
January 2004	First Woodchip Sales contract executed.
March 2004	<p>Acquired 84,000 ha (55,000 ha plantable) of land from Challenger Financial Services group for \$71m.</p> <p>Funded by new equity raised of \$50m.</p>
30 June 2004 highlights	<p>GS Group Companies manages funds of \$700m on behalf of 20,000 investors.</p> <p>MIS sales for financial year ended of \$243m being up 120% on previous year.</p> <p>Net profit after tax up 125% to \$93.2m.</p> <p>First viticultural project raised \$16m.</p>

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Company information

Date	Event
	<p>Net assets of \$448m (\$1.84 per share).</p> <p>In excess of \$120m in capital raisings in financial year 2004.</p> <p>Dividends totalling 10c per share paid.</p> <p>Acquired 199 properties for plantations (104,532 ha at a cost of \$127m).</p>
September 2004	Federal Government announces a compensation package to end old-growth logging in Tasmania. This opens up the market for new plantations, and GSL share price reacts positively.
October 2004	Raised \$80m through the issuance of second convertible notes issue (TREES 2).
November 2004	First harvesting of company owned plantations commenced.
17 February 2005	<p>Announced the intention to acquire the Sylvatech entities for an expected \$50m.</p> <p>Sylvatech involved with forestry projects on the Tiwi Islands and intention to expand into the cattle business.</p> <p>Announced the intention to acquire certain cattle assets from Environinvest for an expected \$60m. (actual approximately \$55m).</p> <p>Acquisition included 55,000 head of cattle under management and 3,600 ha of grazing land and assignment of 300,000 ha of leased land.</p> <p>Institutional share placement of \$140m occurred on 16 February 2005.</p> <p>A related entity associated with the Managing Director, John Young, had sold \$32.5m worth of shares during the institutional share placement price of \$4.65 per share.</p>
30 June 2005 highlights	<p>GS Group Companies manages funds of in excess \$1bn on behalf of 27,000 investors.</p> <p>MIS sales for financial year ended of \$355m being up 46% on previous year (plantations \$304m, Vineyards \$32m, Olives \$19m).</p> <p>Net profit after tax up 33% to \$124m.</p> <p>Net assets of \$762m (\$2.57 per share).</p> <p>In excess of \$140m in capital raisings in financial year 2005.</p> <p>Dividends totalling 14c per share paid.</p> <p>Acquired 76 properties for plantations (25,657 ha at a cost of \$79m).</p> <p>Share price \$4.21 as at 30 June 2005.</p> <p>Appointment of two additional non-executive Directors.</p>
6 July 2005	Mr David Griffiths appointed as the new chairman.
28 October 2005	Raised \$124.7m through the issuance of securities known as "TREES 3".

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Company information

Date	Event
30 June 2006 highlights	<p>MIS sales for financial year ending \$457m up 29% on previous year. (Plantations \$314m, Vineyards \$20m, Olives \$48m and cattle \$75m – best year of MIS sales raised).</p> <p>Net profit after tax up 4.8% to \$132.9m.</p> <p>Net assets of \$756m (\$2.44 per share).</p> <p>Dividends totalling 15c per share paid.</p> <p>Acquired 35,000 ha of plantation land at a cost of \$167m.</p> <p>Acquire 1.4m ha of grazing land for use in the beef cattle projects at a cost of \$119.2m (including \$60m for cattle).</p> <p>Share price \$3.43 as at 30 June 2006.</p>
17 August 2006	<p>Entered into a structured finance facility with the ANZ bank that provided \$212m after issue costs.</p> <p>From these funds the GS Group Companies purchased a Yield Asset of \$75m with \$137m available to the GS Group to be drawn down. Referred to as RAPT. These borrowings were repayable in 2012.</p>
15 September 2006	The GS Group Companies restructured its existing bank facilities into a 3 year unsecured facility repayable in 2009 with a total limit of \$245million.
30 September 2006	<p>Financial year end changed from June to September. Company share price 30 September 2006 was \$2.49.</p> <p>The bank facility restructured at 15 September was drawn to \$200m.</p>
Late 2006	The Government and ATO commence a review of the upfront deductions utilised by the forestry and non forestry managed investment schemes.
7 February 2007	<p>The Federal Government announces that the ATO has reconsidered its interpretation of current tax laws, with the impact being that investors in non forestry investments will no longer be allowed to claim up front deductions for their project fees (to be effective 30 June 2007).</p> <p>GSL's share price drops significantly and the company reaffirms its commitment to forestry with the introduction of High Value Timber product.</p>
27 March 2007	ATO announces transitional arrangements of 2 years for non-forestry MIS taxation implications will not commence until 1 July 2008.
12 June 2007	ASX announcement that GSL had received a preliminary, non-binding and incomplete expression of interest involving the future ownership of the company.
3 August 2007	Acquired agricultural fund manager RFM which had \$180m in funds under management for approximately \$35m.
30 Sept 2007 highlights	<p>GS Group Companies manages funds of in excess \$1.9b.</p> <p>MIS sales for the financial year ended of \$412m down 10% on the previous year.</p> <p>Net profit after tax reduced 46% to \$71.5m.</p>

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Company information

Date	Event
	<p>Net assets of \$765m (\$2.16 per share).</p> <p>Dividends totalling 12c per share paid.</p> <p>Impairment charge of \$40.1m for non forestry products.</p> <p>Banks facility of \$350m fully drawn.</p> <p>Acquired 20,418 plantable ha of plantation land.</p> <p>Acquired 1.4m ha of grazing land for use in the beef cattle projects at a cost of \$119.2m (including \$60m for cattle).</p> <p>Share price \$2.32 as at 30 September 2007.</p> <p>Change in substantial shareholdings from institutional investors selling out.</p>
November 2007	Acquired 14,700 ha of plantation hardwood and a 50% interest in a woodchip mill in Bunbury from "Hansol". Price expected to be \$47.3m. The acquisition of olive assets was also announced.
Late 2007	ATO announces results of their review of the upfront deductibility rules and their review on forestry and non-forestry MIS products indicating that they intend on phasing the 12 month rule out for these products.
February 2008	Cameron Rhodes replaces founder John Young, as the Managing Director. John Young remains on the board as a non-executive director.
1 July 2008	GSL announces MIS Sales drop by 25% to \$314m, significantly impacting the share price.
26 August 2008	<p>ASX announcement outlining Project Transform and aim to create a more sustainable, transparent and valuable business that can become less susceptible to regulatory uncertainty. Value of 1998 to 2003 plantation projects and 2006 and 2007 cattle assessed at \$438.1m.</p> <p>Share price drops significantly and majority shareholder, Ospraie (19.9%) announces the closure of its flagship hedge fund and the selling down of its investment in GSL.</p>
24 September 2008	GSL announces a review of the pricing structure of Project Transform in response to the economic volatility, changes in substantial shareholding and drop in GSL share price.
9 October 2008	GSL announced a revised offer for Project Transform with the issue price of shares to be the 5 day Volume Weighted Average Price of GSL (commencing prior to the investor vote).
14 October 2008	ASX announcement that the independent Directors of the RE unanimously recommend that in the absence of a superior offer that investors vote in favour of each scheme proposed under Project Transform.
24 October 2008	The Explanatory Memorandum and prospectus issued to relevant parties for Project Transform.

Company information

Date	Event
25 November 2008	GSL advised that the Volume Weighted Average Price of its shares was calculated to \$0.2845, and being below the floor price of \$0.50, project investors would be offered the maximum number of 816 million shares per Project Transform.
27 November 2008	GSL announced that the Independent Directors of the Responsible Entity had resolved to adjourn the meetings of investors scheduled for 1 December 2008 on the basis that supplementary information material to the Explanatory Memorandum was to be provided to project investors.
December 2008	Club Banks give approval to Project Transform proposals in exchange for specific mortgages and additional security (across Receivership Companies).
1 December 2008	<p>In respect of the Financial Year ended 30 September 2008, GSL announced:</p> <p>A net loss after tax of \$63.8m. This included an allowance for \$56.9m in doubtful debts and write down of \$30m in goodwill for the previous acquisitions of RFM and Sylvatech.</p> <p>Net tangible assets of \$1.90 per share.</p> <p>GSL provides an update to the Project Transform proxy position.</p> <p>Conditional sale of certain Queensland forestry land for \$23m.</p> <p>Appendix 4E Preliminary Financial Report released which included a disclosure on Going Concern emphasis, noting the reliance on MIS sales, Project Transform results, asset sales and support from Banks.</p>
16 December 2008	<p>Supplementary Explanatory Memorandum and Supplementary Prospectus for all eight Project Transform scheme proposals released. The “going concern” emphasis was mentioned on four separate occasions in each of the eight sets of documents.</p> <p>Shareholder and grower meetings adjourned.</p>
19 December 2008	<p>The decision from the High Court challenge to the upfront deductibility rule for non forestry and forestry MIS products is handed down.</p> <p>Upfront deductibility on non-forestry and forestry products to be maintained. ATO announces commitment to honour existing taxation legislation and recommence product rulings, in particular for non-forestry MIS.</p>
29 December 2008	Annual report of the 2008 financial year released. The “going concern” emphasis was raised, noting that the solvency was dependant on successful assets sales, ongoing support of the GS Group Companies’ bankers and alternative strategies to generate cashflow.
13 January 2009	<p>Updated IE reports issued. Other than for the 1998 plantation project, the IE concluded that the various Scheme (Project Transform) terms remain fair and the Scheme is in the best interests of the Investors as a whole.</p> <p>The report noted the “emphasis of matter” in relation to the inherent uncertainty regarding GSL’s ability to continue as a going concern. The report also noted the reasons why the Directors of GSL believed that the company in its current form was a going concern.</p>

3

Company information

Date	Event
20 January 2009	<p>GSL announced that the special resolutions had been accepted by the requisite majorities for both beef cattle projects and that \$88m of cattle assets would be, subject to shareholder approval (which was later given), converted to 176m shares in GSL.</p> <p>None of the plantation projects reached requisite majorities under Project Transform.</p>
2 February 2009	<p>GSL announced that \$63.8m of individual offer acceptances would be converted to GSL shares. Including the results of the beef cattle scheme proposals, 308 million new shares would be issued.</p>
March 2009	<p>McGrathNicol is appointed by the Club Banks as their advisor and engaged to conduct a report to the Club Banks covering GSL financial position and cashflows.</p>
8 April 2009	<p>GSL provided a market update that included:</p> <p>Partial sale of the loan book at \$0.38 in the dollar to realise \$9m.</p> <p>Macquarie Capital global forestry team appointed to explore alternative sources of capital and corporate structures.</p> <p>Reducing operational and legacy costs.</p> <p>Pursuing profitable MIS sales focused on forestry MIS products.</p> <p>Losses for the six months to 31 March 2009 expected to be \$120m to \$130m before any further provisioning as asset impairment adjustments.</p> <p>GSL announce that it met its operational cashflow banking covenant as at 31 March 2009, that the GS Group Companies was continuing to pursue asset sales in an orderly manner and is working with its banks in relation to its working capital requirements.</p> <p>GSL suspends TREES 2 & 3 coupons and all dividends.</p>
14 April 2009	<p>GSL approached its bankers seeking a bridging loan of \$65m.</p> <p>Purpose was to provide \$15m pending assets sales, \$30m should MIS sales not eventuate and \$20m to buy back TREES notes to prevent a potential TREES covenant breach.</p>
23 April 2009	<p>Timbercorp Limited and its subsidiaries appoints Voluntary Administrators.</p>
7 May 2009	<p>GSL sought and was granted an ASX "Trading Halt" that ultimately was extended through to 18 May 2009.</p>
11 May 2009	<p>GSL resubmits bridging finance application to the Club Banks following developments since 14 April 2009.</p> <p>This new submission reduced application to \$55m, \$35m to bridge cashflow until asset settlements in September 2009 (on the assumption of zero MIS sales at June 09) and \$20m buy back of TREES.</p>
15 May 2009	<p>Following advice on 15 May 2009 that its bankers were unwilling to provide the bridging loan facilities sought, the Board decided to appoint Voluntary Administrators.</p>

3 Company information

Date	Event
16 May 2009	Martin Jones, Andrew Saker, Darren Weaver and James Stewart were appointed as Administrators over the entities as set out in Annexure 1.
18 May 2009	Secured creditor appoints R&M who takes control of the business, books and records over 11 entities within the GS Group Companies.

Historical Financial Information

4.1 Preparation of Financial Statements

The GS Group Companies auditor, Ernst and Young audited the financial statements up to the year ended 30 September 2008 and was in the process of reviewing the half year results to 31 March 2009. The financial statements had not been issued prior to our appointment on the 16 May 2009.

The GS Group also prepared various management accounts (unaudited) and reports on a monthly basis, which have been provided up to the date of our appointment being 16 May 2009.

At section 8.7 of this report, we comment on the adequacy of the GS Group Companies books and records.

4.2 Historical Profit and Loss and Preliminary Analysis

Summarised below are the GS Group Companies consolidated profit and loss statements for the years ended 30 September 2007, 30 September 2008 and the period ending on the date of our appointment on 16 May 2009 together with our preliminary analysis:

Consolidated Profit and Loss (unaudited)	Section Ref	Period to 16 May 09 \$'000	Year to 30 Sep 08 \$'000	Year to 30 Sep 07 \$'000
MIS revenue	4.2(a)	94,703	358,150	408,791
Agricultural sales revenue	4.2(b)	64,831	44,642	28,656
Fee revenue	4.2(c)	523	2,396	3,203
Rentals and agistment income		1,901	1,488	1,316
Total Revenue		161,958	406,676	441,966
Less: Cost Of Sales	4.2(d)	(81,953)	(200,492)	(202,336)
Gross Profit/(Loss)		80,005	206,184	239,630
Gross Profit/(Loss) Percentage		49.40%	50.70%	54.22%
Expenses:				
Loss on disposal of assets	4.2(e)	(137,423)	(115,299)	(48,497)
Travel and entertainment	4.2(f)	(1,056)	(7,958)	(7,331)
Services and contracts	4.2(g)	(14,929)	(33,449)	(32,149)
Donations and sponsorships		(204)	(1,464)	(1,320)
Utilities		(2,555)	(2,498)	(589)
Rates and charges		(2,008)	(1,886)	(3,546)
Insurance premiums – expenses	4.2(h)	(3,331)	(3,524)	(4,159)
Licence, fees, permits and registration		(1,703)	(3,092)	(2,525)
Managed fund fees		(922)	(1,983)	(1,503)
Consumables	4.2(i)	(5,390)	(10,073)	(9,593)
Repairs and maintenance		(2,436)	(4,688)	(4,299)
Operating leases, rental and hire – expenses	4.2(j)	(28,932)	(30,709)	(23,604)
Depreciation and amortisation		(7,017)	(10,380)	(9,519)
Total expenses		(207,906)	(227,003)	(148,634)
Operating Profit/(Loss)		(127,901)	(20,819)	90,996
Other Income				
Interest revenue	4.2(k)	7,339	25,264	33,676
Asset revaluation adjustments	4.2(l)	(73,032)	2,380	28,120
Other income and adjustments	4.2(m)	7,779	4,590	16,081
Total income		(57,914)	32,234	77,877
Other Expenses				
Finance Costs, interest and borrowing expenses	4.2(n)	(37,372)	(75,263)	(51,334)
Other expenses	4.2(o)	(71,227)	(4,793)	(9,080)
Total other expense		(108,599)	(80,056)	(60,414)
Profit/(Loss) Before Tax		(294,414)	(68,641)	108,459
Tax (expense)/income		(57,719)	4,178	(36,951)
Profit/(Loss) After Tax		\$(352,133)	\$(64,463)	\$71,508

Historical Financial Information

The previous figures for the period through to 16 May 2009 are unaudited and were extracted from the GS Group Companies management accounts. The Administrators and FH cannot provide any warranty as to the accuracy, completeness or otherwise of the financial statements presented.

An overview of the historical profit and loss statements indicates the following in respect of the performance of the GS Group Companies over the relevant period of time:

- The decline in the GS Group Companies performance over the above period has been impacted by the 79% fall in annual MIS sales from its peak at 30 June 2006 (\$456.9m) and 23% decline between FY 07 and FY08, to \$314m MIS sales raised in FY08.
- A range of regulatory and economic factors have led to this impact on MIS sales. Further details on these regulatory, economic and business model factors that have had a significant impact on the GS Group Companies are presented in the chronology of events outlined in section 3.8 and section 5.2 "Causes of Failure".
- Reported gross profit margin ranges between 49% to 54% over the above period (based on management's classified **cost of sales** from the general ledger). The significant expenditure items that constitute the cost of sales expense are presented in Note (d) of this section.
- A material cost component of the cost of sales and overhead expenditure represents the sales commissions, marketing, and promotional costs that have been paid over the above period of time. These costs have averaged between 18%–20% of the MIS sales raised over this time, effectively representing an average cost of 20 cents in every \$1 raised from MIS sales activity. These expenses impacted the margins retained within the business and funding required each year to generate MIS sales activity.
- Other major expenses of the GS Group Companies that increased significantly over this period of time include land lease rental charges. This trend is a direct function of the MIS sales activity and resulting MIS projects. As at our appointment, approximately 91,288 hectares for forestry and 7,443 hectares for horticulture was leased area.
- A significant impact to the accounting profit and loss statement has been the downward revaluation of various assets classes within the GS Group Companies and investment acquisition write offs due to impairment adjustments (under the accounting standard requirements).

These accounting adjustments are due in part to economic conditions impacting asset markets and the level of uncertainty facing the business. The underlying future revenue streams have been impacted by these events and therefore their carrying value has been adjusted in accordance with accounting standard requirements.

- Finance costs and charges continued to escalate from 2007 with the increasing reliance on external funding and the expanding debt structure of the business. The GS Group Companies asset realisation program was initiated with the view of reducing the gearing within the business and retiring debt during 2009.

The net debt to equity ratio at FY07 was 59.3% which escalated to 98.7% at FY08 and 134% at 16 May 2009.

The Administrators make the following comments with reference to the specific items of the consolidated profit and loss:

- a) **MIS revenue** for FY09 mainly consists of deferred MIS revenue from FY08 MIS sales in accordance with the accounting treatment of the revenue recognition policies for initial and ongoing MIS management fees.

It should be noted that the majority of the MIS sales activity usually occurs in the months leading up to June each year. Management had forecast a significantly reduced sales budget through to 30 June 2009 with a revised sales target of \$150m.

Refer to section 8.6 of this report for specific details on the forecast targets for FY09 and leading up to our appointment.

Historical Financial Information

- b) **Agricultural sales revenue** represents the proceeds generated from cattle sales and harvest proceeds. A breakdown of the agriculture sales revenue is as follows:

Agricultural Sales Revenue	Period to 16 May 09 \$'000	Year to 30 Sep 08 \$'000	Year to 30 Sep 07 \$'000
Cattle sales	44,452	13,362	18,535
Harvest proceeds	20,379	31,280	10,121
Total	\$64,831	\$44,642	\$28,656

The position for the year to 16 May 2009 indicates a sharp increase in cattle sales for FY09 which is due to additional cattle acquired through the Project Transform process. Historically these revenues are usually a reflection of the productivity of each year's harvest and cattle sales and these can vary significantly.

- c) **Fee (revenues)** comprises fees earned for provision of service, loan establishment fees and others and generally fluctuate in line with MIS sales achieved each year.
- d) **Cost of sales** represents the cost of materials, selling, distribution, and employees and contractors (based on management's general ledger classification). These are costs directly attributed to MIS sales activity and ongoing project maintenance. As a result for the limited MIS sales activity leading up to 16 May 2009, reported COGS has fallen significantly in comparison to historical levels.

A breakdown of the cost of sales is as follows:

Cost of Sales	Period to 16 May 09 \$'000	Year to 30 Sep 08 \$'000	Year to 30 Sep 07 \$'000
Cost of goods sold	7,210	24,258	8,980
Direct employee costs	27,408	46,711	43,774
Other employee cost	516	6,357	9,001
Employee related taxes	2,362	4,942	3,608
Services and contracts - contractors	29,405	51,265	61,814
Services and contracts - selling	1,526	34,348	43,995
Materials	13,526	32,611	31,164
Total	\$81,953	\$200,492	\$202,336

We have been advised that the employee costs set out in the above table all employee costs not just those that relate to the derivation of new MIS sales or the management of existing MIS projects. The above general ledger COGS classification will not be consistent with the financial reporting classification set out in GSL's Annual Report.

- e) The **loss on disposal or impairment of assets** is primarily due to the disposal of assets and a revaluation/impairment of biological assets at fair value.

Loss on Disposal	Period to 16 May 09 \$'000	Year to 30 Sep 08 \$'000	Year to 30 Sep 07 \$'000
Loss from disposal of non current asset	32,479	285	224
Bad debts written off	1	45	98
Doubtful debts	28,083	56,936	5,632
Other asset impairment	22,823	25,406	42,543
Goodwill impairment	21,104	25,513	-
Decrement - biological asset at MV	32,933	7,114	-
Total	\$137,423	\$115,299	\$48,497

Historical Financial Information

- A portion of the **loss from disposal of non current assets** of \$32.48m relates to the GS Group Companies investments in ROF. This account includes a write down of \$12.8m in relation to ROF. Prior to 16 May 2009, an offer had been received for the sale of the ROF investment however this sale did not proceed. As such this adjustment is an impairment adjustment (and not a loss on sale) reflecting the recent sale offer and a sign of the underlying uncertainty of funds flowing into the rural funds management sector at the time.

An amount of \$14m of the \$32.48m **loss from disposal of non current assets** relates to the loss on the sale of a portion of the GSF loan book to JAM. For further detail on this transaction refer to Section 8.12 of this report.

- The **doubtful debts** relates mainly to the investor loan book that is held by GSF which represents investor loans in MIS projects that are funded by GSL/GSF. After an assessment of the recoverability of its loan book of \$90.8m face value, management increased the doubtful debts provision by \$28.1m for FY09 giving \$23.2m net.

The doubtful debts provision escalated in FY08 due to concerns as to the recoverability of investor loans written through one specific financial planning group. The ceased to conduct business with that financial planning group prior to our appointment, and we are currently investigating the circumstances surrounding the loans and their recoverability.

- **Other asset impairment** relates to the recording of a \$16m impairment adjustment from an assessment of the recoverable amount of the assets in the wine grape and olive cash generating unit.

This adjustment to the carrying value of GSL's investment into the wine and olive cash generating units took into account a number of factors such as current commodity prices, future prices, and general decline in the agriculture and market conditions at the time.

- **Goodwill impairment** adjustments for the period to 16 May 2009 relate to the write-off of the goodwill in GSCM that resulted from the acquisition of the Environinvest Beef Cattle MIS business.

The goodwill adjustment in GSCM for Environinvest followed the completion of Project Transform, which resulted in GSL effectively ceasing to operate a MIS cattle business and therefore for accounting purposes could no longer carry goodwill in the balance sheet that related to the cattle MIS business. This is consistent with adjustments proposed in the Project Transform PDS.

For the year ending 30 September 2008, the GS Group Companies had significant goodwill adjustments including \$7.5m relating to its previous acquisitions of RFM and \$22.5m in GSYL. Both of these adjustments were based upon assessments of the value in use to the GS Group Companies of the relevant cash generating units relating to these goodwill assets at the reporting date.

The goodwill impairment adjustment relating to the carrying value of the GSYL investment reflects a negative cashflow position until the second rotation of land on the Tiwi Plantations and the uncertainty around whether GSL would be in a position to use the second round rotation land on the Tiwi Islands.

- **The impairment charge to biological assets has resulted in a decrement to the profit and loss statement of \$32.9m.** Biological assets represent grape vines, olive trees, almond trees and cattle which are recorded at their fair value less cost to sell at the above balance dates.

The main adjustments to biological assets fair value is a \$12m fair value decrement for GSCM for cattle on the expected reduction in their fair values from the planned sale of the cattle (due to the prevailing market conditions). The remaining decrement adjustment of \$12.5m relates to GSVHPL biological assets i.e. the vines, again reflecting the prevailing market conditions at the time.

Historical Financial Information

- f) **Travel and entertainment** expenses have declined over the period, as the GS Group Companies introduced cost saving measures (through Project Prune) which targeted all ongoing non essential travel and entertainment related expenditure. In addition to these measures the limited MIS sales activity for FY09 would have significantly impacted the actual travel and entertainment expenditure for FY09.
- g) **Services and contracts** represents the cost of communication, IT services, courier, freight, property maintenance, advertising, marketing and professional fees paid to advisors. A breakdown of these costs is as follows:

Services and contracts	Period to 16 May 09 \$'000	Year to 30 Sep 08 \$'000	Year to 30 Sep 07 \$'000
Services and contracts - Communication	818	1,741	1,062
Services and contracts - IT	465	1,481	1,238
Services and contracts - Mail and Freight	906	3,888	1,805
Services and contracts - Property	3,951	6,648	3,802
Services and contracts - Professional	8,061	17,024	22,203
Services and contracts - General	367	1,657	1,594
Services and contracts - Marketing	361	1,010	445
Total	\$14,929	\$33,449	\$32,149

For the period to 16 May 2009, costs on an annualised basis have reduced approximately 28.5% in line with the initiatives of Project Prune.

- h) The **insurance premiums expenses** and insurance premium recovery (relating to the growers insurance) has been presented on a net basis. Growers insurance represents insurance related to the MIS projects and recovered from the MIS investors.

Insurance costs could arguably be determined as directly attributable to the project and thus recorded as part of cost of goods sold for financial reporting purposes.

- i) **Consumables** represents items for cleaning, small office equipment, stationery, subscriptions and publications and other general consumables. It also includes items of consumables in the agribusiness (i.e. tags and veterinary supplies) and the cost of diesel and petrol consumed. These costs on an annualised basis have also reduced in line with the initiatives of Project Prune.
- j) **Operating leases, rental and hire expense** represents leased infrastructure expenditure for property, plant, equipment, motor vehicles, port, aircraft and other general venue hires.

A breakdown of these expenses are as follows:

Operating leases, rental and hire	Period to 16 May 09 \$'000	Year to 30 Sep 08 \$'000	Year to 30 Sep 07 \$'000
Agistment	792	1,550	3,736
Buildings/property lease and rental	1,850	3,267	6,214
Cattle rental	59	106	187
IT and communications lease, rental or hire	384	776	496
Motor vehicles lease, rental or hire	669	978	621
Plant, machinery & equipment lease, rental or hire	1,185	1,294	599
Office equip. lease, rental or hire	89	232	162
Port lease	228	162	46
Land lease and rental	23,371	21,948	10,917
Other lease, rental and hire costs	305	396	626
Total	\$28,932	\$30,709	\$23,604

Historical Financial Information

The R&M is in the process of determining the leasing requirements under the MIS projects and for the GS Group Companies. Ongoing commitments of the above nature will be determined subject to the outcome of a final assessment.

- k) **Interest revenue** represents the interest earned on bank interest, MIS loan interest and interest derived from yield assets.
- l) **Asset revaluation adjustments** have resulted in an overall decrement for the period ending 16 May 2009. The effect of these adjustments are summarised below:

Entity	Investment Property at FV adjustment	Biological Assets adjustments	Total \$'000
GSPINE	29	-	29
GSCH	7,349	-	7,349
GSCM	-	53,134	53,134
GSEC	-	(1,726)	(1,726)
GSHVT	(2,696)	-	(2,696)
GSLH	8,145	-	8,145
GSOH	-	(12,708)	(12,708)
GSPH	-	(1,232)	(1,232)
GSPL	10	-	10
GSPT	23,267	-	23,267
GSPT2	3,905	-	3,905
GSTH	-	(4,445)	(4,445)
Total	\$40,009	\$33,023	\$73,032

Major revaluations adjustments were as a result of the following:

- GSCM's decrement adjustment predominately relates to the gross accounting adjustment for the write-off of the carrying value of the cattle asset sold during the relevant period. The GS Group Companies received \$44.4m in cattle sale proceeds (refer to note 4.2(b) for the sale proceeds).
- GSLH, GSPT and GSPT2's decrements relate to land impairment adjustments reflecting the level of uncertainty in many of the agriculture land markets at the time (and therefore negatively impacting the DCF model).
- GSCH's decrement adjustment represents the fair value adjustment to Reekara Park cattle property which is recorded as an Investment Property in the balance sheet. This decrement is a reflection of the deteriorating market conditions from the previous reporting period.
- GSHVT's increment relates to the fair value adjustment for the HVT land which is carried as an investment property in the balance sheet as these properties are leased to project investors.

The investment property valuation was updated to take account of the prevailing market conditions. The major reason behind the fair value increment is the unwinding of the discount of six months from the previous reporting period (30 September 2008) i.e. the termination of the MIS leases are six months closer and so the impact of this lease encumbrance on fair value is slightly reduced.

- GSPH and GSTH's increment represents the market value adjustment in relation to Biological Assets relating to the pulpwood trees on the Hansol estate and other plantation estates.
- m) **Other income and adjustments** includes items such as profit on the sale of land (\$6.9m) and the GS Group Companies share of the Hansol joint venture operating profits (\$0.5m).

Historical Financial Information

- n) **Finance cost, interest and borrowing expenses** represents the cost of stamp duty, interest paid on hire purchases and other financial leases, the interest on TREES2, TREES3, the Club Bank's facility and other financing costs and fees. For further detail regarding the debt structure of the GS Group Companies refer to notes (k) and (l) of section 5.1 of this report and Annexure 2 for the summary of entity charges.
- o) **Other expenses** includes a non-cash accounting adjustment of \$53m representing the accounting cost of acquiring the MIS rights from investors in the 2007 and 2008 Beef Cattle Projects (as a result of cancelling the graziers lease with GSMAL) and exchanging the fair value of the shares issued. This accounting adjustment is consistent with the PDS disclosures for Project Transform.

Other expenses also include an additional top up to the HPE/Grower Return (Land Assessment Provision) that is discussed in section 4.3(p).

4.3 Balance Sheet and Preliminary Analysis

Summarised below is the GS Group Companies consolidated balance sheet prepared as at 30 September 2007, 30 September 2008 and the date of our appointment on 16 May 2009:

Consolidated Balance Sheet (unaudited)	Section Ref	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Current Assets				
Cash and cash equivalents	4.3(a)	16,437	85,964	202,618
Trade and other receivables	4.3(b)	108,807	194,254	241,199
Loans - other	4.3(c)	22,023	12,191	2,650
Inventory	4.3(d)	7,833	3,231	6,788
Other assets	4.3(e)	102,718	58,996	105,821
Total Current Assets		257,818	354,636	559,076
Current Liabilities				
Trade and other payables	4.3(f)	(40,041)	(72,645)	(89,664)
Interest-bearing loans and borrowings		(743)	(961)	(930)
Provisions	4.3(g)	(7,795)	(7,576)	(6,766)
Deferred revenue	4.3(h)	(40,296)	(105,144)	(146,202)
Total Current Liabilities		(88,875)	(186,326)	(243,562)
Non Current Assets				
Trade and other receivables	4.3(i)	2,045	90	132
Property, plant and equipment	4.3(j)	418,973	252,493	196,067
Investment property	4.3(k)	581,795	804,203	722,310
Intangible assets	4.3(l)	19,841	40,993	70,184
Investments in related entities	4.3(m)	9,863	24,494	345
Other assets	4.3(n)	196,730	327,377	191,527
Total Non Current Assets		1,229,247	1,449,650	1,180,565
Non Current Liabilities				
Interest-bearing loans and borrowings	4.3(o)	(833,990)	(811,503)	(660,819)
Provisions	4.3(p)	(74,331)	(100,288)	(60,977)
Deferred revenue	4.3(h)	(8,384)	(21,942)	(8,316)
Total Non Current liabilities		(916,705)	(933,733)	(730,112)
Net Assets		481,485	\$684,227	\$765,967
Equity				
Contributed equity	4.3(q)	(610,256)	(465,442)	(448,109)
Reserves	4.3(r)	(13,548)	(14,002)	(13,342)
Retained profits		142,319	(204,783)	(304,516)
Total Equity		\$(481,485)	\$(684,227)	\$(765,967)

The above figures prepared at 16 May 2009 were extracted from the GS Group Companies management accounts which are unaudited and therefore we can provide no guarantee or warranty as to the accuracy or otherwise of the financial statements.

Historical Financial Information

The balance sheet also indicates a declining position with net assets falling to \$481m by 16 May 2009, impacted by movements such as:

- a) On a consolidated basis the GS Group Companies had a significant reduction in **cash and cash equivalents** over the above period. This can be indirectly attributed to the timing of the appointment against the timing of MIS sales during the year (prior to 30 June MIS sales) and cashflow requirements discussed in further detail in section 4.4.

Overall working capital had declined from \$216m (or two times current liabilities) in 2007 to \$169m (or 1.8 times current liabilities) by 16 May 2009.

Consolidated Working Capital	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Working Capital	115,405	130,349	280,399
Working Capital ratio	1.81	1.58	2.01

- b) A detail breakdown of **Trade and other receivables** are tabled below:

Trade and other receivables	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 May 07 \$'000
MIS loan and trade receivables	142,630	201,535	197,115
Sundry debtors	35,604	52,413	12,423
Trust account	-	-	31,092
Provision for doubtful debts	(71,174)	(63,207)	(2,256)
GST receivable	1,254	3,406	3,746
Managed fund reimbursable expense	493	192	240
Discounting of interest free loans	-	(85)	(1,161)
Total	\$108,807	\$194,254	\$241,199

We make comment with respect to the \$142.6m **MIS loan and trade receivables** listed in the above table:

- The MIS loan and trade receivables are a net figure which includes a recorded loan value of approximately \$162.6m held by GSF. The loan book has been created from investors MIS loans that are repayable over a period of time extending up to June 2023.

We note that the loan book had been reviewed for recoverability taking into account current market conditions, the credit risk and profile of those loan receivables, and provisions for doubtful debts had been raised by management where considered appropriate.

A provision for doubtful debts against MIS loans has been made of approximately \$53.5m of the total provision amount of \$71.2m in the above table. For further details regarding the MIS loan book refer to Annexure 17.

- MIS loan and trade receivables balance above also includes \$16.8m relating to investor insurance and GST billed to MIS projects but not yet received payment and management fees payable from net proceeds of harvests in accordance with MIS Constitutions and LMA's.
- Trade receivables of \$4.1m are owing to GSCM as a result of cattle sales. Refer to section 4.2(b) for further information.
- We note that the loan portfolio gross balance is adjusted on consolidation by \$41.1m to reflect a portion of the loan book that has been securitised where there is recourse back to GSL. We understand that this adjustment is in accordance with required treatment under the accounting standards, and as such a corresponding liability has been recorded in "Other Long Term Borrowings" to reflect the recourse nature of the loan portfolio. Refer to other liability of \$35.4m in section 4.3(o).
- Items included in the MIS loan and trade receivables balance have been listed below:

Historical Financial Information

MIS loan and trade receivables	As at 16 May 09 \$'000
Gross MIS loan receivable (held by GSF)	162,630
Management fees, investor insurance	16,754
GSFNT trade receivables (consumables)	265
Trade receivables owing to GSCM from cattle sales	4,126
Adjustment on consolidation	(41,145)
Total	\$142,630

Sundry debtors of \$35.6m includes approximately \$22m in MIS project management fees (in accordance with the MIS constitutions) that have been earned by the GS Group Companies but not yet paid.

- c) **Loans – other** represents loans made to the ROF and RBK

Loans - other	Relevant Entity Advancing Loans	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Loan ROF	GSL	20,223	10,091	
Loan RBK	GSFML	1,800	2,100	2,650
Total		\$22,023	\$12,191	\$2,650

As at 16 May 2009, GSL owns a 46% and 71% equity holding in ROF and RBK (“the Funds”) respectively and was deemed to have control of the Funds as GSFML (not under external administration), a wholly owned subsidiary of GSL, is the responsible entity for the Funds.

- d) **Inventory** represents chemicals, fertilisers, fuel on hand, seedlings and processed agricultural produce from standing timber, olive, grape and almond harvests (as distinct from biological assets which represents eucalypt and pine trees, grape vines, olive and almond trees, cattle and unprocessed produce).

These assets are measured at initial cost or marked to net realisable value. A significant component of the GS Group’s inventory rests in GSEC as standing timber from acquired harvests which has increased as a result of several projects reaching their second rotation. The other dominant component in inventory relates to chemical and fertilisers on hand for forestry and HVT plantations.

The level of inventory will fluctuate with the volume of harvests and requirements under MIS project maintenance programs.

- e) **Other current asset** primarily comprises deposits, prepayments and biological assets as follows:

Other current assets	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Deposits	2,842	4,973	6,333
Prepayments	2,000	12,341	4,679
Biological assets	98,667	26,127	21,158
Derivative financial instruments	(10,207)	(1,609)	3,136
Investments	-	3,014	5,023
MRF unit holding - ROF	-	109	-
Other current assets	9,416	14,041	65,492
Total	\$102,718	\$58,996	\$105,821

Historical Financial Information

- **Biological assets** predominately represent the cattle stock of GSCM with the following reporting classifications:

Cattle	As at 16 May 09 \$'000	As at Sep 08 \$'000	As at Sep 07 \$'000
Current assets	85,938	10,849	19,768
Non current assets	-	94,274	93,307
Total	\$85,938	\$105,123	\$113,075

The increase in current biological assets as at 16 May 2009 is primarily attributed to GSCM carrying \$85.9m in cattle stock acquired through Project Transform and was subsequently reclassified from non current biological assets into current assets. This is primarily due to the Board's decision to sell the cattle assets and therefore for financial reporting purposes it has been reclassified.

- **Other current assets** relates to derivative financial instrument which comprises of a \$3.6m swap in relation to the RAPT facility and a \$6.6m swap in respect of the GSPT. GSL is required to "mark to market" the swaps to fair value with the fair value movements recorded in the cashflow hedging reserve in equity (in accordance with accounting standards).
- f) **Trade and other payables** comprises predominately trade creditors, accruals, amounts due to growers and interest payable to the TREES note holders as follows:

Trade and other payables	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Trade creditors	(14,565)	(15,334)	(10,458)
Other creditors	(1,152)	(3,483)	(2,554)
Accruals	(11,389)	(39,617)	(74,455)
Prepaid grower interest	-	(86)	(412)
GST payable	(1,207)	(1,565)	(2,194)
Funds held in trust	(1,372)	(77)	450
Clearing account - wages etc	(663)	(230)	59
Unearned revenue	(4,420)	(500)	(100)
Interest payable TREES	(5,222)	(6,157)	-
Investor purchases clearing	(6)	(36)	-
Brokerage clearing	9	13	-
Capital Accruals – PPE & Investment	(54)	(5,573)	-
Total	\$(40,041)	\$(72,645)	\$(89,664)

- **Other creditors** balance relates primarily to a debt owed to Pentarch in respect of a share sale agreement with GSYL. The debt is repaid by way of service fees payable to Pentarch on certain shipments of wood from Melville Island. Refer to Annexure 9 for further information on the Pentarch balance.
- The **FY07 and FY08 accrual balances** are high relative to FY09 principally due to the inclusion of capital purchase accruals, being land required for that year's forestry MIS project sales.
- **Interest Payable for TREES** relates to outstanding interest and payments to investors with TREES convertible notes. Refer to Annexure 3 for further information about TREES.

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Historical Financial Information

g) **Provisions** comprises the following:

Provisions	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Annual leave	(2,718)	(3,404)	(3,107)
LSL current	(716)	(648)	(309)
Income tax	-	1,010	477
GSFM provision for PMP	(3,656)	(3,308)	(3,308)
General provisions	(705)	(1,226)	(519)
Total	\$(7,795)	\$(7,576)	\$(6,766)

h) **Current and non current deferred revenue** relates to MIS project income as follows:

Deferred revenue	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Deferred revenue current	(40,296)	(105,144)	(146,202)
Deferred revenue non current	(8,384)	(21,942)	(8,316)
Total	\$(48,680)	\$(127,086)	\$(154,518)

- As at 16 May 2009, the GS Group Companies recognised liabilities for \$48.68m in relation to **deferred revenue**. This represents the income received from MIS projects which is not recognised as revenue until the year in which the work on the projects is performed.

i) **Trade and other receivables** includes:

Trade and other receivables	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Sundry Debtors	\$2,045	\$90	\$132

- Sundry debtors** relates to a short fall provision with respect to Vines 2008 Project which is payable to GSMAL from 2010 harvest proceeds pursuant to the PDS.

Historical Financial Information

- j) **Property, plant and equipment** is predominately represented by freehold land, buildings and other improvements.

Property, plant and equipment	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Land-at cost	313,842	123,767	106,934
Buildings	6,211	4,920	3,107
Motor vehicles	2,394	2,738	1,626
Office furniture, fixtures and equipment	5,327	5,895	5,930
Plant & equipment	31,203	33,010	25,783
Trellis	14,392	13,483	7,026
Drainage	485	478	519
Irrigation	22,919	21,102	21,515
Roads	7,350	7,102	2,922
Dams	6,244	5,022	4,303
Shedding	996	758	375
Leased plant and equipment	1,674	1,812	2,616
Leased motor vehicles	780	884	1,240
Lease hold improvements	15,338	14,810	10,003
Water licences	20,886	21,248	9,664
Improvements	8,363	8,737	3,988
Bores	1,720	1,592	-
Asset impairment	(44,642)	(25,024)	(25,024)
Asset clearing account	666	2,014	4,216
Work in progress	2,825	8,145	9,324
Total	\$418,973	\$252,493	\$196,067

- Property, plant and equipment has continued to increase significantly mainly due to freehold land acquisitions and additional pastoral leasehold interests in Queensland and Western Australia. However, the fair value adjustments against plant and equipment and recent cattle property sales have impacted this movement.
- k) **Investment property** represents the land holdings which the GS Group Companies leases to its forestry, pulpwood and HVT MIS projects. It is valued at fair value ("FV") which takes into account the impact of the MIS lease (encumbers the land) and in particular, the deferral of lease rentals which are paid out of net harvest proceeds, as shown below:

Investment property	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Investment property at fair value	\$581,795	\$804,203	\$722,310

The significant decrease in the carrying value of investment property at FV between FY08 and FY09 is due to the following:

- Approximately \$9.4m was sold to the Land Trust at encumbered value as a result of the FY08 pulpwood and land projects;
- Approximately \$179m that was reclassified as property, plant and equipment (note (l)). Of this \$161m was following Project Transform in accordance with the disclosure in the Transform prospectus. A further \$18m was a reclassification of cattle land held for sale; and

Historical Financial Information

- The FV of investment property was reduced by net \$45.7m. Of this \$33.9m was primarily a function of reduced expectations of land FV due to prevailing market conditions. A further \$6.1m represents a write down of cattle investment property and \$5.7m is an adjustment to a previously booked gain.
- l) There is a significant decrease in **intangible assets** (in particular goodwill) as a result of the write-off of the cattle projects' goodwill from \$39.13m in FY08 to \$18.02m in the current year (a decrease of \$21.11m)
- m) **Investments in related entities** represent investments in associates and joint ventures as shown below:

Investments in related entities	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Investment- Almondco	10	5	2
Investment- ROF/DAF	1,429	12,802	-
Investment- LFL	464	456	342
Investment - TFM	-	3,086	-
Investment - The Creeks Pipeline Co Ltd	256	-	-
Equity accounted investments	7,703	8,144	-
Investments - other	1	1	1
Total	\$9,863	\$24,494	\$345

- Equity accounted investments** relates to the GS Group Companies 50% interest in the Bunbury woodchip mill. The carrying value will fluctuate according to the GS Group Companies share of net assets and profits in the entity.
- The carrying values of investments in external funds managed by GSFM including the ROF and LFL were reduced to the expected recoverable amount which was based upon proposals by the GSFM management to the GSL Board to buy the GSFM business and assets. No agreement to sell these assets was entered into.
- The **TFM investment** was a managed fund of listed agricultural and properties securities. These securities were sold on the market and the TFM fund was closed during the current year.
- The new investment in FY09 relating to **The Creeks Pipeline Co Ltd** did not proceed.

We note that the carrying value of these investments may vary to the potential realisable value of these investments.

- n) **Other assets** represents predominately bonds, biological assets, deferred tax assets and other non current assets:

Other assets	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Bond-ROTHS	-	-	2,997
Bond-ABL	18,173	7,723	-
Maintenance funds	512	494	585
Term deposits	20	20	20
Biological assets	125,149	159,676	114,500
Deferred tax assets	129,068	114,647	73,387
Deferred tax write-down	(118,016)	-	-
Other non current assets	41,824	44,817	38
Total	\$196,730	\$327,377	\$191,527

Historical Financial Information

- The **Bond-ABL asset** relates to certain MIS investor loans that have been securitised to BEN for which the GS Group Companies have a credit loss exposure. The asset is subject to fixed charges held by BEN in respect of a deed of mortgage of deposit dated 25 June 2004 and 9 January 2008 as a means to secure GSF's obligations arising under certain transaction documents.

The bond is secured over BEN's mortgage liability and in this regard the bond cannot be redeemed until the liability to BEN has been discharged in full.

- Biological assets** comprise of standing timber, olives, almond, grapes and beef cattle. The main noncurrent biological assets represent standing timber acquired along with the acquisition of the 50% interest in the Bunbury woodchip mill and the timber interests acquired by the GS Group Companies from investors as part of Project Transform. The value presented above may not be representative of the ultimate realisable value.
- The **deferred tax asset** balance arises through timing differences that occur between tax and accounting treatments of assets (and liabilities). Management have provided against the asset on the basis that it may only be utilised if the Company continues as a going concern. It is unlikely that the current carrying value will be recoverable.
- Other non current assets** relates to the Yield Assets invested in under the ANZ RAPT facility and held in the GSPT.

o) **Interest bearing loans and borrowings** comprises the following:

Interest bearing loans and borrowings	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Club Bank borrowings/syndicated facility	(375,863)	(350,000)	(245,000)
ANZ debentures (RAPT facility)	(223,556)	(221,405)	(217,853)
TREES3	(124,700)	(124,700)	(124,700)
TREES2	(79,874)	(79,900)	(79,900)
Other liability	(35,414)	(40,806)	-
Hire purchase	(673)	(1,290)	(2,152)
Unexpired interest/issue costs	6,090	6,598	8,786
Total	\$(833,990)	\$(811,503)	\$(660,819)

- The major increase in GS Group Companies borrowings for the 2007 year to the 2008 year is related to \$105m drawdown from the **Club Bank's facility** to its maximum \$350m limit that existed at that time. A further \$30m was drawn from this facility in November 2008 thus increasing the Club Bank's borrowings to \$380m and \$5m of Club Bank debt was repaid in February/March 2009 from asset sales.
- ANZ debentures (RAPT)** facility is a structured finance facility subscribed through the issue of debentures by GSDH to a syndicate to acquire scheme land. For further details refer to Annexures 14 and 27.
- In October 2004 the company issued 800,000 **TREES2 notes**, each with a face value of \$100 raising \$80,000,000 before issue costs. At the discretion of the Directors each TREES2 pays a preferential non-cumulative franked coupon payable semi-annually in arrears.
- In October 2005 the company issued a third hybrid security series, **TREES3**. A total of 1,247,000 TREES3 with a face value of \$100 each were issued raising a total of \$124,700,000 before issue costs. TREES3 pays a preferential cumulative unfranked coupon payable semi-annually in arrears.
- TREES2 and TREES3 give note holders the right to convert their TREES2 or TREES3 into the company's ordinary shares in certain circumstances up to 6 months prior to a reset date.

Historical Financial Information

- Through our appointment as Administrators an "Acceleration Event" is deemed to have occurred and these TREES liabilities has been converted into debt. This has also resulted in GSL being required to pay TREES holders the face value of TREES notes grossed up by 5%, which at 16 May 2009 is estimated at around \$215m. Please refer to the comments in Annexure 3 for further details.
 - The **other liability balance** for the 2008 and 2009 years represent the requirement to gross up the value of some securitised loans to BEN for which the GS Group Companies have a level of credit loss exposure due to the recourse nature of the loan portfolio (refer to section 4.3(b)).
- p) **Provisions** predominately relates to the following as shown below:

Provisions	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Deferred tax liabilities	(8,865)	(54,559)	(18,462)
Long service leave	(853)	(701)	(2,160)
Maintenance	-	-	-
Grower return provision	-	-	(9,600)
HPE provision	(53,538)	(37,961)	(25,515)
GSFM earn out liability	-	-	(4,490)
General provisions	(11,075)	(7,067)	(750)
Total	\$(74,331)	\$(100,288)	\$(60,977)

- Grower return provision** represents the commitment made to meet project returns with respect to investors on the 1995 and 1996 plantation projects.
- The **HPE provision** represents the commitment in the 2004, 2005, 2006, 2007 and 2008 project requirements that all land and timber used in each project is or will be assessed as being capable of being managed as a whole to produce a particular average volume of gross timber per hectare (in accordance with PDS).

The provision has been calculated based upon industry assessments provided to the GS Group Companies at the time of the assessment for the above projects. On this basis, the HPE provision represents the present value of additional work (and costs) that may be required in acquiring or establishing additional land and timber to fulfil that commitment to growers.

Additional resources to meet the above commitment were intended to be fulfilled by allocating company owned or leased land and timber to the relevant project. For further information on the provision for growers return and HPE refer to GSL's 2008 Annual Report (refer to Provision of Land Assessment account balance).

- q) **Contributed equity** is broken down as follows:

Contributed equity	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Issued capital - ordinary shares	(573,352)	(420,134)	(402,437)
Equity issue costs	12,887	4,371	4,371
TREES1 equity conversions	(55,000)	(55,000)	(55,000)
TREES1 issue costs	3,209	3,209	2,770
TREES2 equity conversions	(100)	(100)	(100)
TREES2 issue costs	3	3	3
Treasury shares	2,097	2,209	2,284
Total	\$(610,256)	\$(465,442)	\$(448,109)

Historical Financial Information

- The increases in **issued capital-ordinary shares** and other major capital raising exercises have been summarised in section 3.8 of this report.
 - The recent increase in issued capital is due to Project Transform.
- r) **Reserves** are broken down as follows:

Reserves	As at 16 May 09 \$'000	As at 30 Sep 08 \$'000	As at 30 Sep 07 \$'000
Asset revaluation reserve	(106)	-	-
Share based payments reserve	(15,390)	(14,068)	(11,609)
Cashflow hedging reserve	3,820	1,958	(1,736)
Option premium reserve	(1,872)	(1,892)	2
Total	\$(13,548)	\$(14,002)	\$(13,342)

- The **cashflow hedging reserve** is used to account for (gains)/losses on interest rate hedge funds, in line with accounting standards.
- **The share based payments reserves** account is used to recognise the amortised fair value at balance date (utilising market prices) of Management's performance rights issue, in accordance with accounting standard requirements.

4.4 Cashflow Analysis and Use of funds

Summarised overleaf is the GS Group Companies consolidated statement of cashflows (extracted from internally prepared management accounts) for the period ending 30 June 2006, 30 September 2007, 30 September 2008 and up to the date of our appointment on 16 May 2009.

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Historical Financial Information

Historical Cashflow (unaudited)	Year ending 30 June 2006 \$'000	30 June to 30 Sept 06 \$'000	Year ending 30 Sept 07 \$'000	Year ending 30 Sept 08 \$'000	Year ending 16 May 09 \$'000
Cash flows from Operating Activities					
Receipts from growers/customers (inclusive of GST)	231,545	105,233	124,173	184,761	150,468
Securitisation of loan receivables	403,350	4,493	469,844	316,627	25,487
Payments to suppliers and employees (inclusive of GST)	(321,328)	(164,926)	(342,309)	(381,577)	(198,685)
	313,567	(55,200)	251,708	119,810	(22,730)
Bank Interest received	8,115	3,965	15,209	11,359	1,261
Income taxes (paid)/received	(73,222)	(32,358)	(37,779)	(2,911)	8,602
Finance costs paid	(2,525)	(6,121)	(25,566)	(41,618)	(26,839)
Purchase of ANZ Yield Assets		(75,036)			
Other		485			
Net cash inflow/(outflow) from operating activities	245,935	(164,265)	203,572	86,641	(39,706)
Cash Flows from Investing Activities					
Payments for property, plant and equipment	(85,972)	(26,740)	(240,094)	(46,640)	(26,676)
Proceeds from sale of property, plant and equipment		1,027	1,976	660	247
Payments for investments or property	(167,465)	(22,111)		(120,234)	(15,113)
Proceeds from sale of investment property	779	500	3,647	6,232	20,117
Payments for biological assets	(73,816)	(35,287)		(61,070)	(1,882)
Business Acquisitions	(34,122)	-	(4,505)	(18,668)	-
Pmts for intangible assets				(8,773)	-
Sale of Intangible Assets					316
Pmts for equity accounted investments				(7,306)	-
Pmts for financial instruments				(4,500)	-
Proceeds from sale of investments					3,047
Net cash inflow/(outflow) from investing activities	(360,596)	(82,611)	(238,976)	(260,299)	(19,944)
Cash Flows from financing Activities					
Dividends paid	(30,704)	-	(31,463)	(23,118)	-
Proceeds from issue of ANZ Debentures		214,666	630		-
Cost of issue of ANZ Debentures		(4,621)			-
Proceeds from the issue of ordinary shares		-		962	-
Costs of the issue of ordinary shares		-		(1,722)	(7,344)
Proceeds issue of TREES coupons	124,700				-
Cost of TREES issue	(4,994)				-
Payments of TREES coupons	(10,717)	-	(14,826)	(14,737)	(7,425)
Options exercised	1,681	160		150	-
Payment to Collateral Account for Repurchase of loans					(10,434)
Loans from/to related parties	(984)	-		(9,195)	(11,600)
Unit redemption				160	-
Receipts from borrowings	204,387	200,000	45,000	106,500	30,000
Repayments of borrowings	(168)	(203,429)	(3,029)	(4,647)	(5,445)
Net cash inflow/(outflow) from financing activities	283,201	206,776	(3,688)	54,353	(12,248)
Net decrease in cash held	168,540	(40,100)	(39,092)	(119,305)	(71,898)
Cash at the beginning of the reporting period	118,292	286,832	246,732	207,640	88,335
Cash at the end of the reporting period	\$286,832	\$246,732	\$207,640	\$88,335	\$16,437

Note: the ROF and RFM cashflow figures have been removed from the above consolidated cashflow as these are not administration entities. We make the following comments with respect to the consolidated cashflow:

- The above figures were extracted from the GS Group Companies management accounts and are unaudited, we provide no guarantee or warranties as to the accuracy or otherwise of the financial statements.

Historical Financial Information

- We wish to highlight that we are in the preliminary stages of reviewing the application of MIS application monies raised from the 2008 MIS sales as per section 8.13 in accordance with applicable scheme documentation. Our investigation into these issues is ongoing at this time.
- We note that the above cash balances exclude ROF as this is not an administration entity.

Review of the above cashflow statement indicates that the operating, investing and financing activities identifies that:

- **Cumulative net cash inflow from operating activity** of approximately \$332m in total over the period, with a peak in receipts from growers and securitisation in FY07 of \$635m. It is noted that **operating cashflow** for 2009 does not reflect the benefit of new MIS sales that are traditionally generated in May and June of each year.
- **Cumulative net cash outflow from investment activities** of approximately \$962m over the period relating to investment into investment properties, property, plant and equipment and biological assets exceeding over 90% of investment activity.
- **Cumulative net cash inflow from financing activities** of approximately \$528m, with approximately \$925m in gross debt raised over the period (inclusive of TREES) and \$234.9m in gross repayments over this period of time.

Directors' Statement of Position

5.1 Summary of Directors' Statements

Section 438B of the Act requires the directors to give an Administrator a statement about the company's business, property, affairs and financial circumstances ("RATA or Statements of Position"). We received the directors' statements on Tuesday 23 June 2009 after granting extensions to lodge the Statements given the complex structure of the GS Group.

The following summary of the consolidated statement of position has been set out with respect to the assets and liabilities in two broad categories, one being those entities subject to the Club Bank security and therefore fall under the control of the R&M, and the other being the entities that are not subject to the Club Bank securities and therefore fall to the control of the Administrators.

It should be noted that while the figures detailed below are based on the information provided in the directors' RATA's, the classifications may differ from those in the RATA's. We have set out at Annexures 3 to 37 the statements for each individual entity i.e. on a non consolidated basis and it is more appropriate for creditors to consider the specific entity annexure of which they are a creditor in order to determine their individual circumstances.

Furthermore, although the directors have based their RATA's on the figures from the balance sheet at Section 4.3 of this report, these figures differ for a number of reasons including:

- The summarised balance sheet includes GSFML and GSFMF, often referred to as RFM. Neither of these entities are in administration or receivership and accordingly their details are not included in the summary of the RATA's.
- Assets and liabilities are recorded in the balance sheet in accordance with relevant accounting standards, therefore classifications may differ and some consolidation adjustments may not be reflected in the RATA's.
- Intercompany loan accounts have been eliminated in the balance sheet summary but have not been eliminated in the tables below.
- Intercompany impairments that are recorded at the entity level and therefore are stated on the RATA have been reversed at the consolidated level and this again is reflected in the GS Group's balance sheet.
- The quantum of some liabilities were not finalised until after the balance sheets were completed.
- The RATA's include certain contingent liabilities that were included for additional disclosure purposes but are not required in the GS Group's balance sheet from section 4.3.

Directors' Statement of Position

Directors' Statement of Position	Section Ref	Admin Entities Net Book Value \$'000	R&M Entities Net Book Value \$'000
Assets Subject to Floating Charge:			
Cash	5.1(a)	2,898	8,448
Receivables	5.1(b)	37,072	44,320
Intercompany receivables	5.1(c)	276,317	1,454,325
Inventory	5.1(d)	1,664	6,005
Other assets	5.1(e)	132,405	315,572
Fixed assets not specifically charged	5.1(f)	-	286,155
Total Assets Subject to Floating Charge		450,356	2,114,825
Less			
Priority creditors	5.1(g)	-	4,495
Surplus of floating charge assets		450,356	2,110,330
Assets Subject to Fixed Charge:			
Property, plant and equipment	5.1(h)	39,582	260,702
Investments	5.1(i)	63,585	493,012
Other assets	5.1(j)	9,447	50,462
Total Assets Subject to Fixed Charge		112,614	804,176
Secured Creditors:			
Club Bank facility	5.1(k)	-	(375,863)
RAPT facility	5.1(l)	-	(223,556)
Other secured creditors	5.1(m)	-	(1,409)
Total Secured Creditors		-	(600,828)
Total Assets available to Unsecured Creditors		562,970	2,313,678
Unsecured Creditors	5.1(n)	(650,383)	(2,133,500)
Surplus/(Deficiency) Subject to costs and subject to qualifications available to Shareholders		(87,413)	180,178
Contingent Liabilities	5.1(o)	(135,833)	-
Surplus/(Deficiency) after contingent liabilities		\$(223,246)	\$180,178

Note The above tables excludes RFM and RFML which are subsidiaries in the GS Group as these entities are not in Administration or Receivership

Care should be taken in relying on the directors' statements for, but not limited to, the following reasons:

- The affairs of the GS Group are complex and whilst the statements have been prepared by the directors' on a good faith basis, the complexity of the GS Group means that the rights and obligations of certain entities are still being determined;
- Creditors need to consider their position and likely returns on an entity by entity basis;
- The Statement of Position and table is based on the consolidated GS Group's net book value set out in the books and records. These are opinions of the directors only and are not necessarily endorsed by the Administrators;
- We have not audited the GS Group's records or the Statements and have not disclosed the directors' ERV on a consolidated basis. For directors' ERV's on an individual entity basis please see the relevant annexure.
- The uncertainty in current financial markets makes it difficult to estimate realisable values with a high degree of certainty and the Administrators do not have the necessary funding in many of the administrations that would enable us to obtain independent third party valuations. Accordingly, we have not disclosed any Administrators' ERV's; and
- Management accounts used by the directors to prepare their RATA's have been prepared on a going concern basis.

5 Directors' Statement of Position

The above schedule should not be used to determine the likely return to creditors as a number of realisable values are based on the GS Group's records and remain subject to review by the Administrators and, in particular:

- The Administrators are not presently in a position to confirm (or otherwise establish) the asset values attributed by the directors and the GS Group records due to the confidential and commercially sensitive nature of such information to the sale/restructuring process;
- The value of creditor claims remains subject to change as further claims may be received and require adjudication; and
- The estimated position does not provide for possible future trading losses, capital costs or the professional costs associated with the administration and receivership process.

The following notes are provided in respect of the balances reported in the Statement of Position.

- (a) The **cash** balance is comprised of the following:

Cash	Admin Entities \$'000	R&M Entities \$'000
Operating bank account	2,358	8,110
Bank account - insurance/GST	-	50
Bank account - dividend & TREES coupons	-	185
Petty cash	3	5
Term deposits	537	98
Total	\$2,898	\$8,448

At the date of our appointment the majority of the **cash balances** of the GS Group were held with the NAB. As a result of existing contingent exposures of the NAB to the GS Group, the NAB has sought to retain monies totalling \$1.73m against those exposures. The monies are to be refunded if those exposures do not materialise.

Cash for each respective company is maintained in the name of that company and is identified separately for each entity in the respective company's Annexure.

- (b) **Receivables** stated by the directors are broken down as shown below:

Receivables	Admin Entities \$'000	R&M Entities \$'000
MIS loan receivable/trade debtors	86,282	19,373
Sundry debtors	4,130	30,774
Provision for doubtful debts	(53,510)	(6,892)
GST receivable	170	1,055
Managed fund reimbursable expense	-	10
Total	\$37,072	\$44,320

We make the following comments:

- **MIS loan receivables/trade debtors**, excluding the value of loans sold to BEN in the approximate book value amount of \$76.6m, predominantly consist of 717 loans held by GSF with a book value of approximately \$86.2m that are repayable over a period of up to June 2023. For further information pertaining to the collectability please refer to Annexure 17 of this report.

Directors' Statement of Position

- The **MIS loan receivables** carry a GSF provision of approximately \$52.4m, which includes specific and general provisions in relation to the on-balance sheet loan debtors and is included above in the provision for doubtful debts. This provision for doubtful debts was raised prior to the date of our appointment and therefore does not reflect an assessment of the recoverability of the balances following the commencement of the Administration.
- (c) As you will be aware, the GS Group does not have the benefit of a Deed of Cross Guarantee and therefore all assets and liabilities are considered separately and not on a pooled entity basis. This means that consideration must be given to the **intercompany receivables** between the entities in order to assess creditor returns.

We note that the statement displays the book value of intercompany debtor balances and the cost of investment in subsidiary companies as the estimated realisable value and that the recoverability and carrying value of these assets was determined by reference to the net asset or net liability position of the relevant GS Group company. This recoverability was determined without reference to the recoverable value of those loans in an Administration or Receivership scenario. Furthermore, we are in the process of reviewing each intercompany loan balance to evaluate the ERV with respect to each balance having regard to the company's circumstances. The recoverability of the balances will be subject to many variables, including the valuation of the assets and the realisations effected by the R&M. Many of those variables are not known at this time.

As the primary balances of intercompany loans are due and payable to GSMAL and GSL we note the balance of these receivables are \$430.5m and \$1,621.8m respectively coming from related entities within the GS Group.

- (d) **Inventory** consists of the following items:

Inventory	Admin Entities \$'000	R&M Entities \$'000
Chemicals and fertilisers	-	1,202
Timber and woodchips	1,664	3,532
Fuel	-	155
Seedlings	-	435
Other inventory	-	681
Total	\$1,664	\$6,005

We are continuing to review the realisable value of these balances and assess whether any potential ROT claims existed. The inventory is likely to be utilised by the businesses during the Receivership or Administration.

- (e) **Other assets** amounts comprise the following balances:

Other Assets	Admin Entities \$'000	R&M Entities \$'000
Deposits	22	2,680
Prepayments	161	7,681
Biological assets	131,484	92,074
Derivative financial instruments	-	(10,207)
Debentures in GSDH	-	214,666
Other current assets	738	8,678
Total	\$132,405	\$315,572

We make the following comments on other assets:

- The largest balance relates to debentures issued by GSDH. GSPT records this debenture asset in its balance sheet and also has a debenture liability to ANZ. GSDH has the debenture liability to GSPT.

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Directors' Statement of Position

- The balance of other assets is predominantly represented by **biological assets** as described in Section 4.3 of this report. For the Administration Entities this is represented by amounts invested in olives to the value of \$22m, interest in timber to the value of \$46m held in GSTH, and interest acquired in various MIS from GSPH to the value of \$63m pursuant to Project Transform. The biological assets represented in the R&M Entities are with respect to interests held in cattle assets pertaining specifically to GSCM and GSCH.
 - The above biological assets represent book values and the net realisable value may vary upon harvest and market realisation.
- (f) **Fixed assets not specifically charged** relate to those assets that are normally classed as fixed charge assets but which are not included in the secured creditors security. These can be summarised as follows:

Fixed assets not specifically charged	Admin Entities \$'000	R&M Entities \$'000
Land	-	23,029
Buildings	-	5,062
Motor Vehicles	-	1,385
Plant, equipment and office furniture	-	26,007
Trellis, drainage, irrigation, roads, dams and shedding	-	31,130
Leased plant & equipment	-	15,462
Asset impairment	-	(17,134)
Other fixed assets	-	23,202
Intangible assets	-	1,819
Investment property	-	33,040
Investment in subsidiaries	-	140,149
Equity accounted investments	-	3,004
Total	-	\$286,155

We make the following comments:

- For further details on the above assets please refer to Sections 5.1(h) and 5.1(i), where these asset types are commented on in aggregate.
 - Intangible assets** primarily relate to the goodwill from GSOP and land access rights that have been provided in respect of various scheme properties.
- (g) As noted earlier in this report, all of the employees of the GS Group are employed by GSL. In this regard the following entitlements allocated to **priority creditors** were stated as at 16 May 2009, along with a comparison to the R&M calculations:

Priority Creditors	Directors Book Value \$'000	R&M calculations \$'000
Wages	209	-
Superannuation	-	467
Annual leave	2,717	2,134
Long service leave	1,569	527
Redundancy/severance	-	2,113
Notice period	-	4,005
Total	4,496	\$9,246

There were approximately 419 employees of GSL at the date of our appointment. The above entitlements are per the Company's records and include contingent severance entitlements that may become payable depending upon the future treatment of employment obligations as follows:

- Redundancy/severance entitlements of approximately \$2.1m; and

Directors' Statement of Position

- Notice (payment in lieu) entitlements of approximately \$4m.

As the R&M are presently in control of GSL it will be the R&M's statutory obligation to make payment to priority creditors from available floating charge assets. We note that since 16 May 2009, there has been some reduction in annual leave liability through leave taken by the current employees. We note that the book values for employee entitlements calculated by management vary from the calculations provided by the R&M.

(h) **Property plant and equipment** amounts comprise of the following balances:

Property, plant and equipment	Admin Entities \$'000	R&M Entities \$'000
Land	30,922	258,475
Buildings	1,149	-
Motor vehicles	194	815
Plant, equipment and office furniture	10,098	-
Trellis, drainage, irrigation, roads, dams and shedding	21,265	-
Leased plant and equipment	376	1,412
Asset impairment	(31,996)	-
Other	7,574	-
Total	\$39,582	\$260,702

We make the following comments in respect of the property, plant and equipment:

- The above assets are recorded at NBV. We are not able to comment with respect to the ERV of those balances other than to note that the book value of the combined assets determined in accordance with the GS Groups policies, was attributed a total value of \$408.4m;
- The Administration entities' **land** is shown at cost and represents interest in almonds (which includes 535 hectares), and olive plantations (7,995 hectares);
- We note that the R&M entities' **land** is shown at cost and, including the land not subject to specific charges, represents interest in cattle properties (which includes 3.86m hectares), vineyards (which includes 4,550 hectares) and plantation land not classified as Investment Property;
- We note that most of the above **land** is subject to MIS encumbrances and the realisable value will be subject to the rights and impact of such encumbrances. For the sake of clarity, such encumbrances relate to the contingent claims that Growers may have against each scheme with respect to their investment;
- The largest pool of **motor vehicles** is held by GSL and had a NBV at our appointment date of approximately \$476,000;
- The majority of **plant, equipment and office** furniture held by the administration entities pertains to the following companies; GSOL, GSOH and GSOP, while the majority held by Receivership entities pertains to GSCM, GSFNT, GSL and GSVHPL (for further information please refer to each individual annexure);
- Improvements in relation to the above represent irrigation, trellis and other improvements pertaining to the infrastructure, upkeep and maintenance of the olive and vineyard Schemes;
- The **asset impairment** provisions of \$32m and \$17m (see section 5.1(f) above) represent the directors' opinion as to a fair value decrement adjustment of the olive and vineyard assets in **property, plant and equipment** as at 16 May 2009;
- Included in **other**, including the other assets not subject to specific charges, is \$16.8m of water licences held within the R&M entities, of which \$13m are held by GSFNT.

5 Directors' Statement of Position

- (i) The total **investments** balance of \$63.5m noted in the above statement predominately represent GSHVT investment property (approximately \$55.7m) and GSIPL's ownership of 50% equity in the Hansol project which equates to a fair value of approximately \$4.7m. Please refer to the GSHVT and GSIPL Annexures for further information.

With reference to the investment balance of \$671m in the R&M entity, this includes the following:

Investments	Admin Entities \$'000	R&M Entities \$'000
Investment properties	57,159	493,012
Intangible assets	888	-
Investments in subsidiaries	805	-
Equity accounted investments	4,699	-
Investments in MIS	34	-
Total	\$63,585	\$493,012

We make the following comments:

- The encumbered **investment properties** are recorded and measured at fair value as determined by the directors. The above figure of \$493m, plus the investment property not specifically charged of \$33m, pertains to those scheme properties which are currently subject to the control of the R&M.
- The figures provided in the above table are not represented on a consolidated basis whereby investments in subsidiaries would otherwise be subject to the process of elimination on consolidation in the annual accounts. As there is no Deed of Cross Guarantee in respect of these GS Group Companies, the above investments in subsidiaries have been recorded at gross value.

We make no representations with respect to the ERV of these amounts as the realisable value will be subject to change, and value will typically only be recoverable if there are surplus assets available after dividends to unsecured creditors.

- (j) **Other fixed charge assets** comprise the following balances:

Other Assets	Admin Entities \$'000	R&M Entities \$'000
Yield Asset	-	50,462
Security deposit	9,445	-
Other	2	-
Total	\$9,447	\$50,462

We make the following comments:

- BEN holds a cash security deposit in the amount of approximately \$18m as collateral security for non conforming loans acquired from GSF. We note the directors have included a provision for non conforming loan arrangements of \$8.7m against this deposit, therefore reducing the net book value to \$9.4m as shown above. We are currently assessing the recoverability of these deposits. At Annexure 17 of this report we discuss the position of BEN and the deposit in further detail.
- The \$50.46m under the R&M column relates to the Yield Assets which are recorded in the balance sheet of GSPLM as trustee for GSPT. These assets are discussed further in section 5.1(l) and at Annexure 14 and Annexure 27.

Directors' Statement of Position

- (k) The **Club Banks hold various fixed and floating charges**, as well as specific mortgages over assets of the GS Group. As shown below, ANZ Fiduciary Services Pty Ltd acts as the security trustee for the Club Banks and resolved to appoint an R&M over the relevant GS Group entities on 18 May 2009 pursuant to those various fixed and floating charges registered in their favour. The summary of entity charges has been set out Annexure 2 of this report.

Club Bank Facility	Amount \$'000
Mizuho	75,000
ANZ	128,621
BankWest	122,242
CBA	50,000
Total	\$375,863

- (l) In 2006 the GS Group entered into a structured finance transaction with the ANZ Bank known as the **RAPT facility** in order to raise \$216m in debt proceeds. The **RAPT facility** comprises two tranches which accrue interest at different rates:

- Tranche A of \$151m; and
- Tranche B of \$65m.

The GS Group used \$75.8m of these borrowings to purchase a fixed derivative investment in return for periodic future cashflows (the Yield Asset), which is used to service the interest expense on Tranche A of the borrowings. The Yield Asset's value amortises to nil as it approaches maturity in 2012.

The remaining balance of the RAPT borrowings were used to fund the GS Group's expansion through land/asset acquisitions and working capital.

The RAPT debt is secured by property mortgages over 422 properties owned by GSPT and the Yield Asset. A schedule of charges has been set out at Annexures 14 and 27.

- (m) **Other secured creditors** relate to specific finance taken out against assets, such as hire purchase and finance lease creditors.
- (n) **Unsecured creditors** consist of:

Unsecured Creditors	Admin Entities \$'000	R&M Entities \$'000
Intercompany loans	422,270	1,780,733
TREES	-	209,795
Trade creditors	3,147	11,464
Other creditors	3,156	82,828
GSDH debentures	214,666	-
Unsecured loans	7,144	-
Deferred MIS revenue	-	48,680
Guarantors	TBD	TBD
Total	\$650,383	\$2,133,500

In respect of the above table, we make the following comments:

- **Intercompany loans** represents monies owed by GS Group entities from funding sources received by GSL, GSMAL, GSF, GSEC and GSPT;
- **TREES** are resettable convertible notes (debt instruments with interest payable to the note holders). The parties to the TREES deeds can elect to convert their convertible notes into equity in GSL upon certain conditions being met by the parties to the deeds;

Directors' Statement of Position

- **Trade creditors** were primarily incurred in the maintenance of the Schemes, with particular reference to the plantations and cattle assets.
 - **Other creditors** include a provision for land assessment of \$53.5m in GSL
 - The **GSDH debentures** relate to the debenture asset recorded in GSPT1 and as discussed above at section 5.1(e).
 - **Unsecured loans** relate to the following balances:
 - An amount of \$187,340 is owed by GSF to JAM in respect of loan collections made during the first half of May prior to our appointment (i.e. 1 May 2009 to 16 May 2009) where payments on loans sold to JAM were paid into GSF's pre-appointment bank account, and had not yet been remitted by GSF to JAM. These amounts are still held by GSF, and rank as an unsecured claim by JAM against GSF.
 - Similar to the above, an amount of \$1.2m was remitted by borrowers of loans sold or assigned to BEN into GSF's pre-appointment account, and had not been remitted by GSF to BEN at the date of my appointment.
 - A further amount of \$5.8m is owed to the CBA which consists of the recognition of GSF's liability to purchase back loans previously sold to CBA should they fall into arrears of more than two months. The loans represented by the \$5.8m had not yet been claimed by the CBA, but were in arrears and GSF expected a claim in respect of these to be forthcoming.
- (o) **Contingent liabilities** recorded against the Administration entities is represented by the following provisions:
- GSAH provision of \$106.2 million for an onerous lease liability. This represents the balance on the lease agreement with Riverbank for the lease of Almond scheme land, which is only sub leased to GSMAL from GSAH for a peppercorn rent. We note that Riverbank is a related entity of GSL, through Riverbank's parent company, ROF. Refer to GSAH annexure 11 for further details.
 - GSF provision of \$17 million for BEN financed Project Transform loans where the security deed transfer form has not been returned. Refer to GSF annexure 17 for further details.
 - GSTH provision of \$12.7 million relating to timber owned by GSTH that is expected to be required to top up shortfalls in MIS projects across the group. Refer to GSTH annexure 30 for further details.

5.2 Causes of Failure

The directors of the GS Group entities provided the following information with respect to their opinion as to the key reasons for failure of GSL and the GS Group entities:

- *The global financial crisis ("GFC") undermining investor, equity and debt market confidence, and affecting the level, timing and quantum of MIS sales, asset sales and the availability of alternative sources of funding;*
- *Reduced investor confidence in MIS generally, because of, amongst other things, the ATO's position on non-forestry MIS and the deteriorating reputation of the MIS industry generally, impacting the company's ability to generate MIS revenue in the current financial period prior to our appointment;*
- *The potential lack of MIS securitisation funding facilities (notwithstanding the company had paid a facility fee for such funding to be available);*

Directors' Statement of Position

- *The appointment of voluntary administrators to one of the company's major competitors, Timbercorp Ltd, in April 2009 causing further erosion of confidence by MIS investors and equity and debt markets, and increased regulatory concerns which led to the withdrawal of project product disclosure statements; and*
- *As a result of these deteriorating economic and market conditions, the company sought additional debt funding however, despite being offered substantial additional security and having an advanced business plan in place including the sale of substantial assets, the company's Club Banks declined the request for additional funding.*

With respect to GSMAL and subsidiaries of GSL (refer to Annexures for specific comments regarding each entity), the directors of the GS Group provided the following principal factors which contributed to the failure of the subsidiaries:

- *The failure of GSMAL's ultimate holding company, GSL, which became apparent as a consequence of communications received on 15 May 2009 indicating the Club Banks would decline the bridging finance proposal presented by GSL;*
- *GSMAL operated as part of a group of companies. Day to day operations involved a significant degree of financial interdependence between group entities including inter-company receivables, a GS Group treasury function and security arrangements to external financiers. Although it appears to have a strong balance sheet its business model involved long lead times before receiving funds in the form of a share of harvest proceeds;*
- *In that context, the failure of GSMAL's ultimate holding company, GSL, and pre-existing security arrangements meant the Company could not raise alternative working capital to fund its ongoing commitments as and when they fell due;*
- *Inherent risks associated with a business model that was heavily reliant on new MIS sales as a core business. Diversification of the business model came at a significant financing cost. Many of those assets that the GS Group divested were in early development phases, and therefore not performing at optimal levels and vulnerable to market shifts and value diminution; and*
- *As a business with a core focus on MIS sales, GSL had developed well established marketing and distribution channels for the creation of new sales each financial year. These distribution channels created a significant cost structure whereby upfront costs, including a referral fee of up to 10%, in addition to sponsorship, marketing and administration allowances, that were provided to the distribution network and that ultimately impacted the margins that were retained within the business to fund future commitments.*

In addition to the above comments by the Directors', we have identified the following causes of failures from our preliminary review of the financial records and the business:

- *Inherent risks within agricultural businesses that were susceptible to commodity prices and limited ability to increase application fees to adequately fund future costs from other sources of funding;*
- *The rapid pace of growth and asset acquisitions within the business model. During the 2008/2009 financial year it became apparent that asset expansion was at odds with the company's ability to maintain reliable MIS revenue streams year on year to meet cashflow and to meet working capital commitments;*
- *The availability of adequate funding to meet the rising cost of land, together with the significant impact of financing costs. In the past, GSL had the ability through MIS revenue to fund the acquisition of hardwood plantation land. However with the significant rise in the cost of plantation land and existing working capital commitments, external funding was relied upon to meet project cost through to completion;*
- *Failure of some agriculture projects, investments and business units to deliver adequate returns (for various reasons from drought through to development in viticulture practices), which ultimately required supplemented funding from GSL;*

Directors' Statement of Position

- The compounding impact of significant loan write offs as a result of increasing borrower defaults (this is with respect to those loans that were funded by GSL and not securitised through an external financier); and
- Management of the risk associated with the GS Groups' heavy reliance on a predominant source of revenue (e.g. MIS sales) and consequential vulnerability to regulatory changes that impact on such sales.

Trading by Administrators

6.1 First day tasks and controls

Immediately following our appointment, the Administrators and their staff attended to the following critical tasks and have continued to monitor these tasks during the course of the Administration to the extent that the R&M have not assumed control and responsibility for those functions:

- Initiation of the review of the adequacy of the insurance policies for the GS Group;
- Requested a copy of certain limited valuations obtained in respect of the GS Group's property;
- Development and implementation of a communications strategy to address enquiries from the media, investors, creditors, employees and shareholders;
- Addressed the requirements for ongoing operations, including the establishment of new trade credit accounts (as/when appropriate) with suppliers and service providers, and initiated a centralised process for the authorisation of purchase orders;
- Negotiated with key operating contractors for continued services;
- Visited sales office in Melbourne and site visits in regional offices and addressed employees;
- Identification of asset locations and ownership;
- Communication with interested parties;
- Statutory reporting to creditors and ASIC;
- Calling of the first meeting of creditors; and
- Securing the GS Group's assets.

6.2 Specific trading by Administrators

The Administrators assumed control of the business upon appointment. As part of this, we met with GSL management to address the urgent trading issues facing the GS Group. These included:

- Ensuring continuation of the olive harvest as a priority and reaching an agreement with the harvest contractors and those providing the associated services. These responsibilities (and the arrangements) were assumed by the R&M upon their appointment on the 18 May 2009;
- Attending to the collection of the GSF loan book and dealing with investor and authorised representative queries with respect to GSS;
- Ensuring the continuation of GSTH timber sales to HPI and required haulage services. This required facilitating a short term funding arrangement with HPI. The funding arrangement with HPI also currently involves HPI making the payments in relation to GSTH's obligations to its landowners under the various *Profit a Prendre* agreements;
- The Timber Sale and Purchase Agreement in connection with HPI obligations above contained a requirement to provide an unconditional bank guarantee which resulted in GSI entering into an agreement with PIPL to fund the shareholder contribution;
- Attending to the outstanding olive harvests and liaising with appropriate staff in undertaking this procedure and facilitated a hand over to the R&M upon their appointment. The Administrators understand that the R&M entered into an arrangement in relation to the remaining olive harvest which resulted in GSOP entering into a short term agreement with a third party to process a portion of the olives resulting from the harvest. This has now been completed; and

Trading by Administrators

- Transferring of the pre-appointment bank accounts of the GS Group to administration bank accounts to fund short term working capital requirements to GSOP and two short term payments that needed to be made being:
 - (a) Petty cash for fuel for the GSOP staff to attend site for HSE monitoring; and
 - (b) Payment to at least one contractor of the pre appointment balance as agreed by FH staff prior to the appointment of the R&M.

The appointment of the R&M has resulted in their assumption of the majority of the trading subsidiaries, with the exception of GSTH, GSOP, GSF, GSI, GSOC, GSOH and GSS.

With respect to the GS Group MIS schemes and the R&M activities, the following is a summary of current developments that have been brought to our attention at the time of preparing this report:

- On the 30 September 2009, the R&M of GSMAL issued notices under section 419A of the Act advising a number of lessors of properties that the R&M of GSMAL no longer intended to use, occupy or be in possession of the leased property of the following property leases:
 - (a) GSAH - Moorah and Yilgah properties and those leases with lessor Rural Funds Management Limited;
 - (b) GSYL - All Tiwi Island leases;
 - (c) GSPML - All 2004 and 2005 Pulpwood forestry leases;
 - (d) GSHVT - Campagnolo property lease under HVT.

Accordingly, as the Administrators are unfunded it was necessary for us to issue section 443B notices under the Corporations Act to avoid personal liability and disclaim the above leases.

- As at the date of this report, we are yet to receive the MIS viability assessments on the majority of the GS Group MIS schemes and are therefore unable to provide comment on those schemes and assessments.

Subject to the outcome of the R&M's assessment on the viability of the MIS projects, the R&M will be in a position to present options in relation to the future of the assessed schemes. In the event that the R&M determines that the schemes are unviable and therefore no longer seek to achieve the schemes intended purpose, the RE will have the option to issue Section 601NC notices under the Act.

Section 601NC Notices signals the RE's intention to wind up the scheme. The investors of the affected schemes will then have 28 days in which to call a meeting to propose an alternative. In the event that no meeting is held by the investors, the RE may wind up the scheme. On a winding up of the schemes, the investors will be entitled to scheme assets in the event of surpluses.

At the date of preparing this report, we were advised by the R&M that they were preparing to issue section 601NC notices for the following schemes:

- Sylvatech Tropical Timbers 2003 (ARSN 103 855 821); and
- Sylvatech Tropical Timbers 2004 (ARSN 107 390 796).

Finally, we refer you to the remuneration report in Annexure 38 for details on the receipts and payments incurred during the Administration period for the entities to which the Administrators have been appointed over and have traded during this period of time.

We note that the R&M is required to lodge with ASIC the six monthly accounts of receipts and payments that have occurred under his receivership. The six month anniversary will be 18 November 2009 with lodgement required within 30 days of that time.

7.1 Sale of Assets

As detailed above, the appointment of the R&M on 18 May 2009 resulted in our loss of operating control of GSMAL, as the RE for the MIS' was assumed by the R&M. Whilst the R&M are in control of the MIS projects, through their appointment as R&M of GSMAL, the Administrators have been in control of certain other GSL subsidiaries which hold the underlying assets relevant to the MIS projects. In light of the uncertainty surrounding the future of the MIS projects and in order to maximise the potential for a restructuring of the MIS projects, the Administrators have not actively commenced a realisation process for the individual underlying assets.

According to the report received from the R&M, they have realised the following assets of the GS Group:

- Cattle station Wrotham Park for in excess of \$48m;
- Cattle station Chudleigh Park for in excess of \$28m; and
- Cattle for in excess of \$6m.

We are not aware and have not been advised of any other assets that have been realised by the R&M. Upon completion of any receivership it is usual to receive a full accounting for activities, realisations and costs at that concluding stage from the R&M, prior to its retirement.

In a similar way, the appointment of the R&M has also meant that control of the assets not subject to the MIS projects is shared between the R&M and the Administrators. At this stage, the Administrators have, concentrated on soliciting parties interested in restructuring the GS Group as a whole as set out in section 9 of this report.

8 Statutory Investigations

8.1 Nature and Scope of Review

The Act requires an Administrator to carry out preliminary investigations into a company's business, property, affairs and financial circumstances, and the conduct of its directors, related parties and advisers in the period prior to our appointment.

As noted, these investigations are preliminary. It is also noted that the investigations have been limited to date as a result of factors that include:

- (a) Restrictions on our access to the books and records of the GS Group as those records are in the possession and control of the R&M of GS Group;
- (b) Restriction or delay in receipt of information from third parties that have previously acted as advisors to the GS Group;
- (c) The limited availability of the relevant GSL accounting staff and GS Group management due to the competing requirements of the ongoing businesses and Schemes under the R&M control. This has limited our ability to extract information in the form required and to explain various transactions and decisions;
- (d) Given (a), (b) and (c) above we have not been in a position to undertake interviews of key individuals to test the rationale for and seek explanations of certain of the transactions of interest; and
- (e) The relatively short time available to us to complete our investigations given the complexity of the administration, and report to creditors, and still allow creditors adequate time to consider the issues raised prior to the second meeting.

The investigations that an Administrator is required to undertake centre on identifying and investigating transactions entered into by each company that a liquidator might seek to void or otherwise challenge where the company is wound up. Investigations allow an Administrator to advise creditors what funds might become available to a liquidator such that creditors can properly assess whether to accept a DOCA proposal or resolve to wind up the company.

Funds recovered would be available to the general body of unsecured creditors, including secured creditors but only to the extent of any shortfall incurred after realising their security.

A liquidator may recover funds from each type of transaction detailed in the Creditor Information Sheet described in Annexure 39 of this report. A deed administrator does not have recourse to these voidable transactions. A liquidator may also recover funds through other avenues; for example, through action seeking compensation for insolvent trading or breach of director duties.

An Administrator is not obliged to carry out investigations to the same extent as a liquidator. A liquidator may require many months of investigation and conduct public examinations before forming a concluded view on recovery action. We have investigated matters to the extent possible in the time available, and have noted with specific reference below where we believe further investigation is desirable.

The Administrators' knowledge of each company's affairs comes principally from the following sources (to the extent they have been available):

- (a) Communications with significant unsecured creditors of the GS Group regarding the nature and amount of the debts owed, and the circumstances in which those debts were incurred;
- (b) Communications with the secured creditors regarding the nature and amount of the debt owed;
- (c) The directors' statement and a detailed questionnaire (submitted for each separate entity) concerning the GS Group's affairs prepared by the directors;

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- (d) Discussions with some of the directors, management and their advisors;
- (e) Discussions with third parties that have transacted with the companies;
- (f) A search of the ASIC records relating to the company and any related entities;
- (g) Searches and publicly available information from the ASX;
- (h) Audited annual reports published by the company, and other significant information disclosed to investors or the public market;
- (i) An examination of the company's books and records including its financial statements and management accounts (to the extent that such were made available to us).

An Administrator has an obligation to each company to which he is appointed and must consider the conduct of directors and other parties with respect to each company, and the interests of that company. We have included an overview of the solvency and investigations into the GS Group as a whole below, and refer you to Annexures 3 to 37 which contain our findings in relation to individual entities within the GS Group.

Areas of Investigation

The key areas of our investigations have included the following:

- (a) The reasons for the failure of the GS Group Companies;
- (b) Assessment of the solvency of the GS Group companies and consideration as to whether insolvent trading by the directors of the GS Group has occurred;
- (c) Consideration of the decisions and duties of the directors of the GS Group to identify any potential instances of negligence or breaches of duty, including review of:
 - (i) Project Transform transaction involving GSL and GSMAL between August 2008 and February 2009;
 - (ii) Sale of the portion of the loan book by GSF in March 2009;
 - (iii) Use of MIS application monies by GSMAL from previous year's projects as against scheme requirements and rules; and
 - (iv) Disclosure requirements of GSL and GSMAL in connection with the harvest of the 1994 timber projects and subsequent years.
- (d) A review of whether any companies have entered into any voidable transactions that would be recoverable by a liquidator; and
- (e) Consideration of any potential negligence or breaches of contract or duty by professional advisers of any companies within the GS Group.

8.2 Solvency of the GS Group

A precursor to the recovery of funds by a liquidator through the voiding of certain transactions or through other legal action, such as seeking compensation from directors for insolvent trading, is establishing the company's insolvency at the relevant time.

Establishing insolvency is a complex matter due in part to the complexity of corporate financial transactions and the lack of clear prescriptive legal authority on the indicia of insolvency.

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Notwithstanding, there are two primary tests used in determining a company's solvency, at a particular date, namely:

- Balance sheet test; and
- Cashflow or commercial test.

The Courts have widely used the cashflow test in determining a company's solvency at a particular date.

Section 95A of the Act also contains a definition of solvency. That definition reflects the commercial test in stating that a person is solvent if *"the person is able to pay all the person's debts as and when they become due and payable"*. A company that is not solvent is insolvent.

However, the strict application of the cashflow test is not the sole determinant of solvency. Determining solvency derives from a proper consideration of a company's financial position in its entirety and in the context of commercial reality. Relevant issues include, but are not limited to the following:

- (a) The degree of illiquidity. A temporary lack of liquidity is not conclusive of insolvency;
- (b) Regard should be had to:
 - Cash resources; and
 - Monies available through asset realisations, borrowings against the security of assets or equity/capital raising.
- (c) All of a company's assets might not be relevant when considering solvency. For example, where a company proposes selling assets which are essential to its business operations, the proceeds of those assets should not be taken into account. Further, some assets may not be realisable at all or realisable for sufficient value or in time to ensure that debts are paid when due;
- (d) The voluntary and temporary forbearance by creditors not to enforce payment terms; and
- (e) It is not appropriate to base an assessment of whether a company can meet its liabilities as and when they fall due on the prospect that a company might trade profitably in the future.

In summary, it is a company's inability using such resources as are available to it through the use of its assets, or otherwise, to meet its debts as they fall due, which indicates insolvency.

8.3 Director's Liability

Insolvent trading is governed by Division 3 of Part 5.7B of the Act and imposes on directors individually a statutory duty to prevent insolvent trading by corporations.

Section 588G(2) of the Act provides that a director who fails to prevent a company from incurring a debt at a time when the director is aware that there are reasonable grounds for suspecting that the company is insolvent, or will become insolvent by incurring that debt or debts including that debt, contravenes section 588G of the Act. This may result in a civil penalty under the Act. For example, a compensation order in favour of the company under section 588J of the Act.

Section 588G(3) of the Act provides that if the director's failure to prevent the debt being incurred when the director suspected that the company was insolvent, or would become insolvent by incurring that debt or debts including that debt, and the director's failure to prevent the company incurring the debt was dishonest, then the director commits a criminal offence.

For civil liability to apply:

- (a) The person must be a director at the time the debt was incurred;
- (b) The company must be insolvent at the time the debt was incurred, or becomes insolvent by incurring the debt; and

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- (c) The director must be aware of insolvency, or there were reasonable grounds for a person in that position to suspect insolvency.

Importantly under section 588M of the Act a liquidator may seek, from a director who has breached the insolvent trading provisions, compensation for losses suffered by creditors. This is not a right available to an administrator or a deed administrator.

Section 588H of the Act sets out defenses available to directors in respect of civil claims under section 588G(2), they are:

- (a) The director had reasonable grounds to expect that the company was solvent and would continue to be solvent when the debt was incurred;
- (b) The director relied on a competent and reliable person to provide information regarding the company's solvency and, on the basis of the information so provided, the director expected the company was solvent and would continue to be solvent when the debt was incurred;
- (c) Due to illness (or other good reason) the director was not involved in the management of the company; and
- (d) The director took all reasonable steps to prevent the debt being incurred.

8.4 Holding Company Liability

Sections 588V and 588W of the Act set out grounds where a holding company may be held liable for insolvent trading by a subsidiary. As GSL is the ultimate parent entity of the GS Group, it is appropriate that and consideration be given to this, in the context of any potential insolvent trading claims that may arise in relation to the subsidiary entities.

We have commented where appropriate in the Annexures dealing with each specific subsidiary. Based upon our limited investigations to date, the nature and extent of GSL's control over the GS Group's operations, and the commonality of several directors between the entities, there is a reasonable expectation that GSL and its directors had knowledge of the financial position of the subsidiary entities. The directors of GSL have noted that reporting to the Board was completed on a consolidated basis.

We also note that the Courts have held that, as a defence to such proceedings against a holding company, the holding company may off-set any claim by a liquidator under section 588W against monies owing under an intercompany loan account and we refer you to the Annexures dealing with the individual entities in this respect for specific commentary for the relevant entities.

In any event, the commercial merit of pursuing an insolvent trading claim against GSL as the holding company would need to be carefully considered given that GSL is itself insolvent.

8.5 Chronology of Events

We have considered the relevant events leading up to the date of our appointment as Administrators and set out below a summary chronology of these events:

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Date	Event
Board meeting on 30 June 2008	<p data-bbox="483 434 1396 517">GSL Board discussed a group cashflow forecast through to September 2009, noting that MIS sales for the year ending 30 June 2008 were expected to realise approximately \$304m, some \$46m less than the April 2008 reforecast of \$350m.</p> <p data-bbox="483 546 1396 712">This group cashflow forecast, known as Plan B, was prepared on the basis that Project Transform was totally unsuccessful and MIS sales for the 2009 financial year would total \$250m. On the basis that at least some aspect of Project Transform would be successful, this forecast was considered by the Board at the time to be the potential worst case scenario and the base case to which management must provide cashflow guidance.</p> <p data-bbox="483 741 1396 846">The Plan B base case cashflow forecast revealed that in the absence of further initiatives, cash on hand would be negative from November 2008. In order to achieve positive cash balances through to 30 September 2009, a combination of operating cost reductions, asset sales and the sale of the GSF loan book were required.</p> <p data-bbox="483 875 1396 958">It was noted that, although the secured financiers' operating cashflow covenant as at 30 September 2008 was potentially manageable, the secured financiers were to be approached to vary the covenant to ensure compliance.</p> <p data-bbox="483 987 1396 1070">The directors resolved that there was a continuing reasonable expectation that sufficient financial resources were available to the group within suitable timeframes to ensure all obligations could be met when and as they fell due.</p>
Board meeting 12 August 2008	<p data-bbox="483 1093 1396 1236">Board was advised that GSL had sought an increase of \$50m in loan facilities from its secured financiers. GSL agreed to provide specific mortgages over existing cattle stations and any unencumbered pulpwood land resulting from a successful Project Transform outcome. These assets were already covered by the secured financiers' fixed and floating charges in any event.</p> <p data-bbox="483 1265 1396 1326">Based upon what was considered by the Board at the time to be the current "likely case" the cash balances would remain positive through to 30 June 2009.</p>
Board Update 19 August 2008.	<p data-bbox="483 1339 1396 1400">Board noted that there was discussion ongoing with the GS Group's auditor with regard to the going concern emphasis and final sign off on the accounts.</p>
Board meeting 23 September 2008	<p data-bbox="483 1422 1396 1568">It was noted that certain of the secured financiers were considering providing a \$30m bridging loan facility to GSL. The Board considered this loan facility was required and noted that it was their preferred position that cash on hand should always exceed \$20m. Actual cash on hand of \$105.3m as at 31 August 2008 exceeded budget by \$5.3m.</p> <p data-bbox="483 1597 1396 1680">The Board was advised that GSL's secured financiers had agreed to amend the operating cashflow covenant for the period ending 30 September 2008, such that GSL would be in compliance with the covenant.</p>
Board meeting 28 November 2008	<p data-bbox="483 1697 1396 1758">Board was presented with revised 10 month cashflows to 30 September 2009. These cashflow forecasts assumed no financial cashflow benefit from Project Transform.</p> <p data-bbox="483 1787 1396 1933">Three MIS sales scenario assumptions were considered (being \$250m pa, \$200m pa and \$150m pa) and acted as sensitivity cases to assess the impact of the different sales outcomes for 2009. All three cases showed positive cash balances through to 30 September 2009, although the two lower MIS sales cases foreshadowed potential secured facility covenant breaches for the period ending 30 September 2009.</p> <p data-bbox="483 1962 1396 2045">Board discussed the going concern emphasis set out in the draft <i>Appendix 4E - Preliminary Final Report</i> and maintained the view that the GS Group was a going concern.</p>

Statutory Investigations

Date	Event
Board meeting 4 December 2008	Board agreed to adopt the MIS sales assumption of \$150m pa as the one to be presented to Board.
Board Meeting 14 December 2008	<p>Board was presented with a number of cashflow scenarios. The results of these scenarios showed that unless at least one of the beef cattle Project Transform proposals was accepted, GSL would potentially be in breach of its operating cashflow covenant for the period ending 30 September 2009.</p> <p>Board noted that if Project Transform did not result in a successful outcome, or MIS sales were unexpectedly low, or the planned sale of assets did not proceed, then there was significant uncertainty as to whether GSL would continue as a going concern. Notwithstanding this, having regard to circumstances at the time and based on external advice from the Consulting Firm, the Board unanimously resolved that GSL would continue as a going concern. We note that we have requested a copy of all the Deloitte's files and letters of advice and have not sighted any written advice to this effect.</p>
Board meeting 22 January 2009	Following both cattle project investors agreeing to swap drove interests for GSL shares, an updated cashflow forecast was presented to the Board that included the new cattle interests and \$150m pa MIS sales. The sale of the loan book at \$33m and other certain asset sales were identified as key to maintaining a positive cash balance and meeting secured financiers' covenants.
Board meeting 3 February 2009	<p>Board was presented with a weekly cashflow forecast following the reduction in the expected loan book proceeds down to \$22m and the reduction in asset sales proceeds. It was noted that the secured financiers' covenants to 31 March 2009 were expected to be met, however this included an MIS sales expectation for March 2009 increasing from \$2.2m to \$15.5m. The lowest cash balance was forecast at \$4.1m at 30 April 2009.</p> <p>The Board noted that the Consulting Firm had been engaged to independently review these cashflow forecasts.</p>
Board Meeting 12 February 2009	Board noted that GSL had been placed in one of the Club Bank's loan workout group and that the secured financier advised that it wanted to appoint an independent reviewing accountant.
Board Meeting 16 February 2009	Board noted that the secured financiers had agreed that GSL was not in default of its financing arrangements. GSL agreed that the Consulting Firm would provide a report covering cashflows and security position over the following four weeks. It was also noted that McGrathNicol, acting on behalf of the secured financiers, would review this report.
Board Meeting 25 March 2009	<p>Board noted that the expected realisation of proceeds from the sale of the GSF loan book by 31 March 2009 was \$16m.</p> <p>Board noted the view of the Consulting Firm that the cashflow forecast was robust and that any potential appointment of a receiver or voluntary administrator by the secured creditors would destroy the value of the GS Group and be detrimental to stakeholders.</p> <p>Board also noted that the Consulting Firm was comfortable that the GS Group was undertaking a comprehensive daily assessment, that cashflow visibility was very strong and there was a reasonable basis to continue as a going concern.</p>
31 March 2009	<p>Sale of GSF loans to JAM was completed for consideration of \$9m (being \$8m cash and \$1m retention payable in the future).</p> <p>The secured financier covenants as at 31 March 2009 had been met.</p>

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Date	Event
Board Meeting 7 April 2009	Board was advised that that on 31 March 2009, approximately \$23.5m of performing GSF loans were sold to JAM for \$9m. Board was also advised that GSL had satisfied the secured financiers' cash covenant as at 31 March 2009. Board was advised of accelerated cattle sales in April 2009 (\$15m) and May 2009 (\$9m). It was noted that the lowest forecast cash balance was expected to be \$4.1m for the week ending 15 May 2009.
8 April 2009	GSL announcement released to the ASX stating that GSL elected not to pay the 30 April 2009 Coupon in respect of TREES2, and to defer the 30 April 2009 coupon payment in respect of TREES3.
Board Meeting 23 April 2009	Board was advised that GSL had approached its secured financiers seeking a bridging loan of \$65m, the purpose of which was to provide working capital in anticipation of \$15m pending assets sales, \$30m should MIS sales not eventuate and \$20m to buy back TREES notes.
Board Meeting 30 April 2009	GSL's financial and legal advisors attended the meeting by invitation. Board noted that on 8 April 2009 it had made specific reference in an ASX announcement that " <i>it was working with banks in relation to working capital requirements</i> ". The company's legal adviser in attendance confirmed that GSL continued to satisfy ASX and company disclosure obligations accurately and correctly articulated the current position of the company.
Board Meetings 4 May 2009 6 May 2009 7 May 2009 11 May 2009 15 May 2009 16 May 2009	A series of board meetings, usually attended by GSL's financial and legal advisers, were held to address mainly financial and cashflow matters. Following advice on 15 May 2009, that the secured financiers were unwilling to provide the bridging loan facilities sought, the Board resolved, upon taking legal advice, to appoint a Voluntary Administrator.
16 May 2009	Appointment of Voluntary Administrators over the entities set out in Annexure 1.
19 May 2009	Appointment of R&M (to certain entities).

The above events demonstrate that concerns as to the future cashflow prospects of the GS Group were raised at the Board level, as early as the end of June 2008 when the Board first became aware that revenue from MIS sales was likely to be substantially below budget (shortfall of \$55m to budget) for the 2008 financial year. Continuing through late 2008 and early 2009 there were a series of initiatives considered by the Board in order to ensure that the business could operate as a going concern, and upon which the directors will seek to rely to demonstrate that they held reasonable grounds for believing the companies were solvent. Notwithstanding, it is clear that there was an increasing amount of pressure on and attention to the GS Group's resources and cashflow from June 2008 through to the date of the appointment of the Voluntary Administrators.

8.6 Assessment of GS Group Solvency

The Administrators are obliged to consider and report on the solvency of each entity within the GS Group separately, and we refer you to the relevant Annexures for our discussion and analysis in this regard.

Considering the reliance that various GS Group Companies had on intercompany funding, it is necessary in any event to consider the solvency of the GS Group as a whole. This section should be read in conjunction with the specific Annexure relating to the entity (or entities) relevant to the creditor.

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Balance Sheet Test

The balance sheet position of the GS Group as at 16 May 2009, and at the quarterly reporting periods as tabled below shows an expectation of an excess of assets over liabilities on a book value basis:

Consolidated Group Balance Sheet	As at 16 May 09 \$'000	As at 31 Mar 09 \$'000	As at 31 Dec 08 \$'000	As at 30 Sep 08 \$'000	As at 30 June 08 \$'000
Current Assets	257,818	322,714	276,941	244,361	359,494
Non Current Assets	1,229,248	1,340,476	1,447,798	1,545,760	1,624,302
Total Assets	\$1,487,066	\$1,663,190	\$1,724,739	\$1,790,121	\$1,983,796
Current Liabilities	88,875	112,807	136,800	186,507	290,187
Non Current Liabilities	916,705	919,423	960,910	933,733	907,096
Total Liabilities	\$1,005,580	\$1,032,230	\$1,097,710	\$1,120,240	\$1,197,283
Equity	\$481,486	\$630,960	\$627,029	\$669,881	\$786,513
Liabilities & Equity	\$1,487,066	\$1,663,190	\$1,724,739	\$1,790,121	\$1,983,796

Similarly the working capital position of the GS Group as at 16 May 2009 and historically showed a surplus (based on book value) as tabled below:

Working Capital (group consolidated basis)	As at 16 May 09 \$'000	As at 31 Mar 09 \$'000	As at 31 Dec 08 \$'000	As at 30 Sep 08 \$'000	As at 30 June 08 \$'000
Current Assets	257,818	322,714	276,941	244,361	359,494
Less: Current Liabilities	88,875	112,807	136,800	186,507	290,187
Surplus/(Deficiency)	\$168,943	\$209,907	\$140,141	\$57,854	\$69,307

As noted earlier however, in determining insolvency the balance sheet test is not considered to be as relevant as the cashflow test which is discussed further below.

Cashflow Test and GS Group Initiatives

As noted, the question of solvency turns upon when the directors had reasonable grounds to suspect that the company would not be able to meet its debts as and when they fell due.

In this regard, the directors of the GS Group considered and undertook a number of separate initiatives to address available cash resources and to control costs, including but not limited to:

- The sale of property, cattle interests and certain fixed assets;
- The implementation of Project Transform;
- The sale of the GSF loan book;
- Strategies to reduce operational and legacy costs;
- Seeking further funding or increases in existing facilities from secured lenders; and
- Appointment of the Consulting Firm to become involved with various projects occurring within the GS Group, including cashflow forecasting.

Ultimately the goals behind these initiatives included reducing the GS Group's reliance on MIS sales, divesting under-performing assets, reducing long term corporate debt, unencumbering assets burdened by MIS so that they could be sold free of encumbrances and increasing cashflow from non MIS related assets.

If it is established that there were reasonable grounds to rely on the success of these initiatives to maintain the solvency of the relevant entity at the relevant times, the directors will have a reasonable argument against any claim that the GS Group entities were insolvent, and in turn any claim of insolvent trading. It is necessary for us to consider when doubt existed as to the likelihood of success of the

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relevant initiatives, or whether they were sufficient, and when it should have become known that the aggregate outcomes would not be adequate to enable debts to be met as they fell due.

Project Transform and the sale of certain GSF loans are considered in detail in sections 8.10 and 8.12 of this Report.

We have requested and reviewed copies of the historical cashflow budgets and forecasts that the directors considered when assessing the cashflow prospects of GSL and the subsidiary entities, and we are still considering those documents.

It is, in our view, necessary to consider the cash positions set out in those cashflow forecasts and budgets in further detail, with a focus on identifying the major assumptions underlying the cashflow, and the reasonableness of those assumptions before conclusions can be drawn.

At this stage given the size and complexity of the GS Group, and the limiting factors identified, our review is ongoing as we continue to test the reasonableness of the assumptions below. From our preliminary review of the cashflow forecasts that we have relied upon, it appears that there was an increasing focus by management and the board on cashflow and available resources between June 2008 and 16 May 2009.

The following table summarises the forecasts and significant assumptions that were considered by the Board at different times during the period:

Date Forecast Presented	Period of Forecast	Minimum Cash Balance	Significant Assumptions
30 Jun 08	1 Jul 08 to 30 Sep 09	May 09: (\$3m)	<ul style="list-style-type: none"> MIS sales \$250m (\$10m to 31 Mar 09) Cost reductions \$46m. Sale of loans \$37.5m forecast to occur Dec 08. Asset sales \$14.3m. Improvement in ROF performance \$22.9m.
12 Aug 08	1 Jul 08 to 30 Sep 09	Jan 09: \$20m May 09: \$55m	<ul style="list-style-type: none"> MIS sales \$250m (\$38m to 31 Mar 09) Cost reductions \$46m. Sale of loans \$45m forecast to occur Feb 09. Asset sales \$14.3m. Improvement in ROF performance \$22.9m.
4 Dec 08	1 Oct 08 to 30 Sep 09	May 09: \$31.4m	<ul style="list-style-type: none"> MIS sales \$150m (\$14m to 31 Mar 09). Sale of loans \$42.5m. Additional secured borrowings \$30m. Asset sales \$18m.
22 Jan 09	1 Dec 08 to 30 Sep 09	Feb 09: \$12.4m May 09: \$22.9m	<ul style="list-style-type: none"> MIS sales \$150m (\$2.2m to 31 Mar 09) Sale of loans \$33m. Asset sales \$34m. Payment to ABL for rollover of loans \$15m
3 Feb 09	To 30 Sep 09	Apr 09: \$4.1m May 09: \$13.1m	<ul style="list-style-type: none"> MIS sales \$150m (\$15.5m to 31 Mar 09). Sale of loans \$22.5m. Asset sales \$11m.

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Date Forecast Presented	Period of Forecast	Minimum Cash Balance	Significant Assumptions
25 Mar 09	To 31 Dec 09 (Including impact of Project Transform)	May 09: \$11.7m	<ul style="list-style-type: none"> MIS sales \$150m (nil to 30 Apr 09). Sale of loans \$16m. Cattle sales \$19m by 31 May 09. The possible non payment or deferral of TREES coupons to Sept 09.
7 Apr 09	To 30 June 09	May 09: \$4.1m	<ul style="list-style-type: none"> MIS sales \$150m (nil to 31 May 09). Sale of loans \$9m (actual). Cattle sales \$24m by 31 May 09. Whilst not decided or concluded by the Board, payment of TREES coupon deferred from Apr 09 to Sep 09.
6 May 09	To 30 June 09	N/A	<ul style="list-style-type: none"> Cash on hand as at 6 May 09 was \$9m. Creditor payments of \$6m due. Sufficient cash through to 5 June 2009 (includes certain asset sales & before bridging finance) Secured creditors would continue to support the GS Group & provide bridging finance until cattle asset sales (Project Horizon) occurred.

The various cashflow forecasts that were presented to the Board established a basis for maintaining positive cash balances in the future, and leading from that the basis for the Board's understanding that the GS Group would be meeting its debts as and when they fell due. Several key assumptions were made in order to maintain that view of positive cashflow, and it is those assumptions that we are continuing to test by way of further investigations and review.

Review of Management Cashflow Forecasts

The historical cashflows are presented in section 4.4 of this report and the cashflow forecasts have been presented in the following pages of this section of the report.

The cashflow forecasts are purely projections, based on management's sensitivity analysis using base level MIS sales of \$150m for FY09 and assuming certain asset realisations.

These projections have not been audited and we make no comment as to the likely achievement of these projections for the period of time covered within the projections.

We note that based on the review of the projected cash position through to 31 December 2009, management projected a tenuous cashflow position for the GS Group with an estimated closing cash position of approximately \$11.9m at 31 December 2009.

A review of these projections reflected that the GS Group was reliant on the following events:

- Cash inflow from the sale of the loan book at final estimates were projected at \$10.5m in February and March 2009 (final negotiated result was \$8 m in cash with \$1m in retainer);

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- Forecasted cattle sales in April of \$9m in Operations Income (final result was over \$10m);
- Sale of Hansol timber in July for \$3m (sale did not eventuate);
- Cash inflow from the sale of pulpwood properties in April for \$3.4m and the release of funds from restricted balances held by the Club Banks;
- Anticipated sale of cattle properties before September 2009;
- Adopted a Maintenance Reserve Fund for MIS Projects in FY09 that was proposed to cover all expected project costs including land costs of those proposed schemes;
- Completion of final establishment works to complete FY08 project in accordance with RE's requirements to complete within 12 months; and
- All other operating expenses anticipated within the budget parameters and forecast period.

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GS Group Cashflow Forecasts (\$150m in projected sales)

Great Southern Cashflow Summary	Jan 09 \$'000	Feb 09 \$'000	Mar 09 \$'000	Apr 09 \$'000	May 09 \$'000	Jun 09 \$'000	Jul 09 \$'000	Aug 09 \$'000	Sep 09 \$'000	Oct 09 \$'000	Nov-09 \$'0 0	Dec 09 \$'000
Operating cashflows												
Securitisations	-	2,100	7,499	1	(10)	133,864	0	-	-	-	-	-
Sale of loan book	-	2,500	8,000	-	-	-	-	-	1,000	-	-	-
Operations income	11,518	21,913	36,319	31,003	13,958	18,543	(4,935)	14,712	77,332	14,037	18,950	10,453
Operations expenditure	(14,119)	(19,727)	(24,821)	(24,192)	(23,530)	(30,286)	(21,595)	(21,188)	(24,673)	(22,455)	(15,940)	(22,139)
Land co deposit	-	-0	-	-	-	-	(10,700)	-	-	-	-	-
Other (net interest and tax)	(5,866)	5,393	(9,306)	(324)	(618)	(10,493)	299	64	(8,136)	(250)	40	(6,268)
Total Operating Cashflows	(8,467)	12,179	17,690	6,488	(10,199)	111,629	(36,931)	(6,411)	45,523	(8,669)	3,050	(17,954)
Investing cashflows												
Capital expenditure	(3,697)	(6,164)	(23,704)	(4,246)	(1,139)	(320)	(553)	(544)	(1,391)	(7,472)	(5,411)	(5,826)
Business acquisitions	-	-	-	-	-	586	-	-	-	-	-	-
Land sales/subdivisions	6,939	10,095	2,933	3,798	600	1,223	55	1,015	117,150	400	680	248
ABL collateral	-	(5,100)	(5,400)	-	-	-	-	-	-	-	-	-
Maintenance reserve fund	(-)	20	(8,020)	(500)	(-)	(49,500)	6	6	6	6,372	7,313	7,481
Other/asset sales	2,875	-	-	-	-	-	-	-	-	-	-	-
Total Investing cashflows	6,116	(1,149)	(34,191)	(948)	(539)	(48,011)	(492)	477	115,765	(699)	2,583	1,903
Financing cashflows												
TREES coupons	-	-	-	-	-	(7,400)	-	-	-	(7,389)	-	-
Debt and equity issue costs	(1,249)	(350)	-	-	-	-	-	-	-	-	-	-
Debt repayments	(63)	(4,163)	(600)	(3,463)	(63)	(63)	(63)	(63)	(90,563)	(56,063)	(63)	(63)
Total Financing cashflows	(1,312)	(4,513)	(600)	(3,463)	(63)	(7,463)	(63)	(63)	(90,563)	(63,452)	(63)	(63)
Net Cashflow	(3,662)	6,517	(17,101)	2,077	(10,801)	56,155	(37,485)	(5,998)	70,725	(72,820)	5,570	(16,114)
Opening cash	34,800	31,138	37,655	20,554	22,631	11,830	67,985	30,499	24,502	95,227	22,406	27,976
Closing cash	31,138	37,655	20,554	22,631	11,830	67,985	30,499	24,502	95,227	22,406	27,976	11,862
Fixed accounts	6,937	7,547	8,057	8,197	8,197	8,197	8,197	8,197	8,197	8,197	8,197	8,197
Unrestricted closing cash	24,201	30,128	12,497	14,434	3,633	59,788	22,302	16,305	87,030	14,209	19,779	3,665
Maintenance reserve fund	(-)	20	8,020	8,520	8,520	58,020	58,014	58,008	58,002	51,630	44,316	36,835

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Review of banking covenants

Besides the cashflow for the GS Group it is also relevant consider the standing of the existing debt facilities.

Executive management and the directors approached the Club Banks in August 2008 to present Project Transform and request a covenant variation for 30 September 2008.

On the 26 September 2008 the Club Banks approved a covenant variation for 30 September 2008 in relation to Senior Debt to Operating Cash-Flow ratio to no more than 5.75 times. Consequently the Senior Debt to Operating Cash-Flow ratio arrived at 2.99 times for 30 September 2008 and did not present a breach.

We note that in February 2009, the Security Trustee under the Club Bank Security confirmed that the Club Banks were not aware of any unremedied defaults by the GS Group under its facilities.

Based on our limited review of the books and records of the GS Group to date, no other exceptions or breaches were identified of the banking and cash covenant requirements.

Trade Creditor Position

The table below sets out an analysis of the aged payables extracted on a consolidated basis for the GS Group, as at the date of our appointment:

Trade Creditors Ageing as at 16 May 09	Total \$'000	Current \$'000	30 Days \$'000	60 Days \$'000	90+ Days \$'000
Trade creditors	(2,778.7)	(890.4)	(2,419.9)	16.5	515.1
Percentage of total	100.0%	32.0%	87.1%	-0.6%	-18.5%

The ageing of trade creditors as the date of our appointment indicates that there were no significant long overdue balances, indicating that trade creditors were being paid on a regular rolling basis as per the GS Group's payment cycle.

Looking at prior months, the table below sets out a historical analysis of the aged payables for the GS Group for the periods 28 February 2009 to 31 October 2008.

Historical Trade Creditor Ageing	Total \$'000	Current \$'000	30 Days \$'000	60 Days \$'000	90+ Days \$'000
Trade creditors as at 28 Feb 2009	(1,820)	(788)	(1,488)	46	411
Percentage of total	100.0%	43.3%	81.8%	(2.5%)	(22.6%)
Trade creditors as at 31 Jan 2009	(1,836)	(354)	(1,900)	106	312
Percentage of total	100.0%	19.3%	103.5%	(5.8%)	(17.0%)
Trade creditors as at 30 Nov 2008	(1,934)	(2,379)	17	(337)	765
Percentage of total	100.0%	123.0%	(0.9%)	17.4%	39.6%
Trade creditors as at 31 Oct 2008	(233)	(674)	(336)	(74)	851
Percentage of total	100.0%	288.6%	144.2%	31.7%	(364.5%)

The positive balances that appear in the 60 days and 90 days columns relate to Visa, Diners Club and other credit card balances.

As evident in the table above, there is no apparent significant increase in the trade creditors or deterioration in the age of balances in the period prior to our appointment.

We note that the aged payables analysis is not set out on a per entity basis due to the limitations of the system maintained by the GS Group. Further, it is not possible to retrieve other back-dated or historical ageing of creditors as each must be generated at the particular date in time.

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Other Indicators of Insolvency

Case law has identified various indicators of insolvency that are useful to assess with regard to the GS Group's circumstances in order to have proper consideration of a company's financial position in its entirety and in the context of commercial reality.

We comment on several of these indicators below, being grounds on which a director should suspect insolvency, and we consider their application to the GS Group's circumstances.

(a) *Knowledge of substantial trading losses*

The board tabled an estimated half year loss to 31 March 2009 of \$107m, derived primarily from accounting losses on Project Transform (cattle contract cancellation fees and write-off of cattle goodwill), loss on the sale of the GSF loan book to JAM, and the impact of the Baldy Bay cattle transactions. Several other entities within the GS Group had recorded losses at an individual level during recent periods.

(b) *Advice from financial controller that: Liquidity was tight; e.g. a supplier taking legal action to recover debt, or difficulty in paying debts when due; and had concerns as to solvency*

The board considered advice prepared from the financial controller on liquidity issues, and cashflow management however our review did not identify any action being undertaken by creditors to recover debts, or any evidence that the GS Group was paying debts in arrears or extending beyond trade terms.

(c) *Knowledge of company's inability to obtain or increase finance facilities*

GSL approached the Club Banks to provide bridging finance on 14 April 2009 and the application was formally declined on 15 May 2009.

(d) *Knowledge of requirement for substantial working capital to bring creditors into line with trading terms*

Trade creditors were generally maintained within trade terms so there was no such requirement.

(e) *Knowledge of legal demands*

No legal demands, writs or summonses were issued against any of the entities within the GS Group.

(f) *Knowledge of failure to meet statutory employee payments*

Statutory employee entitlements were maintained up to date.

(g) *Board consulting insolvency practitioner as to general concept of insolvency and the administration process*

The GS Group and its directors had an increased reliance and use of external accounting and legal professionals to assist them, and provide comfort as to the robustness of cashflow and financial models that the directors were relying on for decision making purposes. The GS Group had engaged the Consulting Firm to assist with and provide assurance on the reliability of the cashflow models. The Consulting Firm was engaged on this basis from October 2008.

(h) *Resignation of financial officer stating concerns re insolvent trading*

There was no resignation of the financial officer.

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- (i) *Knowledge of the appointment of an investigating accountant by the company's bankers*

The GS Group was placed in the "workout" section of one of the Club Banks in February 2009, and MGN were engaged by the Club Banks to provide advice as *independent reviewing accountant*.

- (j) *Knowledge of the banks' concerns and the banks' view that there has been a material adverse change*

We have not identified any view expressed by any of the banks as to an opinion of a material adverse change, other than the action referred to in (i) above.

- (k) *Unexplained resignation of other director*

There were no unexplained resignations in the period immediately prior to our appointment.

- (l) *ASIC enquiry in relation to company's solvency*

We understand that ASIC had made enquiries of and visited the GS Group up to two weeks prior to the date of our appointment but we are not aware whether this was based upon solvency concerns.

- (m) *Bank facilities on demand*

The various bank facilities with GSL had not been placed on demand prior to our appointment.

- (n) *Knowledge of major creditors long overdue*

Generally, creditor accounts were within trade terms.

In addition to the above factors, it has also been demonstrated that consideration should be given to evidence that gives rise to the conclusion of insolvency by way of the further indicative factors that are discussed below with reference to the GS Group:

- (a) *Creditors were not being paid as and when they fell due e.g. where there are many large debts outstanding over 9 months.*

There was no evidence of any significant major balances outstanding.

- (b) *Debt collectors retained by creditors*

We have not identified any instances where debt recovery action was taken by creditors against entities within the GS Group.

- (c) *Legal proceedings initiated by creditors*

We have not identified any instances where creditors initiated legal action to recover debts. A credit search of GS Group entities has not revealed any writs, summonses or winding up applications issued.

- (d) *Creditors placing company on cash on delivery terms*

We are not aware of any creditors having imposed cash or restricted trading terms.

- (e) *Power supply threatened for non-payment*

Our investigations have not identified that there any threat of termination of power supplies.

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(f) *Daily management of creditor payments on a crisis basis*

Whilst cash management was a key issue in the period leading up to our appointment, daily cash management and planning of creditor payments on a daily basis was only implemented in the week prior to our appointment, and did not exist over any extended period.

(g) *Cheques drawn but held until cash allowed release*

We have not identified any practice of drawing and holding cheques by the GS Group.

(h) *Non-payment of payroll tax and PAYG remittances*

Tax and other statutory payments were generally up to date. No payment plans, formal or informal, had been entered into by any of the entities within the GS Group prior to our appointment.

(i) *Creditor exercising lien rights*

We are not aware of any creditors exercising any lien rights in respect of GS Group property.

(j) *Negotiated special repayment terms with creditors*

Other than the waiver of banking covenants in September 2008, we are not aware of any special repayments terms negotiated with creditors by the GS Group.

(k) *Post dated cheques issued to creditors*

We have not identified any evidence that the GS Group issued post-dated cheques.

(l) *Significant and continuing trading losses*

The board had tabled an expected GS Group half year loss to 31 March 2009 of \$107m, as discussed above. Several other entities within the GS Group had also reported trading losses.

(m) *Unsuccessful attempts to raise debt or equity deteriorating relationship with banker*

The attempt to obtain additional finance via a bridging loan from the Club Banks ultimately proved to be unsuccessful, however, Administrators were appointed to the various entities within the GS Group on the following day.

(n) *Banking facilities put on demand*

The various Bank facilities with the GS Group had not been placed on demand prior to our appointment.

(o) *Deteriorating financial ratios*

The financial ratios varied across different entities within the GS Group, however we note that the GS Group still reported a surplus working capital position (according to book values) at the date of our appointment. The banking covenant ratios required a waiver in September 2008 but were again satisfied by 31 March 2009.

Having discussed the above factors with regard to the GS Group's circumstances it is evident that many of the factors do not apply and others that are applicable occurred later in the chronology of dates or are explainable in some respects. There are no significant factors that give rise to evidence of the conclusion of insolvency other than immediately prior to the appointment date. In our view, and subject to our further investigations to be completed, these indicate that the date of insolvency is likely to be close to the date of appointment of the Administrators on 16 May 2009.

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Preliminary conclusions on solvency

As noted above, it is necessary to identify and report to creditors, a likely date of insolvency on each entity over which we are appointed. Whilst the impact on each entity of the overall group cashflow is important, we also refer you to our discussions on the circumstances of each individual entity as set out in Annexures 3 to 37.

The above analysis at the GS Group level identifies a number of critical factors and dates, such as:

- (a) Between June 2008 and 16 May 2009 an increasing level of discussion at a board level as to short to medium term cashflow requirements and liquidity issues including:
 - (i) Concern at the achievability of forecast MIS sales, and the reliance of the GS Group on a certain minimum level of 2009 MIS sales to fund ongoing operations.
 - (ii) Formulation, implementation and results of asset divestment programs and other initiatives implemented to relieve cashflow pressure.
- (b) In September 2008 the renegotiation of banking covenants to ensure that GSL did not breach covenants, which would otherwise have triggered an event of default under the banking facilities. This demonstrates the support of the GS Group's bankers at that time. The banking covenants were then satisfied in March 2009 without the need for any waiver.
- (c) At all times the cashflow forecasts that were presented to the Board established a basis for maintaining positive cash balances in the future. Certain assumptions were made in order to maintain that view of positive cashflow, and it is those assumptions that we are continuing to test. Ultimately, it was around 14 April 2009 that the GS Group identified the need for and sought an increase in its working capital debt facilities.
- (d) The ageing of trade creditors at the date of our appointment indicated that there were no significant long overdue balances.
- (e) The other factors that typically indicate a conclusion of insolvency, or at least a suspicion of insolvency on the part of the directors, were not generally present and if they were present it was late in the chronology of dates and events.
- (f) Clearly there was an increasing engagement of professional advisors to assist in formulating work out strategies to assist with restructuring plans and eventually to confirm the solvency of the GS Group. From October 2008 the GS Group had engaged a financial adviser to opine on cashflow forecasts, and the secured financiers had foreshadowed the requirement for an investigating accountant to report to the Club Banks.
- (g) It was on 15 May 2009 that the directors were advised that the further bridging loan facilities would not be made available to the GS Group.

The GS Group was insolvent as at 15 May 2009 when the bridging loan (working capital facilities) was declined, and immediate steps were then taken by the Board to appoint a Voluntary Administrator to each entity. At this time, and given our limited review, the above summary of events is not conclusive of an earlier date of insolvency for the GS Group other than 15 May 2009. However, the relevant date may be earlier and will be determined when our further, or a liquidator's investigations, have been completed and considered the reasonableness of the directors' expectations and assumptions.

8.7 Books and Records

Section 286 of the Act requires a company to keep written financial records that:

- Correctly record and explain the company's transactions, financial position and performance; and
- Would enable true and fair financial statements to be prepared and audited.

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The financial records must be retained for a period of seven (7) years after the transactions covered by the records are completed.

A failure to maintain books and records in accordance with section 286 may give rise to a rebuttable presumption of insolvency which may be relied upon by a Liquidator in an application for compensation for insolvent trading.

From our inspection of available records we are of the view, subject to the qualification below, that:

- The GS Group had prepared audited annual accounts for the year to 30 September 2008;
- GSMAL has prepared audited annual accounts and half year accounts on a Scheme basis up to 31 December 2008;
- The GS Group's interim review report for the half-year ending 31 March 2009 was being prepared, but had not been lodged prior to the date of our appointment;
- Management accounts were prepared on a monthly basis up to 16 May 2009;
- All journals and primary records supporting the journals were available on our request during our limited access;
- Primary books and records appear to have been adequately maintained; and
- The Company maintained a filing and archive system.

We conclude on a preliminary basis that we have not identified any specific breaches of section 286 of the Act by the GS Group companies, however we qualify this statement by noting that we have not had complete and unrestricted access to the records of the GS Group during the period of our review.

From our limited access of the books and records to date, we comment briefly below regarding the financial reporting for the MIS projects and the basis of reporting prepared by GSMAL. We note that it is relevant to refer to the company relationship diagram that is presented at section 3.1 of this Report.

- Whilst accounting data was routinely captured and reconciled in total on a daily and monthly basis for the entire GS Group, it was not specifically recorded on a project or scheme by scheme basis due to the different contractual relationships between (i) GSMAL and the relevant investors/growers pursuant to separate contractual agreements (recorded via GSMAL financial reports); and (ii) GSMAL and the Scheme pursuant to the constitution (recorded via Scheme financial reports);
- The "basis of preparation" of the Scheme annual financial reports, represented the obligations between GSMAL and the Scheme in respect of project activities.

8.8 Potential Liquidator recoveries – voidable transactions

During the course of our investigations, we have considered whether any entities within the GS Group have entered into any transactions which appear to be voidable and may result in money or other property of any Great Southern entity to which we have been appointed being recovered. It is important to note that voidable transactions relating to a particular company may only be recovered if the creditors of that company resolve to place it into liquidation.

8.8.1 Unfair preference

A Liquidator is able to recover from a creditor, payments made to it where:

- (a) It results in the creditor receiving more than it would in a winding up;
- (b) The company is insolvent or becomes insolvent because of the payments;

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- (c) The transaction occurred within 6 months of the appointment of the Administrators (or 4 years if the transaction was with a related party, or 10 years if the transaction was made with the intention to defeat creditors); and
- (d) The creditor or a reasonable person in the creditor's position had reasonable grounds to suspect that the company was insolvent.

Our preliminary investigations into the GS Group's affairs reveal a number of payments across different entities which may be voidable as unfair preferences, subject to further investigation and determination of the date of insolvency.

Typically, factors which indicate payments might be unfair preferences include:

- (a) Payments in response to winding up applications, statutory demands and other pressure from the creditor;
- (b) Repayment plans with the creditor; and
- (c) Significant 'round' figure instalment type payments were made to the creditor.

We are not aware of any factors represented by (a), (b) or (c) above as it relates to the GS Group.

The payments would be protected if the creditor from whom the liquidator seeks to recover:

- (a) Became a party to the transaction in good faith; and
- (b) At the time when they became a party:
 - They had no reasonable grounds for suspecting that the Company was insolvent at that time, or would become insolvent; and
 - A reasonable person in that person's circumstances would have had no such grounds for so suspecting; and
- (c) Provided valuable consideration under the transaction or has changed their position in reliance on the transaction.

A creditor seeking protection must prove all three elements.

Further, where a creditor received a series of payments as part of a so called 'running account' and their overall indebtedness increases over the same period, the creditor is taken not to have received an unfair preference. This is called 'the running account defence'.

A liquidator may seek legal advice on the strength of a claim including the applicability of these defences. It is also likely any recovery action commenced by a liquidator would be defended. Creditors should be aware that the costs of pursuing preferences, and other voidable transactions, can be considerable and may outweigh the benefit to creditors in many circumstances.

We have been advised by both management, and confirmed with accounts payable staff, that:

- (a) No formal or informal payment arrangements were in place with any creditors or suppliers.
- (b) No payment plan was in place in respect of taxation or other statutory debts.
- (c) No written demands or threats of legal action were received within the six month period prior to our appointment.

We have confirmed through credit searches that no writs, summonses or winding up applications had been issued by creditors against any of the entities within the GS Group. We also refer to the aged trade creditors position set out at section 8.6 above, and note that creditors generally appear to have been paid within trade terms.

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In terms of potential amounts that could possibly be recovered for the benefit of creditors we note that:

- (a) A number of professional advisors had been engaged by GSL and had been working closely with the GS Group over an extended period prior to our appointment that were likely to have had detailed knowledge of the financial position of the companies within the GS Group. A number of these advisors also received substantial payments in respect of services provided in the period immediately prior to our appointment which may be recoverable as unfair preferences for the benefit of creditors as set out below:

Entity	No. of Creditors	Amounts \$
GSL	3	1,039,994
GSMAL	1	53,999
Total	4	\$1,093,993

- (b) We have also identified a number of other payments made to certain creditors who appear to have received a benefit greater than they otherwise would in liquidation. We have not to date, however, formed a view as to whether those creditors had knowledge of the relevant company's financial position, and accordingly those amounts are not tabled as potential recoveries.

A liquidator would perform further work and investigation in respect of these amounts before determining whether they are recoverable. In particular, a final determination will need to be made as to the date of insolvency which is a fundamental component of any recovery.

For the purposes of this report, we estimate potential recoveries from unfair preferences would be in a range between nil and \$1,093,993 and likely to be nil unless an earlier date of insolvency other than 15 May 2009 is determined. Please note this is an estimate only determined on preliminary analysis. There is no guarantee that a liquidator will recover funds or that the costs of recovery will outweigh any benefit to creditors.

8.8.2 Uncommercial transactions

A transaction is an uncommercial transaction if it is made at a time when the company is insolvent and it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction having regard to:

- The benefits or detriment to the company of entering into the transaction; and
- The prospective benefits to other parties to the transaction upon entering into it.

Should a Liquidator establish any such uncommercial transactions, those transactions may be set aside thereby increasing the funds available to ordinary unsecured creditors.

We have identified from our preliminary investigation certain transactions that warrant further investigation but none that could be said with any certainty at this time that would result in recovery for creditors. The date of insolvency is also relevant as to whether these transactions would be considered recoverable.

We consider the transactions under the following subheadings:

- Loans to directors;
- Financial Incentives for Project Transform;
- Acquisitions and Disposals of Fixed Assets and Property.

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Loans to directors

As part of our review, we have considered those loans made to directors from GSL. In determining the commercial nature of such loans we have considered the applicability of the interest rate, securities taken, repayment terms and loan forgiveness (where applicable). Our preliminary review has not concluded that any transactions may be considered uncommercial. Certain other director related transactions are considered further in Annexure 3 of this Report below when considering directors' duties.

We set out in the table below, for the information of creditors, a schedule of interest free loans made by GSL to directors for the purpose of acquiring shares in the Company.

Director Loans	Date	Balance at date of appt (\$)	Loan Amount (\$)	Term Years	Purpose	Interest Rate %	Written Loan agreement exists	Security
CA Rhodes	23/07/2003 & 16/01/2004	1,001,318	1,500,000	10	Acquire shares only	Interest Free	Yes	Shares acquired
PC Butlin	15/01/2004	1,095,286	1,500,000	10	Acquire shares only	Interest Free	Yes	Shares acquired
Total		\$2,096,604	\$3,000,000					

Although the above loans to Rhodes and Butlin are recorded as "interest free", a notional interest component is built into the remuneration package for the above as part of their total remuneration package as specified in their contracts of employment, which is equivalent to approximately 6% per annum. Accordingly, the above are not considered to be unreasonable given their senior positions that commonly would be afforded incentives aligned with the GS Group's objectives, and are therefore not considered to be uncommercial transactions. We note that the loans had limited recourse to the value of the GSL shares.

A full schedule of all loans made to directors and related entities, both current and satisfied, to acquire an interest in various Schemes is included as Annexure 3.

Accordingly, the above loans are not considered to be uncommercial transactions.

Financial Incentives for Project Transform

In the period prior to the meetings of Scheme members to consider Project Transform it is apparent that the GS Group sought to provide financial incentives to certain investors, by way of concessions on loans originated by GSF, in order to encourage those investors to vote in favour of Project Transform. Examples of the types of concessions afforded to investors represented a reduction in interest rate or an extension of loan terms in the majority of cases, but also included conversion of part of the loans to interest free terms, GSL agreeing to meet the repayment obligations on existing loans for the investor for a period of 12 months and reduction of loan principal.

In several instances we understand that these incentives were targeted towards investors that were suspected by GSL to have voted against or not replied to the proposal at a point in time. We were advised that GSL took legal advice on the matter before offering the incentives. We have not sighted this written advice or been provided with the scope of reference within which this advice was provided.

It does not necessarily follow that the integrity of the voting process is impugned or was invalid as a result of transactions associated with those certain investors. The matters that may follow from this area of review do not arise from dishonest actions but instead may result in breach of duty claims against the directors of GSL, GSMAL and GSF arising from certain actions or omissions.

To the extent that the above matters do result in claims available to investors affected by Project Transform (which has not been established) it is likely that the appropriate remedy would be in the form of damages (rather than a reversal of the transaction) with the defendant being liable to account or provide equitable monetary compensation. It will be necessary to undertake a further review of the incentives transactions and obtain advice thereon before we can express an opinion.

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Acquisitions and Disposals of Property and Fixed Assets

GSL had acquired a large quantity of land, investment properties and fixed assets. We have considered the acquisitions within the twelve month period prior to our appointment (from 1 April 2008 to 16 May 2009) to determine whether any have been made from related parties, and if so, whether they were acquired at market value. If the company knowingly paid in excess of market value, this may be recoverable as an uncommercial and related party transaction.

We have also considered the disposal of property to identify instances where property may not have been sold at market value. This is particularly relevant given that the GS Group commenced a program of asset divestment in late 2008 through early 2009 to provide additional cashflow. We have also been cognisant of transactions involving acquisitions from, or disposals to, related parties and have sought to match these to valuations where possible.

We have reviewed the top ten land and property acquisitions by value and the top seventy fixed asset acquisitions above \$500,000. Investment properties were recorded at Fair Value, calculated quarterly by management, with a third of properties being independently valued annually in line with statutory requirements. Valuations were further reviewed by KPMG, and audited as part of the annual account audit by Ernst and Young.

In most instances, we have not yet been given access to the independent valuations that support the values recorded by management to review them. Further investigations would be required by a liquidator to consider whether fair market value has been achieved, or whether discounts to valuation were reasonable (if that in fact occurred).

Our review has identified several transactions that warrant investigation.

(a) Acquisitions of property:

We have identified five properties acquired from Related Entities in the period of our review, with a total acquisition cost of \$5.6million. Without the benefit of being able to review the valuations at the appropriate date, we cannot conclude whether these sales occurred at market value.

Purchaser	No. Properties	Acquisition Cost \$
GSLH	2	2,081,190
GSMAL	2	1,713,148
GSOH	1	1,809,444
Total	5	\$5,603,782

(b) Disposals of properties:

We have reviewed all disposals of investment land and properties and the top 29 fixed asset disposals within the twelve month period prior to our appointment (from 1 April 2008 to 16 May 2009) having a transaction value above \$500,000 to consider whether the fair value has been obtained.

- Nine properties (combined transaction value of \$16.2m) were sold to non-related parties. We have not yet been able to obtain access to and review valuations, and therefore are unable to say whether these sales were at commercial values. Preliminary information suggests that at least one property was sold in February 2009 significantly (\$3.5m) below valuation (obtained in September 2008) due to the pressure to convert land assets into cash in a volatile asset sales market. This transaction requires further investigation, however we note that the property was initially put to public auction and was passed in at auction. This property was subsequently sold by private negotiation with one of the bidders.

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- Five property disposals (combined transaction value of \$6.9m) were made to GSFML as RE for Great Southern 2008 Forestry Land Trust, which is a Related Entity, but not one that we were appointed to as Administrators. Again, we have not yet been able to gain access to and review external valuations in order to assess whether the sale was made at commercial value. As the receiving entity is not known to be insolvent further work should be undertaken to establish whether grounds exist for claims to be made that these transactions were not made for commercial value;
- Of the remaining fifteen properties, we were able to obtain copies of the valuations and have confirmed that the assets were transferred at valuation.

(c) We have identified a number of significant cattle sales in the period February 2009 to the date of our appointment that we are continuing to review.

We summarise our preliminary findings in the table below in respect of transactions that require further review to determine whether they may result in claims:

Property sold by	No. Properties sold
Disposals to non-related parties – no valuation available	
GSAH	4
GSPT	2
GSPT2	1
GSCH	1
GSLH	1
Related Party - No valuation available	
GSPT2	5
Related Party - Valuations reviewed	
GSLH	11
GSPT2	4
Total	29

We have only identified one non related entity sale transaction in February 2009 that occurred at a value well below the valuation held by the company, but which requires further review to determine whether it constitutes an uncommercial transaction. It is acknowledged that this valuation was obtained before the effect of the economic downturn and its effect on asset markets. Several other transactions have been identified that require review. Further information specific to each entity is available in the Annexure dealing with that entity.

A liquidator appointed to that entity will perform further work and investigation in respect of these transactions before determining whether they may result in recoveries for the benefit of creditors.

8.8.3 Unfair Loans

Section 588FD of the Act provides that a loan to a company is unfair if the interest and charges were extortionate when the loan was made, or has since become extortionate. In considering whether interest and charges are extortionate, regard must be had to:

- Risk the lender is exposed to;
- Value of any security;
- Term;
- Repayment schedule;
- Amount of loan; and
- Any other relevant matters.

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The secured debts of the GS Group totalled \$600m at the date of our appointment, incorporating facilities which are secured against certain entities and assets within the GS Group. The unsecured loans include the TREES notes for the amount of approximately \$200m. In summary, the loan facilities comprise:

Facility Description	Charge	Security
Club Banks (secured)	Fixed & Floating charges	<ul style="list-style-type: none"> • Specific mortgages over all the GS Groups cattle properties and various pulpwood properties (excluding the RAPT secured properties). • Fixed and floating charges over the present and future undertakings, assets and rights over the following entities: GSL, GSMAL, GSLH, GSF, GSVHPL, GSPML, GSCM, GSEC, GSYL, GSCH, GSFNT, GSPHL, GSOH, GSAH, GSHVT, GSIPL and GSOL.
RAPT (secured)	Fixed charges	<ul style="list-style-type: none"> • Specific mortgages over certain properties held within GSPT. • Security over Yield Asset.
TREES2 and TREES3 (unsecured & subordinated)	N/A	<ul style="list-style-type: none"> • N/A

Based on our preliminary investigations to date, the terms of the loans provided to the companies, including those outlined above, were not unfair loans. However a liquidator appointed to those entities would perform further work and investigation in respect of the loan transactions and with the benefit of that further information, may reach a different view.

8.8.4 Unreasonable director related transactions

Pursuant to section 588FDA of the Act, a transaction is an unreasonable director-related transaction of the company if:

- The transaction is a payment, transfer of property, issue of securities or incurring of an obligation by the company;
- Made by the director or close associate of the director; and
- That a reasonable person in the company's circumstances would not have entered into having regard to the benefit or detriment to the company or other parties.

Should a Liquidator establish any such transactions within the four years prior to appointment, they may be set aside thereby increasing the funds available to unsecured creditors.

We have attempted to identify all director-related transactions, including director remuneration, bonuses, loans, share schemes, retirement benefits, loan forgiveness, and asset acquisitions and/or disposals to directors within the four year period.

We have excluded the non-director executive committee as we have not identified evidence that any of the committee members were acting as shadow directors. Nor have we, based on currently available information, identified any other parties or entities that appear to have acted as shadow directors.

We set out in the table in Annexure 3 a summary of the director related transactions. Further information specific to each entity is available in the Annexure dealing with that entity.

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By way of note the retirement payments to Mr John Young (“Young”) paid in July 2008 have been the subject of our preliminary review. Young received a retirement benefit payout of \$2,013,742 from GSL by way of two instalments, being \$1,099,141 on 1 July 2008 and \$914,601 on 24 July 2008. It is necessary to determine the reasonableness of the transaction at the time of payment.

In any event, the retirement benefit cannot exceed the maximum amount payable under the Act, without seeking shareholder approval. We note the following events in relation to the Young retirement payment:

- Young has been employed by the GS Group since 1 July 1988;
- Discussions regarding Young’s retirement benefits commenced in August 2004;
- According to board minutes, general remuneration benefits were discussed at a board meeting on 12 August 2004, wherein it was resolved that retirement benefits would be capped at 20% per annum over 10 years, with a provision for board discretion to apply (as per GSL’s Remuneration Committee);
- An employment contract dated 14 September 2004 specified an entitlement to a retirement benefit equal to 20% of his base salary for each year of completed service after ten years of completed service.
- In late 2007, Young raised his intention to retire and with formal termination following approval of the Board on 4 July 2008.
- In light of the historical events of the GS Group, the circumstances around the 14 September 2004 contract amendments have not been fully determined at this time.
- We note that Young’s retirement benefit has been disclosed in previous Annual Reports within the Remuneration Report in accordance with applicable reporting and disclosure standards.

A liquidator would perform further work and investigation in respect of director related transactions before concluding on the merits of any available claims and whether it would produce available recoveries for the benefit of creditors.

8.8.5 Obstruction of creditors’ rights

Section 588FE of the Act provides for the voiding of transactions designed to defeat, delay or interfere with creditors rights.

Our preliminary investigations have not identified transactions entered into by the company intended to obstruct creditors’ rights and which would give rise to recoveries for the benefit of creditors. However if a liquidator were appointed, they would perform further work and investigation in respect of this area before concluding on the availability of any recoveries for the benefit of creditors.

8.8.6 Voidable charges

Charge held by ABL against GSF

Section 588FJ of the Act provides that when a floating charge is created during the 6 months ending on relation back day it is voidable against the liquidator, except if:

- The company is solvent after the charge; or
- To the extent of subsequent advances.

ABL holds five registered charges against GSF’s assets. Our review has identified that one of the charges registered by ABL over GSF on 5 February 2009, is within the six months of the date of our appointment. Pursuant to section 588FJ of the Act, the floating charge component of this charge is a void “green” charge and would be void against a liquidator. This issue will not affect the other four charges held by ABL.

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Notwithstanding the above comment, we have determined that the liability secured by the relevant charge in favour of ABL has been satisfied. As a consequence the charge should be removed forthwith. We have written to ABL to request that the charge be removed, however to date it has not done so and has failed to raise any basis to retain the charge. We are continuing to pursue the discharge with ABL.

8.9 Avoidance of employee entitlements

Our preliminary investigations to date have not identified any transactions or actions that would constitute a contravention of Part 5.8A of the Act by any person, however a liquidator would perform further work and investigation in respect of this area before concluding on the availability of any recoveries for creditors.

8.10 Project Transform

On 25 August 2008 GSL announced that "Following a comprehensive strategic review, GSL is today pleased to announce a major business restructure program ("Project Transform") which aims to create a more sustainable, transparent and valuable business for shareholders that can become less susceptible to regulatory uncertainty."

Role of GSL

The GSL Board met on 20 June 2008 to consider the recommendations of management following a strategic review that included the engagement of an adviser.

The presentation to the Board noted that:

- The GSL business model required significant annual cash injections;
- GSL had exhausted its equity, hybrid and debt funding sources;
- Annual MIS sales had peaked given current economic and regulatory uncertainty;
- GSL must change its business model or sell assets to try to realise reported Net Tangible Assets;
- Project Transform was a means of transforming the business and delivering financial flexibility by buying cashflow positive scheme assets through the issuance of GSL shares to participants; and
- The wind up of 2006 and 2007 cattle projects was important as it would eliminate up to \$90m cash outflows over the next four years. The successful wind up of the cattle projects would also provide GSL with about \$300m of unencumbered cattle assets. Many of these assets were earmarked for sale through Project Horizon that would be used to retire Club Bank debt (Project Horizon was a program that was designed to realise various cattle assets to retire Club Bank debt).

The board took steps to appoint a new board of the responsible entity, GSMAL, to separate and establish some independence between the GSL and GSMAL Boards.

On 19 July 2008 the Board resolved to proceed with a non binding indicative proposal to the responsible entity for the interests in the 1998 to 2003 plantations and the 2006 and 2007 cattle projects, in exchange for shares in GSL. We note that certain directors, who were also directors of the RE, abstained from voting (as they did on later occasions). The initial target date for the shareholder and grower meetings and voting on the proposal was mid October 2008. Advisor recommended a starting offer of \$388m on for all 8 projects, converted at \$1.10 per GSL share.

We note that GSL appointed a due diligence committee for the preparation of the prospectus, including independent members who were from Freehills, Ernst and Young and Macquarie.

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The offer was announced on the ASX on 25 August 2008. By 9 October 2008, following a fall in the GSL share price, the offer was revised to a five day volume weighted average with a minimum price of \$0.50 and maximum price of \$1.00 per share.

On 27 November 2008 GSL announced that the shareholder and investor meetings due to be held on 1 December 2008 had been postponed to a date to be determined. The Board met on a number of occasions in late November/early December 2008 to discuss the going concern issue raised by its auditor, Ernst and Young. Following much discussion the Board resolved that GSL continued to be a going concern.

On 13 January 2009 the updated Independent Expert's report was issued, which noted, among other things:

- That Ernst and Young had included an emphasis of matter in relation to GSL's ability to continue as a going concern in its current form and therefore whether it would be able to pay its debts as when they become due; and
- The reasons the directors of GSL gave why they thought GSL would continue as a going concern.

The Independent Expert ultimately concluded that the proposals remained fair to the Investors, with the exception of the 1998 Plantation Investors.

We understand that GSL progressively received details of those growers/investors that accepted the individual offer, and based on that information was able to identify other parties to contact in order to seek support for the proposals. As noted earlier, some of the investors were offered financial incentives to vote in favour of Project Transform. Those incentives were generally reductions to the interest rates charged on loans provided by GSF.

On 20 January 2009 the Board considered the results of the cattle scheme investors vote. It noted that more than 70% of investors had voted and that the clear majority had voted in favour of the proposals. The Managing director noted that GSL at that time had available to it cattle valued at \$130m and land holdings valued at \$160m which would provide significant opportunity for asset sales and debt reduction.

The GSL Board noted on 22 January 2009 that GSF had been approached by investors/borrowers to provide varying financing arrangements with individual investors as a result of the implementation of Project Transform, was able to offer alternative arrangements on a case by case basis.

Our preliminary analysis has revealed that GSL did engage various independent advisors to advise on specific issues for decision making purposes relating to these issues. These parties included Macquarie, Freehills, Ernst and Young, PricewaterhouseCoopers and the appointment of three non executive independent directors to the Board of the Responsible Entity, GSMAL.

Role of the Responsible Entity

The three independent directors of GSMAL appointed in July 2008, formed a sub committee to oversee the proposed acquisition of the interests of investors in certain MIS. Information barrier procedures were agreed and five GSL staff were made available to the committee. Clayton Utz was appointed as legal advisors and KPMG as the Independent Expert.

Resolution One was a constitutional amendment that introduced into the project constitution a written procedure for the implementation of a binding arrangement which was used to effect the scheme proposal.

Resolution Two sought investors' approval to the proposal to in effect, exchange investors interests for GSL shares.

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By 26 November 2008, the subcommittee had met on 26 occasions to discuss and deal with the various issues relevant to the offers. On 26 November 2008, due to the impending release of the *Appendix 4E - Preliminary Final Report* by GSL, and to ensure that investors were given sufficient time to consider all relevant information, the directors of GSMAL resolved to postpone the meetings of project investors.

On 12 January 2009 (meeting 35) the directors of GSMAL noted that there had been no material change to the opinion of the independent expert other than as to the 1998 plantation proposal and, based upon the status of proxy votes at that time the proposal for that project was likely to fail in any event. It was therefore resolved that the meeting of project investors for the remaining projects on 19 January 2009 should proceed.

Issues being considered

There are a number of issues that we are continuing to investigate and consider further with respect to Project Transform. We have not been able to form a concluded view on the transaction at this time given that we have not yet been given full access to all available information, the complex legal issues that surround the transaction and the limited funds available to us to take legal advice on the matters.

The key factors that are being considered at this stage are:

- Any irregularities arising from GSL and its subsidiaries agreeing to provide incentives to some of investors to encourage them to vote in favour of the resolutions;
- Whether the explanatory memoranda and prospectuses issued in connection with the proposal satisfied disclosure obligations. Specifically, we are considering the reasonableness of the work undertaken by the Independent Expert to assess the future viability of GSL following the release of the auditor's going concern emphasis, and in particular whether GSL would be able to pay its debts as when they become due;
- Whether the issue of shares in GSL to investors in the MIS in the manner prescribed by Project Transform may have been inconsistent with section 231(b) of the Act that requires a person to agree to become a member of the company;
- The legitimacy (or otherwise), of the two resolutions proposed and passed at the meeting of growers/investors on 19 January 2009, including specifically the amendment to the scheme constitution. This area of the law is uncertain and cannot be easily determined at this time. That said, we note that two first tier legal firms were consulted by the respective Boards on this issue
- Whether voting exclusions preventing interested parties from voting on the proposals were sufficient and appropriate (and have been complied with).

We note that judicial advice does not appear to have been sought on many of the difficult legal issues arising from the implementation of Project Transform, although that was an option available to the GSL and GSMAL directors to seek. The fact that judicial advice in relation to the proposals and their implementation does not appear to have been sought, does not necessarily mean that the proposals have not been properly implemented. The directors have advised us that they relied on legal advice obtained from two leading Australian law firms and were not advised to obtain judicial advice on this matter.

8.11 Project Gyro

Following the determination of the outcome of Project Transform and the partial success of that process, management determined that further asset sales would be necessary, and formed a strategy to sell a stake in GSL's forestry assets. This was referred to internally as Project Gyro ("Gyro") and formed a significant part of the GS Group's ultimate goal to establish long term viability without reliance on annual MIS sales.

Gyro was developed as a follow up process to extend the work that Project Transform had commenced, in changing the position and core MIS reliance of GSL, with the objectives of:

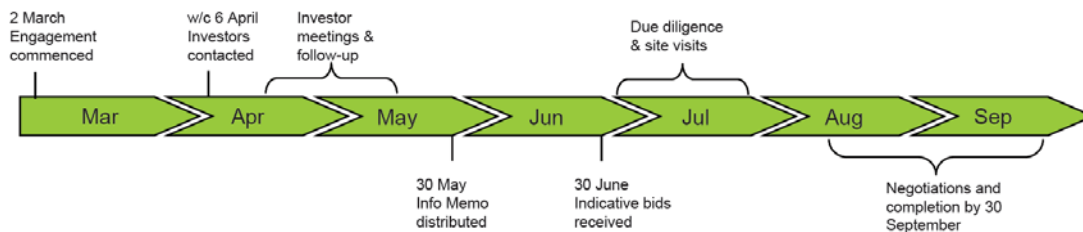
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- (a) Debt reduction - realisation of assets within 6 month period.
- (b) De-risk the business due to the uncertainty of cashflows from MIS sales.
- (c) Restructure the business with an increased focus on forestry business.

Although some exploration of the Gyro concept had occurred earlier (e.g. the sale of all or a significant stake of GSL's forestry business), the process was formalised with the Board of GSL engaging independent advisors Macquarie Capital Advisers Limited to manage the sale process on its behalf on 13 March 2009.

Whilst all of the forestry assets were being marketed as "available for sale" there was an expectation from management that the eventual deal negotiated would be for a joint venture, equity stake or some other partnering arrangement, which would also have the benefit of de-risking GSL's stake in forestry. The potential sale was marketed as "*entering into discussions with selected parties on their interest and capacity to participate in the development of the assets and business of Great Southern Forestry.*"

The proposed timing of this exercise was as follows, although subsequent documentation shows completion as due at the end of December 2009/early January 2010, and we note that this appears to have been flexible:



Macquarie Capital Advisers Limited had commenced the marketing phase and had made several presentations and met with various interested parties as at the date of our appointment, however no offers had been received.

It appears that Gyro was intended to reposition GSL as a forestry based business with a significant equity/Joint Venture partner, as part of the longer term strategy of GSL, however this process had only recently commenced at the date of our appointment, and the ultimate end form that the sale would take had not yet been determined (the project did not conclude prior to our appointment).

Gyro aimed to work with GSL's longer term objectives as:

- (a) Project Transform reduced the GS Group's involvement in non-forestry MIS schemes by converting those interests into equity, and allowing the company to then sell out of these schemes /assets; and
- (b) Project Horizon intended to promote the sale/divestment of cattle assets (Horizon was also as a result of the partial success of Transform through the unencumbered cattle assets that were created).

8.12 Javelin Transaction

Background to sale of loan book to Javelin

It was common practice for GSF to assign loans that it had written to BEN (and previously ABL), through a standing arrangement (note that in 2007 and 2008 most loans were originated directly from BEN/ABL). GSF would sell the title to loans to BEN, in exchange for an upfront cash payment for the full face value of the principal and interest loans, or based on the NPV of interest free loans. The arrangement used two facilities with BEN, one with reasonably strict qualifying criteria whereby BEN was obliged to take loans meeting certain criteria and a second which was discretionary to BEN.

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Commencing in July/August 2008, GSF examined options to sell its loans which did not meet the BEN eligibility criteria. The benefits of this process were identified by GSF as:

- Providing immediate cash inflow albeit at a discount, against collecting full value over time; and
- Freeing up staff and management time to focus on core business, instead of debt collection activities.

We also note an additional driver for this sale was that it would assist GSL in meeting a banking covenant requiring minimum cash balances as at 31 March 2009 and debt to operating cashflow ratio's.

In entering into this loan sale process, the Board noted that the value to be derived from any sale may be affected by:

- The current state of the market that was not conducive to debt sales; and
- Negative perception of Great Southern in the market as a distressed or forced seller.

GSF engaged a "top four" accounting firm ("the Consulting Firm") to manage this process being a firm that had previously provided financial consulting advice to the GS Group (who had relevant experience in this field). The remaining loans on GSF's loan book were offered for sale in two broad categories – performing loans (which were meeting loan repayments as and when they fell due) and non-performing loans (which were in arrears or where significant difficulty had been encountered in collecting the loans).

The Consulting Firm ran a marketing process for the loan book during November and December 2008, which resulted in only two indicative offers being received on 16 January 2009, one of which was from JPPL. Both offers were non-binding indicative offers at a percentage of the face value of the loans as the indicative purchase price. Both offers were subject to the completion of further due diligence.

After due diligence took place, final conditional offers were received from both parties being:

- A letter of intent from JPPL, which confirmed their interest but stated "price to be agreed". This purchase was backed by a syndicate of funding parties represented by JPPL (submitted on 13 March 2009); and
- An offer from the other party involved at 27 cents in the dollar (submitted 26 February 2009).

Subsequently, on 25 March 2009, JPPL advised GSF that the members of its funding syndicate had withdrawn their support for the transaction.

John Young ("Young"), who had retired as a director of GSF in July 2008, but maintained his directorship of GSL and certain other entities in the GSL Group, advised the Board of GSL that he had met with JPPL to discuss participating in the JPPL purchase of the loans. The Board of GSL discussed the sale of the loans to JPPL (without Young being present) and resolved that Young's involvement with JPPL would be acceptable if the Consulting Firm were able to advise that it would represent a commercial, arms length transaction. As at the date of this Report, we have not received or reviewed a copy of that advice. We note that the minutes of the 25 March Board meeting held by GSL record that such advice had been tendered to the Company. We are currently attempting to obtain a copy of this advice from either the company's records, or from the Consulting Firm. We have reviewed advice provided by the Consulting Firm, dated 20 April 2009, however this advice fails to address Young's involvement.

The offer from JPPL was subsequently revised on 26 March 2009 to require the formation of a SPV to purchase and manage the loans separate to JPPL. The revisited JPPL offer, at approximately 38 cents in the dollar was still higher than the other offer received (27 cents in the dollar) JPPL's offer was accepted by GSF.

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A new company, referred to as JAM, was registered on 31 March 2009. We understand that JAM acts as trustee of a unit trust however we are not aware of the beneficiaries of the trust, and JAM has declined to disclose those details. Also on 31 March 2009 a fixed and floating charge was created over the assets of JAM in favour of JSJA Holdings Pty Ltd, a company controlled by Young and his wife.

The initial purchase price of \$8.0m cash was paid on 31 March 2009 by Young, with a further \$1.0m payable by JAM to GSF on 30 September 2009, less any loans which were subsequently deemed by JAM to be uncollectible, which GSF would be required to re-purchase (effectively decreasing the retention amount of \$1.0m).

Whilst Young's involvement was disclosed to the Board of GSL, it was not disclosed to shareholders when the announcement of the transaction was made on the ASX on 8 April 2009.

We have considered this transaction in light of:

- (a) Whether a proper commercial and transparent sales process was undertaken in marketing and realising this asset;
- (b) Whether Young's involvement as a former director of GSF, and existing director of GSL, constituted an improper use of his position or knowledge;
- (c) Whether the transaction could be classed as an unfair director related transaction, or an uncommercial transaction that may give rise to recoveries for the benefit of creditors; and
- (d) Whether the related party nature of the transaction required disclosure to the ASX at an earlier time, and/or consent of the shareholders of GSL.

In respect of points (a) to (c) above, we note that the sale process was run by the Consulting Firm, a reputable "big four" accounting firm, which had previously provided financial and consulting services to GSF and GSL. The marketing process ran over several months and targeted a number of major typical debt recovery entities. This appears to have been consistent with an independent and arms length process.

Notwithstanding this, we consider that further investigation of the transaction is warranted. This would ordinarily be conducted by a liquidator with further powers and obligations to investigate, and would consider specifically points (b) and (c) identified above.

Further investigation of the transaction will consider information that has not been available to us for review and will then allow us to interview or examine the parties involved. Further investigations may include the public examination of officers of JAM, JPPL and/or Young. Our further review will also take into account:

1. The state of the secondary debt market at the time of the sale, in light of the impact of the global financial crisis:
2. Whether in fact an independent and complete marketing of the assets was undertaken.
3. The applicability of a suitable discount on the sale of debt given:
 - The risk inherent in the loan book being sold (it is common that the sale of debt to the secondary debt market is at a discount),
 - The quality of the loans being sold, given that the complying loans had generally already been assigned to BEN; and
 - The quantum of loans being sold as a single transaction.
4. The consideration of the loan recoveries in the absence of the JAM transaction.

Creditors should be aware of the distinction between the identification of any breaches of directors' duties and the identification of voidable transactions as noted earlier in this report.

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In terms of public disclosure of the transaction, following the conclusion of the sale, disclosure of the sale was made to the ASX on 8 April 2009 whereas the transaction was completed on 31 March 2009. The disclosure did not reveal Young's involvement with the purchaser. Further investigation and legal advice is being taken to determine whether this non-disclosure constituted a breach of any of provisions of the Act and listing rules.

At present we do not have sufficient information to make a determination in respect of this transaction, however we confirm that in our view this transaction warrants further investigation. A liquidator would conduct more detailed investigations, and would have greater powers to investigate and conduct public examinations to determine the benefit in pursuing any recoveries available to creditors.

8.13 Source and Application of MIS Funds

There has been much speculation as to whether the GS Group MIS projects simply raised new investor application monies to meet commitments made to investors on previous projects, and whether such action was compliant with the Constitutional requirements and other requirements of the Schemes and the RE. These questions are not easily answered given the complexity of the GS Group's affairs, including the number of Schemes on foot. Our investigation into these issues is ongoing at this time.

In particular, we are in the preliminary stages of reviewing the application of MIS Application Monies raised in 2008 from the following projects in accordance with applicable scheme documentation:

Project	Amount raised (Approximate) \$m
2008 Renewable Fibre	102
2008 Forestry Land Trust	12
2008 High Value Timber	83
2007 Great Southern Plantations	13
2008 Wine Grape Income	28
2008 Almond Income	16
2008 Diversified Olives Income	58
Total	\$312m

Several key documents that are relevant for consideration of this matter on a Scheme by Scheme basis include the following, although there is substantial commonality between the documents on most terms:

- The Constitution documents;
- Land and Management Agreements;
- Lease Management and Agistment Agreement (where applicable);
- Compliance Plans;
- Plantation Management Agreement (where applicable); and
- Product Disclosure Documents

Based upon our review of the above documents, our preliminary view is that the RE had the following obligations with respect to the Application Monies raised for the above Schemes:

- The RE was required to maintain the Application Monies in a separate account, namely the Application Fund, until such time as the Responsible Entity executed a LMA with the investor;
- Once the LMA was executed, the RE was authorised to release those funds held in the Application Fund into an account, namely the Suspense Fund;

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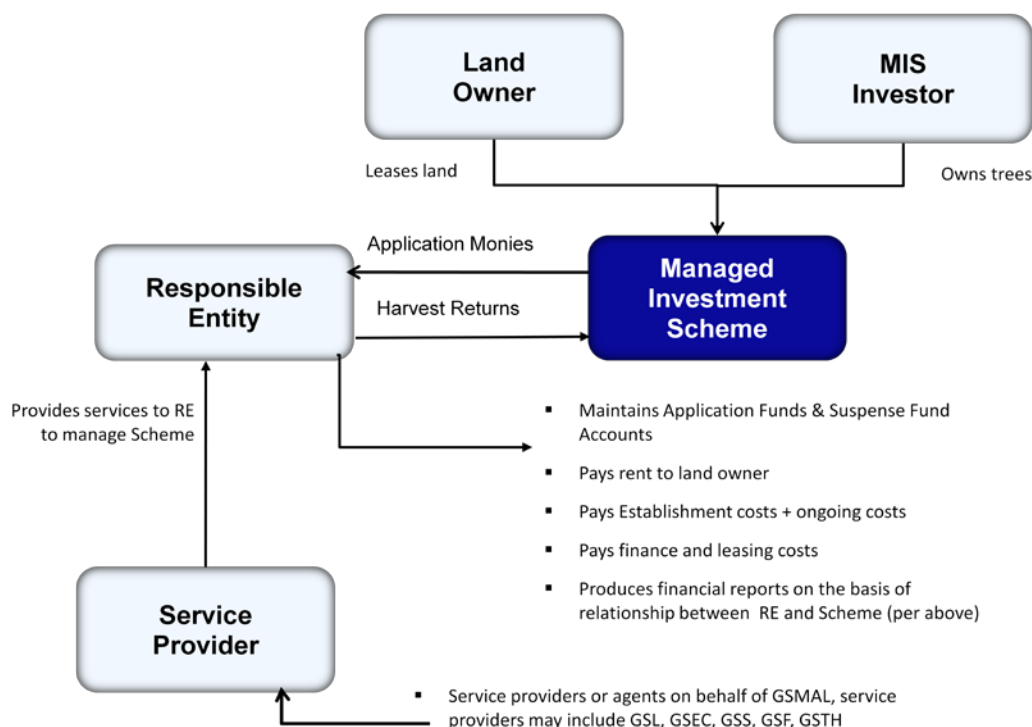
- Application Monies held within the Suspense Fund were then considered to be both beneficially and legally owned by the RE and funds would be released from the Suspense Fund to be applied to “Establishment Services”. Establishment Services were the costs and expenses of performing establishment services within the defined period under the LMA; and
- Once the Establishment Services had been rendered, there appears to have been no requirement under the documents for the RE to retain Application Monies raised from the above schemes separately in restricted bank accounts for ongoing Scheme services.

We note that the 1998 to 2003 pulpwood projects had a maintenance reserve fund requirement which were provided for through funds held in trust and by priority bank guarantees. The obligations of the RE with respect to these funds were quantified through an Independent Forester and reports, who was engaged by the RE.

Following the appointment of the R&M, the R&M obtained control over the guarantees and funds held in trust as the RE for the schemes. We understand that approximately \$6m has been retained by the R&M.

The consequence of the above provisions, and those set out in the LMA, is that GSMAL is able to use agents, including related entities, to conduct the plantation and other services on its behalf for the MIS projects and investors. In this regard, to summarise the relationships between the RE, the MIS investor and related entities within the GS Group, we have presented the following flow chart:

Operation of MIS projects: example



The beneficial ownership of the Application Monies by the RE after the LMA's were executed enabled GSMAL to use those monies for various purposes within the GS Group, including but not limited to Scheme services. In this regard, the size of the commitments remaining at any one point in time (for which monies had not necessarily been set aside by the RE), GSL estimated to be a total of commitments to complete projects 1998 to 2007 was approximately \$250m on the 11 December 2008. These projects included plantations, cattle, olives, vineyards and almond projects. Further monies would have to be raised to meet these commitments.

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As a result, at the date of the appointment of the Administrators the RE, GSMAL owed monies to related GS Group companies in the order of \$62.9m, including the following for the following purposes:

GSMAL–Intercompany Loan Payable (Book Value)	As at 16 May 2009 \$'000
GSF – Loans from GSF through funding available from securitisation process	\$(47,886)
GSLH – Loans from GSLH who had funds available from land sales	\$(5,030)
GSTH – Loans from GSTH who had funds available from Company harvests.	\$(4,073)
GSEC – Loans from GSEC through proceeds received from harvests	\$(3,430)
GSFMMF – Various monies loaned from GSFMMF	\$(1,982)
GSOH – Various monies loaned from GSOH	\$(484)
GSAH – Various monies loaned from GSAH	\$(10)
Total	\$(62,895)

We note however that subject to a requirement that the relevant services (e.g. Establishment Services) were completed by the RE in accordance with the relevant scheme documentation it appears that the investors do not have an entitlement to the Application Monies that were subsequently used by the RE or GSL i.e. once the services are completed the investor no longer has any interest in the Application Monies and there appears to be no restriction on usage of any remaining funds.

The consequence of the above provisions has meant that at the date of the appointment of the Administrators the RE (GSMAL) was owed monies by related GS Group companies to the order of \$432.4m, including from the following:

GSMAL – Intercompany Loan Receivable (Book Value)	As at 16 May 2009 \$'000
GSVH – Various monies loaned to GSVH	1,040
GSHVT – Various monies loaned to GSHVT	2,423
GSCH – Monies loaned to GSCH for Baldy Bay transaction	13,819
GSOC – Monies loaned to GSOC for property acquisitions	39,969
GSL – Various historical monies loaned to GSL	375,192
Total	\$432,443

We intend to complete a review of the flow of funds raised from MIS project applications to determine their actual application as against the permissible use of those funds. We have requested, but have only recently received, statements of funds application (Application Monies) on a project by project basis with respect to the above Schemes for the 2008 year. Our review will look at prior year's schemes following completion of the 2008 review.

Further time will be required to complete our testing in this regard. In a liquidation scenario further time would be available for investigations to be conducted as to whether there have been any breaches of the relevant MIS provisions including what disclosures were made to investors as to the intended use of monies.

We note that the books and records held by GSL on the above schemes are presently under the control of the R&M.

8.14 Disclosure - 1994 Project and first harvest

The 1994 plantation project was the first harvest by the GS Group which reportedly returned approximately 5.0%–5.5% (\$5,148 per woodlot) to investors in late July 2005, prior to finalisation of the actual harvest in September/October 2005.

A related party transaction was entered into to achieve the return to investors. In July 2005 GSEC acquired the rights to purchase the harvest timber from growers and the amount paid was higher than would have been derived through the harvesting, processing and Freight On Board sale of the timber resource.

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The effect of the transaction was to “top up” the return to investors/growers from the harvest so as to maintain a desired rate of return in the market and to address co-mingling of woodchips as scheme property and the impact of the GST. The cash amount of the top up payment was in the order of \$4m. The transaction and the basis for it were not immediately disclosed which brings into focus the continuous disclosure obligations of GSL, GSMAL and the persons involved.

We have considered, amongst other things, the following matters:

Date	Event
Prior to June 2004	<p>The project was managed by GSMAL and there were common directors on both the GSMAL and GSL Boards, which included John Young.</p> <p>Independent forester reports and agricultural research reports allude to lower than expected yields for early projects.</p> <p>Management and directors that were involved in day to day operations of GSMAL were aware and some of the GSL directors had knowledge that the productivity yields for the 1994 project were likely to be below original expectations.</p>
November 2004	<p>GSL obtained legal advice in respect of the potential purchase of the 1994 project harvest by GSMAL (on its own behalf) prior to finalisation of the harvest.</p> <p>Obligations under the LMA required returns to be paid to investors before expiry of 11 years from commencement and advice sought on administrative issues such as impact of GST.</p>
17 February 2005	<p>\$140m institutional capital raising with John Young selling down approximately 7,000,000 shares for approximately \$32m. Mr Young had specific involvement in the institutional capital raising exercise on behalf of GSL.</p>
16 March 2005	<p>GSEC was incorporated to facilitate harvesting and the sale of timber. The directors included John Young, Cameron Rhodes and Phillip Butlin (as alternate director).</p>
19 March 2005	<p>GSL obtained legal advice in respect of a subsidiary of GSL acquiring the harvest of the 1994 Project. GSEC would acquire the rights to the harvest of the 1994 project at a “maximum practical price” or “may be more than if the timber was not sold until sometime after harvesting”.</p>
April 2005	<p>We are advised that a likely return to investors in the 1994 Project, whilst still unknown, was considered likely to amount to an internal rate of return of around 5%. A 5.0% – 5.5% was communicated to agricultural market research analysts (and later referred to in GS Group’s June 2005 Roadshow presentation). This equated to \$5,148 per woodlot.</p>
28 April 2005	<p>John Young provided the managing director’s update to the Board, noting strong sales and softness in the share price due to managing director’s sell down and concern regarding strength of profit forecast.</p>

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Date	Event
12 May 2005	<p>The GSL Board considered the numerous commercial and regulatory aspects related to the proposed transaction with GSEC, as recorded on page 64 of May Board Paper, including: (a) The "Price to be paid" by GSEC (b) The use of Great Southern harvests that were "always being held in reserve for 1994 Growers" (productivity of plantations) (c) accounting disclosure (2005 Annual Report) and marketing/PR issues (d) The GST issues and (e) Legal advice obtained by Management.</p> <p>In addressing commercial considerations, the May Board Papers indicated that "the first returns from the Great Southern 1994 project may have a commercial impact on current and future sales. Whilst a lower return is defensible given the reasons outlined... it could nonetheless affect the confidence of current investors and advisors, which may impact sales".</p> <p>Further, when considering the amount prepared to be paid, the May Board Paper noted that "the amount contemplated is not significant, particularly in the context of the expected NPAT" and "The proposed payment will increase investor confidence in the ability of Great Southern to manage a forestry project to deliver a reasonable outcome. This will result in additional sales of the GS Groups projects, which in turn will increase profits to the benefit of shareholders".</p> <p>The minutes of the meeting do not indicate that the Board adopted the May Board Paper, but rather, the Board requested additional items of information in order to form its views.</p> <p>Additional items requested by the directors that required further consideration included: (a) why a 5% IRR was chosen as the most appropriate return (b) need for disclosures/provisions in the 2005 Annual Report (c) GST position on the transaction (d) whether it would be necessary to make similar provisions for 1995 and 1996 grower returns in the 2005 Annual Accounts and (e) Need to formulate a Q & A response in anticipation of Grower communications "in reaction to 1994 Grower subsidies".</p>
2 June 2005	<p>John Young is interviewed in an Open Briefing with the ASX and states that: "our investors have a high level of confidence in our ability to deliver returns as they fall due, as demonstrated by the fact that we're about to pay returns from the FY05 woodchip harvest to our 1994 plantation project investors".</p>
17 June 2005	<p>GSL Board met and amongst "other business" items on the agenda included an update from May Board Paper on the 1994 Project Standing Timber/GSEC Proposal.</p> <p>It was noted from the draft minutes that final adoption of the policy (disclosure policy) as proposed was subject to satisfactory sign-off of disclosure obligations by the Board.</p>
30 June 2005	<p>The Board of GSL resolved to approve the 1994 Project Standing Timber Proposal subject to all disclosures receiving the Boards sign off prior to the issue of information to growers, where GSEC acquired the rights to the 1994 timber for \$5,148 per woodlot.</p> <p>During the Board meeting, an overview of the 2005 MIS sales results that had been finalised was provided, a total of \$365m for FY05.</p>
25 July 2005	<p>Distributions were paid to investors, a total of \$6.4m was paid. Included in this distribution was a \$4m (before tax) supplement premium payment from GSEC, to the 1994 growers.</p> <p>A letter written from GSL to the investors identified the sale methodology through which GSEC acquired the harvest at a premium.</p>

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Date	Event
8 August 2005	<p>The GSL Board met and specifically considered the continuous disclosure obligations under listing rule 3.1, in relation to the “supplement of 1994 Grower Returns”. After considering various factors it was concluded that a reasonable person would not expect details of the 1994 Project Grower returns payments to have a material effect on the price or value of the company’s securities.</p> <p>It was noted by Alice McCleary that the Q&A material developed prior to growers payments made on 25 July 2005 had not been updated to the GS website and it was agreed to “recompose” the Q&A for access by growers regarding “How was the price of my woodlot determined?” and “Why did the wood get sold to GSEC rather than being harvested, processed and sold on a FOB basis?”.</p>
17 August 2005	<p>Board met and resolved to form an Investigative Committee to address issues raised in a letter received from former director, Jeff Mews on the 1994 Harvest.</p> <p>The Investigative Committee consisted of David Griffiths and Alice McCleary, with advice from Freehills.</p>
25 August 2005	<p>Net Profit Increases announcement to the ASX and release of the Appendix 4E Preliminary Final Report issued to the market. In an Open Briefing with the ASX, John Young discloses acquisition of timber (by a related GSL entity) from the investors by GSL of the 1994 harvest.</p> <p>GSL in the process of exporting this timber and realising the proceeds on its own account (in satisfaction of GSL supplemental payment on 25 July). The net impact to GSL cash position and accounting losses realised on harvest sale considered by the Board to be immaterial to GSL 2005 financial performance.</p>
6 September 2005	<p>Investigative Committee finalised its report and findings from Freehills. As a result of the investigations carried out, the Committee concluded that no further action in respect of the issues raised was required.</p>

As can be seen from the above chronology, the GSL Board spent significant time considering all issues associated with the 1994 Project returns.

Whether the decision of the GSL Board in respect of the need to make disclosure was appropriate is a question of fact and law having regard to all of the information that the company was aware of at the time. It is a matter that will be investigated further with the following areas of focus:

- GSL’s disclosure obligations to the ASX;
- GSMAL’s disclosure obligations to ASIC;
- The duties of the directors of GSEC in acquiring the harvest; and
- Other transactions that occurred around the same time of these transactions e.g. divestment of shares by Young.

8.15 Class actions and Shareholder actions

To date we have received correspondence from three different law firms, advising that they have been engaged by a number of aggrieved parties to consider the merits of a class action:

- (a) As against GSF, GSMAL and the directors and officers of those entities in relation to the following allegations:
 - i. Non-Disclosure of material information amounting to breach of fiduciary duties;
 - ii. Alleged breach of statutory duties by GSMAL as Responsible Entity;

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- iii. Misleading or Deceptive conduct in breach of the Trade Practices Act and Corporations Act; and
 - iv. Unlawful exclusive dealings in connection with loans offered to MIS investors.
- (b) In relation to Project Transform, we have not been provided with full details as to the claims being made, or any details on the alleged claims or losses suffered, and have requested this information from the respective law firm.
- (c) As against GSMAL in relation to alleged contraventions of sections 601FC(1) and 601FD(1) of the Act whereby it is claimed that it breached its duties as Responsible Entity, and a further alleged breach of duties by directors and officers respectively. We note that this action specifically relates to the 2006 and 2007 Beef Cattle Project which was part of Project Transform.

It should be noted that legal action cannot be commenced against a company under administration without the written consent of the Administrator, or the leave of the Court, pursuant to section 440D of the Act. The merit of these claims will be determined in due course and several of the matters raised in the claims will be subject to our ongoing investigation and the investigation of any liquidator appointed.

8.16 Breach of directors duties

Sections 180, 181, 182 and 183 of the Act, impose fiduciary duties on the directors to:

- Exercise their powers and duties in relation to the company with a degree of care and diligence;
- To act good faith and for a fit and proper purpose that is in the best interests of the corporation;
- To prevent conflicts arising between personal interest and the company's interest;
- An obligation to act only in the best interests of the company; and
- To avoid improper use of specific information that has been obtained through the directors' work with the company to gain directly or indirectly an advantage.

The objective test or standard of measure in the suspected breach of conduct of above is the reasonableness of the actions taken by directors and requiring the directors to demonstrate that their actions are the same degree and level that would be required of an ordinary reasonable person holding a similar position and responsibility in the same circumstances.

Our investigations with respect to whether there have been any breaches of directors' duties are continuing.

8.17 Summary of potential recoveries

Set out below is a summary of transactions that will be of interest to a liquidator arising from investigations discussed in this report. We note that these are potential recoveries by a liquidator in the event the Company is wound up and could be in a range of possible values and could be as low as nil.

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Potential Recovery Item	Transactions of Interest (\$)
Unfair preferences	1,093,993
Uncommercial transactions	TBD
Unfair loans	-
Unreasonable director related transactions	TBD
Transactions undertaken to obstruct creditors' rights	-
Compensation from director for insolvent trading	TBD
Compensation from holding company for insolvent trading	-
Breaches of directors duties	TBD
Avoidance of employee entitlements	-
Debts incurred by Company as trustee	-
Total	\$TBD

8.18 Report to ASIC

Section 438D of the Act requires us to lodge a report with the ASIC should we become aware of:

- Any offences committed by a past or present officer of any of the company's over which we are appointed;
- Evidence that monies or property has been misapplied or retained;
- Evidence that a party is guilty of negligence, default, breach of duty or breach of trust in relation to any of the company's over which I am appointed.

Based on our limited investigations conducted to date, we advise that we are preparing a preliminary Report to the ASIC at the date of writing which will cover matters of interest to the ASIC substantially in the form set out in this report.

We anticipate that this Report will have been lodged with the ASIC by the date of the second creditors meeting. We also confirm that we have met with representatives from the ASIC on several occasions, and continue to liaise closely with the ASIC, and provide information to the ASIC, on various matters pertaining to the GS Group as required.

Creditors should also be aware that any report lodged pursuant to section 438D (or an investigative report lodged by a liquidator pursuant to section 533 of the Act) is not available to the public.

Deed of Company Arrangement

9.1 Deed of Company Arrangement

In furtherance of the objective of our appointment as Administrators, we sought to identify interested parties that may have been qualified to propose a DOCA.

Detailed below is a chronology of the steps taken by the Administrators in seeking a DOCA proposal for the benefit of creditors and members.

Date	Item
Phase One-Data Gathering and Solicitation	
16 May 2009	Appointment of Joint and Several Administrators.
18 May 2009	Appointment of Joint and Several R&M.
29 May 2009	Argonaut appointed by Administrators as corporate adviser.
29 May 2009 to 5 June 2009	Solicitation of qualified interested parties.
5 June 2009	Execution of confidentiality deed by 5 interested parties.
5 June 2009	Data room opened for interested parties to complete their preliminary due diligence.
9 to 10 June 2009	Management presentations to interested parties.
Phase Two-DOCA Proposal Review and Submission	
19 June 2009	DOCA proposals submitted by 2 interested parties.
22 June 2009	Administrators completed a review of the proposals.
23 June 2009	Proposals submitted to the secured creditors and R&M with a recommendation from the Administrators in favour of the proposal from Och-Ziff.
26 June 2009	Meeting with the R&M to discuss the Och-Ziff proposal.
27 June 2009	Second proposal from Och-Ziff submitted to the Administrators to address concerns expressed by the R&M
Phase Three-Revision and Resubmission of Och-Ziff's Proposal	
2 July 2009	Meeting was held with the R&M to discuss Och-Ziff's second proposal.
7 July 2009	Third proposal submitted to the secured creditors and R&M that addressed a number of concerns with respect to the second proposal from Och-Ziff. Meeting held with the R&M to discuss third proposal.
24 July 2009	Meeting held with the secured creditors to discuss Och-Ziff's third proposal.
Phase Four-Och-Ziff DOCA proposal	
11 August 2009	Meeting held via teleconference with the secured creditors and R&M. Och-Ziff's third proposal was determined to be unacceptable. Och-Ziff decides to direct their attention towards proposing a fourth proposal.
17 August 2009	Meeting held with the R&M to discuss fourth proposal.
26 August 2009	Request made to the R&M to provide certain information to Och-Ziff and their advisors.
27 August 2009	Meeting with R&M in relation to the fourth proposal.
Phase Five-Receiver's Sale Process	
8 September 2009	Pulpwood Plantation Consortium, provided access to the Administrators' data room to consider proposing a DOCA.
10 September 2009	R&M data room was opened to interested parties to complete due diligence in sale process.
22 September 2009	Meeting with R&M to discuss the fifth proposal.
23 September 2009	Last day proposed by the R&M for interested parties to submit indicative offers with respect to their sale process.
25 September 2009	Draft implementation deed for DOCA for fifth proposal provided to the R&M.
1 October 2009	R&M rejected the fifth proposal present by Och-Ziff.
22 October 2009	Meeting with the R&M to discuss proposals that they had received to date in relation to the restructure of the GS Group. No DOCA proposals had been received.

Phase One - Data Gathering and Solicitation

Immediately following the appointment of Voluntary Administrators, a process was initiated to determine whether a proponent of a DOCA could be identified.

Deed of Company Arrangement

To assist with the process, the Administrators engaged Argonaut on 29 May 2009 for a period of four weeks, with a brief to assist in identifying financial or industry participants that may be interested in proposing a DOCA.

The Administrators determined that the timeframe for this solicitation process should be tight given the operational challenges faced by the GS Group and the need to find an expeditious resolution for growers. The timetable that was implemented is summarised below:

Date	Item
5 June 2009	Electronic data room activated
9 to 10 June 2009	Management presentations
19 June 2009	Submission of proposals from interested parties
22 June 2009	Notification of selection of preferred bidder

During this initial phase, five interested parties were identified who had both the financial capacity and industry expertise to propose and complete a restructuring of this nature and complexity. Interested parties included various industry participants and off-shore hedge funds.

All interested parties were required to execute a confidentiality agreement to be able to participate in the process. Interested parties undertook a preliminary due diligence review of information via:

- (a) An electronic data room that included, amongst other things, information on the group structure, scheme structures, asset ownership, industry and third party reports, historical financial information, debt profiles, security analysis and financial cash flow models prepared under a variety of scenarios; and
- (b) Presentations by key management personnel.

Interested parties were required to provide a non-binding indicative expression of interest in either a DOCA proposal or a refinance of the secured debt, as a step towards the restructuring of the GS Group.

Phase Two – DOCA Proposal Review and Submission

The Administrators received two expressions of interest from the qualified interested parties.

One proposal contemplated a compromise of the secured creditors' debt. The Administrators were of the view that this proposal was unlikely to appeal to the secured creditors.

The second proposal, received from Och-Ziff, contemplated:

- (a) Repayment of the secured creditors' debts in full, over a defined period of time; and
- (b) Funding for operations, on a secured basis;
- (c) Preservation of the core forestry schemes for the benefit of MIS members; and
- (d) Assessment of the viability of the horticultural schemes.

The Och-Ziff proposal was subject to a number of conditions, including a more comprehensive due diligence, as a step in the comprehensive restructuring of the GS Group by way of a DOCA. The Administrators and Argonaut recommended the Och-Ziff proposal on the basis that it was capable of being implemented, and in the interests of all stakeholders.

The Administrators submitted the proposals and their recommendations to the R&M and secured creditors on 23 June 2009. The Administrators were advised by the R&M that the secured creditors did not support the proposal from Och-Ziff on the bases that:

- (a) The risk of completion was unacceptable;

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- (b) The requirement for security for funding was unacceptable;
- (c) The proposal required the granting of exclusivity which was unacceptable; and
- (d) The R&M perceived they were obliged to seek expressions of interest for the purchase of the assets and as alternate RE.

A meeting was arranged with the R&M on 26 June 2009 to discuss Och-Ziff's proposal and determine whether the concerns identified by the secured creditors could be resolved. Following this meeting Och-Ziff submitted a revised proposal that sought to allay a number of the secured creditors' concerns.

Phase Three – Revision and Resubmission of Och-Ziff's Proposal

Following the revision and resubmission of Och-Ziff's proposal, the Administrators, Och-Ziff and their advisers met with the R&M and secured creditors on 24 July 2009.

Och-Ziff was advised by the R&M that their revised proposal was also not acceptable by the secured creditors, as their initial concerns had not been adequately resolved.

Phase Four - Och-Ziff DOCA proposal

In a further attempt to address the concerns of the secured creditors, Och-Ziff revised their proposal into a more comprehensive DOCA proposal. The structure of the Och-Ziff proposal as it related to the secured creditors did not change in any material sense, but a plan was developed to address the completion risk concerns that involved a DOCA proposal to preserve GSMAL as the RE.

This proposal was also not acceptable to the secured creditors.

Phase Five - Receivership Sale Process

Pulpwood Plantations Pty Ltd initiated a process on 21 August 2009 to convene meetings of growers for various forestry schemes to seek to replace GSMAL as RE with Primary Securities Limited.

The R&M initiated a sales process on 5 September 2009, seeking expressions of interest in purchase of the assets of the GS Group, and for a replacement RE for the MIS projects.

The Administrators initiated contact with Pulpwood Plantations Pty Ltd on 8 September 2009 with a view to ascertaining their interest in developing a DOCA proposal to be presented to creditors. The Administrators encouraged Pulpwood Plantations Pty Ltd to cooperate with Och-Ziff, given their experience with the process. Pulpwood Plantations Pty Ltd and Och-Ziff announced their intention to form a consortium ("Pulpwood Plantation Consortium") on 9 September 2009.

Parties, including the Pulpwood Plantation Consortium, interested in participating in the R&M' sales process were required to submit their indicative proposals on an encumbered or unencumbered basis by 23 September 2009.

The Pulpwood Plantation Consortium submitted a proposal to the R&M which mirrored Och-Ziff's earlier proposals to the secured creditors, which was again rejected by the secured creditors.

On 19 October the Administrators wrote to the R&M and requested that any DOCA proposals they had received should be submitted by 26 October 2009. In the same correspondence it was also requested that this be extended to all interested parties dealing with the R&M.

On 22 October 2009, the Administrators met with the R&M to discuss the proposals that they had received. The R&M advised that no DOCA proposals had been received.

As a consequence of the above, there are no DOCA proposals for creditors to consider at the second meetings of creditors.

10.1 Creditors' Options, Dividend and Cost Estimates

Pursuant to section 439A(4)(b) of the Act, the Administrators are required to provide creditors with a statement setting out our opinion in respect to each of the GS Group on whether it is in the creditors' interests for the:

- Administration to end;
- Company to be wound up; or
- Company to execute a DOCA.

If new and further information becomes available after the issue of this report, and creditors wish to allow further time to consider that information, then an alternative for creditors to consider is an adjournment of the consolidated second meetings of creditors for a maximum period of up to 45 business days.

Each of these options are considered below. In forming our opinion, it is usually necessary to consider an estimate of the dividend creditors might expect, and the likely costs, under each option however in the current circumstances of the GS Group such estimates are not available or may be difficult to reasonably predict with accuracy.

10.2 Administration to End

Creditors may resolve that each administration should end if it appears the relevant GS Group company is solvent or, for some other reason, control of the company should revert to its directors.

In the Administrators' view there appears no valid commercial reason why control of any of the GS Group should revert to its directors. If the administration were to end, there is no mechanism controlling an orderly realisation of assets and distribution to creditors. Further, based on our analysis of the GS Group financial information, the entities are insolvent. Also, in many instances all of the directors of the relevant company have resigned.

We are unable to say at this time what the GS Group might ultimately repay to creditors or what costs it might incur.

Therefore, the Administrators' opinion is that it is not in the GS Group creditors' best interests for the administrations of any of the companies to end.

10.3 DOCA

As no DOCA has been proposed at this point in time, the Administrators cannot recommend that any of the GS Group Companies execute a DOCA.

10.4 Winding up of Company

In the absence of a DOCA proposal, the winding up of each of the GS Group Companies must be considered by creditors. Given the nature, size and costs involved in determining the assets and potential recoveries in a liquidation scenario it is difficult to determine with any degree of certainty the likely level of return to unsecured creditors that would arise from liquidation.

Therefore, the Administrators' opinion is that it is in the GS Group Companies creditors' best interests for each of the GS Group Companies to be wound up and placed into liquidation.

Administrators' Opinion

11.1 Opinion

As stated above, the option of the administration ending is clearly not viable for the GS Group.

At this stage, as no DOCA proposal has been put forward for consideration, and no such proposal is pending to the best of our knowledge, this option falls away and cannot be considered.

The only remaining option available to creditors is to wind up each of the GS Group Companies.

Based on the above, it is therefore our opinion and recommendation that creditors should resolve that each of the GS Group Companies is wound up.

12.1 Administrators' Remuneration Report


The Administrators' refer you to the detailed remuneration report at Annexure 38.

13.1 Further Queries

We will advise creditors in writing, if practicable, of any additional matter that comes to my attention after the dispatch of this report that, in our view, is material to creditors' deliberations.

In the meantime, should creditors have any queries, please do not hesitate to contact us.

DATED this 9 day of November 2009



MARTIN JONES, ANDREW SAKER, DARREN WEAVER and JAMES STEWART
Joint and Several Administrators of
Great Southern Limited
and subsidiaries as set out in Annexure 1