

# Report to Growers for Tasmanian Forests Trust No 6 (1998 Managed Investment Scheme)



FEA Plantations Limited  
(Administrators Appointed) (Receivers  
Appointed)  
Report 28 July 2010

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## 1 EXECUTIVE SUMMARY

### 1.1 Purpose of Report

The purpose of this Report is to provide growers in Tasmanian Forests Trust No 6 (“Trust”) with an overview of:

- ▲ BRI Ferrier involvement as Administrators;
- ▲ Projected Returns to Growers;
- ▲ Proposed Harvesting;
- ▲ New Trust operational structure;
- ▲ Proposed Wind-up of Trust.

### 1.2 Formal Appointments

You are aware Peter Krejci and myself are the Administrators of FEA Plantations Limited (Administrators Appointed) (Receivers Appointed) (“FEA Plantations as the Responsible Entity” “FEAP”) having been appointed by the directors on 14 April 2010.

On 3 June 2010, the Banks appointed Tim Norman and Sal Algeri of Deloitte as Receivers to FEA Plantations. Their appointment as Receivers is limited and does not extend to the Responsible Entity, which is the management function for FEAP’s forestry investment projects.

### 1.3 Receivers Court Application

On 16 July 2010 the Receivers & Managers of FEA commenced proceedings to terminate all external leases and “profit a prendre” for Scheme Years 1996 to 1999. They have not as yet sought to terminate internal leases ie; property owned by FEA Group companies. The “profit a prendre” is a caveatable interest registered on title which recognises the rights of growers to the plantations.

The external leased land for this Scheme accounts for approximately 57% of the total plantation area and if “terminated” would have a significant impact on the likely returns to growers (ie; likely to reduce revenue by 57%). The Receivers are attempting to terminate the external land leases because of potential fire hazard and personal liability issues.

Our solicitors advised the Receivers solicitors on 27 July 2010, FEAP as the Responsible Entity is prepared to undertake all necessary site maintenance issues and as a consequence they should discontinue their proceedings. We are as yet to receive a response where we anticipate it will be favourable. Should the Receivers fail to discontinue the proceedings we will advise you accordingly.

## 2 BRI FERRIER INVOLVMENT AS ADMINISTRATORS

### 2.1 Role of BRI Ferrier

Our role as FEAP's Administrators is to look after the interests of all stakeholders including growers/investors. The Banks have appointed Deloitte as Receivers to look after their interests.

To date we have expended considerable time and effort in:

- ▲ Developing detailed realisation strategies for each FEAP Managed Investment Scheme ("MIS") project (including this Trust) which has involved planning and developing realisation strategies, budgeted cash flows, likely grower financial outcomes and stress testing of the realisation plan.
- ▲ Negotiating with potential plantation contract harvesters.
- ▲ Documenting negotiations with harvest contractors.
- ▲ Discussions with potential purchasers of FEAP's forestry plantations and associated FEA Group owned properties.
- ▲ Investigating the background of the FEA Group collapse. Currently we have not completed our investigations and are unable to comment further at this stage on the outcome of our deliberations.

### 2.2 Funding of Administration Costs

Since our appointment BRI Ferrier has funded all Administration (including MIS) costs incurred to date. They include:

- ▲ Dispatching reports to growers (in excess of \$90K to date) where the Court has authorised future communication with growers / creditors by email with the intent of preserving growers / investors interests.
- ▲ Making four Applications to the Court in respect of the convening period for the Second Meetings of Creditors, the "Decision Period" relative to the adoption of leases (2 Applications) and communicating with growers by email. These Applications were made with the support of the Creditors Committees and an Informal Growers Committee. Legal costs associated with those Applications total in excess of \$200K to date funded by BRI Ferrier.
- ▲ Extensive travel and accommodation costs.

To date Administration out of pocket expenses total in excess of \$450K funded by BRI Ferrier. No administration funding has been received by BRI Ferrier from any external source.

### 2.3 Administration Remuneration and Expenses

To date BRI Ferrier has funded the Administration of FEAP to in excess of \$2.4M. Whilst we are entitled to exercise various "liens" in respect of

recovery of part of these costs it is now necessary for each of the MIS's to fund their own budgeted future costs including our remuneration and out of pocket expenses.

Section 3 of this Report details budgeted future costs for the 1998 MIS.

### 3 RETURNS TO GROWERS

#### 3.1 Payments pre 14 April 2010

Initial thinning harvests occurred in 2008 and 2009 where growers received interim distributions of \$1,493.95 and \$613.96 per hectare. This resulted in distributions of \$1,393,855.35 in 2008 and \$572,824.68 in 2009 in all totalling \$1,966,680.03.

#### 3.2 Operating Expenses Pre Administration

Prior to our appointment, FEA Plantations as the Responsible Entity entered into a Management Agreement with FEA to undertake all Scheme operations for \$1 per month per Scheme. This Agreement was terminated by the FEA Receivers & Managers shortly after their appointment.

As a result of the termination of the Management Agreement all ongoing Scheme operating expenses will be incurred / funded at "market rates" as opposed to the previous subsidised arrangements. Scheme operating expenses moving forward include a proportionate share of:

- ▲ Head office costs including employees.

- ▲ Administrator's costs and expenses.

#### 3.3 Realisation Strategy

In completing our "stress testing" of individual plantation Schemes we looked at:

- ▲ The impact of the early harvest of plantations on grower returns. We define "early harvest" throughout this Report as "Fast Track".
- ▲ The ultimate return to growers in the normal course including the need to fund ongoing operations. We have also considered individual scheme viability should a proportion of growers fail to contribute to ongoing costs.

As a generalisation we ascertained for 1996 to 2002 Schemes ongoing operating costs are likely to be incurred at a rate faster than the incremental value of the plantations because of issues such as:

- ▲ Operating costs (head office function) will no longer be subsidised by FEA (as detailed in Section 3.2 of this Report).
- ▲ Administration / Scheme operator costs in continuing to monitor / supervise the Schemes (not originally budgeted in the PDS / Prospectus) need to be met.

We formed the view that each of the Scheme harvests should be "Fast Tracked" as opposed to being harvested "Normally" because of the abovementioned observations. Furthermore the various tenancy issues

“overhanging” each of the Schemes weighs in favour of “short term” harvesting.

### 3.4 Projected Returns

Your PDS / Prospectus contemplated harvesting was to commence in the 2015 financial year. As is detailed in Section 3.3 of this Report we believe it is in the best interests of growers to commence harvesting immediately and propose to complete it by June 2013.

Additional to our comments supporting the Fast Tracking harvest strategy we also note:

- ▲ The “Normal” harvest program does not contemplate growers funding annual lease, maintenance and insurance costs post financial year 2011 whereas they would be obligated to continue funding for a further 2 years in a “distressed” environment where “assumption” factors have the capacity to change.
- ▲ Growers commitment to continue funding the Scheme is not assured in the longer term. A failure by 10% of growers to contribute may result in the Trust being unviable.
- ▲ Under the Fast Track harvest program growers recover their investment within a defined time frame being 3 years as opposed to 5 years.
- ▲ The Fast Track harvest program is likely to be more attractive to the financiers holding security on leased property where they

hold proprietary rights which could affect the longer term outcome for grower’s.

Detailed below is an analysis of the expected cash returns to growers for the Trust having regard to the following issues:

- ▲ Historical distributions paid to growers prior to 14 April 2010.
- ▲ Anticipated future distributions payable to growers net of harvest costs and other administrative costs including our remuneration.
- ▲ Funding required (as in the past) by growers to facilitate payment of ongoing property lease rentals, maintenance and insurance expenses for the forthcoming year.
- ▲ Comparison of returns from “Fast Track” harvest to “Normal” harvest.

## Fast Track Harvesting

| Project 1998 Budgeted Realisations - Fast Track Harvesting Schedule  |                             |                      |                       |
|--|-----------------------------|----------------------|-----------------------|
|  | Form of Growers Investments |                      |                       |
|  | Annual Contribution         | Upfront Contribution | Total                 |
| Hectares under management  | 765                         | 168                  | 933                   |
| Woodlots under management  | 2295                        | 504                  | 2799                  |
|  | <b>per Hectare</b>          | <b>per Hectare</b>   | <b>Gross</b>          |
| <b>Distributions</b>   |                             |                      |                       |
| <b>Final clear harvest anticipated for Financial Year 2012</b>       |                             |                      |                       |
| Distributions paid pre 14 April 2010                                 | \$1,852.24                  | \$1,852.24           | \$1,728,139.92        |
| Anticipated distributions net of project funding post 15 April 2010* | \$4,386.29                  | \$4,386.29           | \$4,092,411.29        |
| <b>Anticipated Total Distributions</b>                               | <b>\$6,238.53</b>           | <b>\$6,238.53</b>    | <b>\$5,820,551.21</b> |
| <b>Less: Grower Payments</b>   |                             |                      |                       |
| Contributions paid by Growers post 15 April 2010                     | \$397.78                    | \$0.00               | \$304,301.70          |
| <b>Net Return to Growers post 15 April 2010 per Hectare</b>          | <b>\$5,840.75</b>           | <b>\$6,238.53</b>    | <b>\$5,516,249.51</b> |
| <b>Assumed Return per Woodlot post 15 April 2010*</b>                | <b>\$1,946.92</b>           | <b>\$2,079.51</b>    |                       |

\* Estimate only

## Normal Harvesting

| Project 1998 Budgeted Realisations - Normal Harvesting Schedule      |                             |                      |                       |
|--|-----------------------------|----------------------|-----------------------|
|  | Form of Growers Investments |                      |                       |
|  | Annual Contribution         | Upfront Contribution | Total                 |
| Hectares under management  | 765                         | 168                  | 933                   |
| Woodlots under management  | 2295                        | 504                  | 2799                  |
|  | <b>per Hectare</b>          | <b>per Hectare</b>   | <b>Gross</b>          |
| <b>Distributions</b>   |                             |                      |                       |
| <b>Final clear harvest anticipated for Financial Year 2015</b>       |                             |                      |                       |
| Distributions paid pre 14 April 2010                                 | \$1,852.24                  | \$1,852.24           | \$1,728,139.92        |
| Anticipated distributions net of project funding post 15 April 2010* | \$5,669.33                  | \$5,669.33           | \$5,289,488.39        |
| <b>Anticipated Total Distributions</b>                               | <b>\$7,521.57</b>           | <b>\$7,521.57</b>    | <b>\$7,017,628.31</b> |
| <b>Less: Grower Payments</b>   |                             |                      |                       |
| Contributions paid by Growers post 15 April 2010                     | \$795.56                    | \$0.00               | \$608,603.40          |
| <b>Net Return to Growers post 15 April 2010 per Hectare</b>          | <b>\$6,726.01</b>           | <b>\$7,521.57</b>    | <b>\$6,409,024.91</b> |
| <b>Assumed Return per Woodlot post 15 April 2010*</b>                | <b>\$2,242.00</b>           | <b>\$2,507.19</b>    |                       |

\* Estimate only

The abovementioned tables show the “Fast Track” harvesting process when compared to the “Normal” harvesting process the distribution to growers per woodlot declines by:

- ▲ \$295.09 on an Annual Contribution basis
- ▲ \$427.68 on a Prepaid Contribution basis.

Based on our assumptions if the Scheme were to continue on a Normal basis where grower contributions were paid each financial year until completion of the Normal harvest (as opposed to just one year in the above tables) grower returns would decline by the amount the growers

themselves have contributed. On this assessment it is in grower's interest to adopt the "Fast Track" harvest.

### 3.5 Harvesting Contract

Preparatory to commencement of the harvest we have negotiated a Master Log Purchase and Management Agreement with Pentarch Forestry Services (VIC) Pty Limited ("Pentarch"), a suitably qualified timber purchaser, to complete the harvest and sale of the Trust's plantations (see Section 5 of this Report). An amendment applicable to this Trust for the purpose of the Master Agreement with Pentarch remains to be finalised.

### 3.6 Qualification to Anticipated Grower Returns

BRI Ferrier has not audited the information provided to the Administrators by FEA or FEA Plantations as the Responsible Entity. Whilst the Administrators believe that the material contained in this Report, particularly projected returns are accurate, we cannot and do not warrant the accuracy of them. The projections make assumptions about future events which potentially are outside our control as Administrators to accurately warrant. Therefore we expressly disclaim any liability in the event there are variations in them as included in this Report.

### 3.7 Comparative Analysis of Anticipated Grower Returns against PDS / Prospectus

Forecast returns to growers as detailed in the PDS/Prospectus were based upon assumed future growth rates for the plantation trees over time. This

estimate is known as the Mean Annual Increment ("MAI"). Investment returns as originally projected to Growers were not based on monetary values (real dollars) due to the extended investment time period (in excess of 10 years) but based on an assessment of potential forest plantation growth rates.

The PDS forecast MAI was 25 whereas the MAI for this Trust over its duration is 21.9 MAI as assessed by an Independent Forestry Report.

### 3.8 Timing of Future Growers Distributions

We anticipate making an interim distribution to growers prior to March 2013 with a final distribution in September 2013 / October 2013 – earlier if possible.

It is anticipated the final distribution will occur within six months of harvest completion which is always subject to change. We will keep growers informed of future developments as they occur.

## 4 COMMERCIAL DEVELOPMENTS

The FEA Group has become the subject of insolvency administration due to a failure to honour financial commitments of the parent company FEA. The Banks as secured creditors through its Receivers have sought to impose legal obligations / sanctions in respect of the 1996 to 1999 MIS's where those issues potentially include disenfranchising the interest of growers. This has been explained in greater detail in Section 1.3 of this Report.

This action commenced by the Receivers has the capacity to upset the viability of this Trust. We have developed a number of strategies to deal with this issue should the Receivers not accede to our request to discontinue the proceedings. These will be outlined in time should they become necessary to implement. In the meantime the best strategy being implemented is to protect your interests by the imminent harvest of the plantations.

## 5 HARVESTING

### 5.1 Harvest Agreement

FEA Plantations as the Responsible Entity entered into a Master Log Purchase and Management Agreement for the harvest of the FEAP plantations on 2 July 2010 with Pentarch who is an independent harvest and sales manager.

A variation of that Agreement specifically applicable to this Trust is currently being negotiated and will be executed when consent is obtained from the relevant Government authorities allowing the harvest to commence.

The Agreement as already negotiated provides for:

- ▶ Pentarch to act as a manager of the harvest process.
- ▶ Pentarch to enter into contracts and incur debt with third party harvesters and haulage contractors on its own account.

- ▶ Pentarch to sell harvested trees to third parties with monthly payment obligations to the custodial account of FEAP as Responsible Entity.
- ▶ Pentarch to provide a security deposit to FEA Plantations as the Responsible Entity to guarantee its payment obligations for logs harvested.

### 5.2 Harvest Completion

Based on commencement of harvest following consent by the relevant Government authorities, it is expected to be completed by June 2013.

## 6 ONGOING OPERATION OF TRUST

### 6.1 Operational Funding

Ongoing operational costs will be funded by lease, maintenance and insurance invoice contributions as historically rendered to growers and from harvest proceeds. Funds received from growers are to be segregated separate to all other FEAP/FEA group activities.

### 6.2 Grower Invoices

FEA Plantations as the Responsible Entity has an entitlement to invoice growers for \$304,301.70 plus GST for lease and maintenance expenses, and \$57,165.63 plus GST for insurance expenses as projected for the period 1 July 2010 to 30 June 2011 (insurance is billed 1 October to 30 September for each year). Payment of invoices rendered will fund all

operating expenses until completion of the Scheme (including leasing, maintenance and insurance). Your respective invoices will be forward to you in the next week, where they are due for payment by 31 August 2010.

Should the anticipated operating budget result in a surplus any excess contribution by growers will be refunded on completion of the harvest.

**If you fail to pay your individual grower invoice it is likely you will jeopardise the financial viability of the Scheme and your future distributions (budgeted in Section 3.2 of this Report) are likely to be significantly reduced. A failure to pay your invoice in all probability will result in the loss of your investment.**

Some growers are currently indebted to FEAP for previously rendered but unpaid invoices. These invoices on an individual basis will be offset against either current cash at bank held in the MIS custodian account or against future harvest proceeds. Statements requesting payment of unpaid residual balances will be rendered to growers shortly.

### 6.3 New Custodian

Prior to our appointment, Forest Enterprises Australia Limited (Administrators Appointed) (Receivers & Managers Appointed) (“FEA”) acted as the Custodian for FEA Plantations as the Responsible Entity. The Custodian holds the Trusts assets on “trust” (“custody”) for FEAP as Responsible Entity on behalf of the Scheme growers.

As a result of FEA’s insolvency, the Custodial Agreement with it terminated. We have appointed Sandhurst Trustees Limited (“Sandhurst”) to act as the new Custodian.

Sandhurst was established in 1888 and is one of Australia’s largest Custodian and Trustee operators. As an independent Custodian, it is a subsidiary of Bendigo and Adelaide Bank Limited.

### 6.4 Annual Managers Report

FEA Plantations has an obligation to provide growers with annual managers and independent forester’s reports based on the performance of the Trust over the previous year. We have not mailed these reports to growers however they are available for inspection on our website at [www.briferrier.com.au](http://www.briferrier.com.au).

## 7 POTENTIAL WINDING UP OF TRUST

### 7.1 Potential Winding Up

Following our investigation of the financial position of the Scheme and FEAP and in light of issues attaching to the Banks security and the recent Court applications commenced by the Receivers (detailed in Section 1.3 of this Report) we are of the opinion the Scheme **may** need to be wound up in certain circumstances.

Should it become desirable to wind up the Scheme appropriate Court Orders will need to be sought to achieve that objective. In a formal sense we are obliged to give you notice before an Application is made to the

Court seeking to wind up the Scheme. It is currently not our intention to wind up the Scheme however we will advise you in writing if it becomes necessary.

Reasons necessitating a winding up of this Trust include:

- ▲ There is a statutory requirement to wind up a Trust on completion of its objectives.
- ▲ A winding up provides the Trust's Liquidator with greater flexibility in managing trust expenses and the potential to disclaim onerous obligations.
- ▲ By winding up the Trust growers could receive their final distribution within a shorter time frame.

**Should individual growers disagree with the potentiality of winding up the Trust (should it be necessary in our opinion) please advise us in writing within 10 days supporting any contrary views.**

## 7.2 Cost of Winding Up

On completion of the winding up of the Trust / completion of the harvesting process we will provide all growers with a detailed analysis of costs in harvesting and winding up the Trust.

## 8 CONTACT DETAILS

Should you have any queries in relation to the above please contact either Ronnie Staub or Wilson Zeng of my office on 02 8263 2300.

Yours faithfully  
FEA Plantations Limited



Brian Silvia  
Joint Administrator