

1 July 2009

Dear Debentureholder,

Donovan Oates Hannaford Mortgage Corporation Limited (Receivers & Managers Appointed) (in Liquidation) ACN 086 879 307 (“DOHMC” (or the “Company”))

Seventh Report to Debentureholders

Purpose and Contents of this Report

The purpose of this report is to provide Debentureholders with an update in relation to:

- our activities as Receivers and Managers (“Receivers”) since our last report dated 3 February 2009;
- an update of our residential sales strategy implemented this year to take advantage of consumer demand;
- an update of our sales strategy for the remaining residential, commercial and industrial units;
- our forecast expectations on returns to Debentureholders, including future distributions;
- our ongoing investigations; and
- other relevant matters.

This report is set out under the following headings:

Section	Description
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2	Background and Context
3	Asset Realisations and other progress made to date
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Section 1: Summary

- You will continue to receive further monthly payments of principal of the usual amount on or around the 14th of every month until at least March 2010.
- You will receive a 10 cent in the dollar “surge” payment on or around 16 July 2009 in addition to your regular monthly payment.
- We propose to update you with a brief report by circular on or around 30 September 2009 with a detailed report (such as this report) on or around 1 February 2010.
- We anticipate being able to pay an additional “surge” payment in mid October 2009. The amount will be advised in our circular of around 30 September 2009. Our ability to pay this surge payment will be dependant on asset realisations over the coming quarter.
- Our updated estimated Debentureholder total return is approximately 70 cents in the dollar.
- There are risks that this estimate will not be achieved for reasons such as unexpected rectification costs as a consequence of the poor quality of the properties, further deterioration in the economy and worse than expected demand for the industrial/commercial units.

Section 2: Background and Context

We, Greg Hall and Phil Carter, were appointed as Receivers and Managers of DOHMC on 27 February 2008. We have provided six previous reports to Debentureholders dated 28 February, 2 April, 2 June, 7 August, 7 November 2008 and 3 February 2009. Copies of these reports can be located on our website; please see section 10 for further information.

This Seventh report represents a further update for Debentureholders. It should be read in conjunction with the previous reports as we have not sought to repeat information contained in earlier reports.

Section 3: Asset Realisations and other progress made to date

(i) Assets Realised to date

As highlighted in previous reports, the numerous complexities around the wide variety of properties in the portfolio has resulted in a significant amount of time spent in understanding, preparing for sale and realising the available assets. The table below summarises the asset realisations achieved to date and has been prepared in a consistent format to previous reports. We have included results from our previous report by way of comparison.

Table 1: Summary of gross asset realisations to date

Asset Class	As at 30 June 2009 \$'m	Last report as at 3 February 2009 \$'m	Description
Cash at Bank 27/02/08	30.9	30.9	Cash at Bank on Appointment & therefore this number will not change
Realisations			
Completed Property Sales	34.3	11.9	Proceeds from the sale of units
"Performing" loan repayments	9.0	7.2	Collected from property settlements
Shareholder Loan Repayments	3.7	2.7	As of the date of this report \$3.7m has been paid by the Shareholders with further realisations expected within the next 6 months.
Rental Income	3.6	2.1	Currently c.\$0.6m per quarter
Interest Income	1.5	0.8	
Total	83.0	55.6	

**This table does not include associated costs incurred in realising these assets*

(ii) Property

Property realisations achieved to date can be best summarised into two distinct phases.

Phase 1 – 27 February 2008 – 3 February 2009

During this period our focus was on understanding inherent building issues with the individual properties and preparing units for release to the market. Units that were vacant and not yielding rental income were released onto the market with agents who had been engaged prior to our appointment. 29 properties were sold.

As was reported to Debentureholders in February 2009 in our 6th report, realisations from completed property sales were \$11.9m with a further \$3.6m under contract with the funds realised soon after.

In addition to these sales, which represented approximately 10% of property available to the Receivers, our focus was directed at performing rectification works at 40 sites in order to enhance and maximise future asset realisations.

In October 2008 the federal government introduced the First Home Owner Grant Scheme ("FHOGS") to stimulate activity in the economy through the property sector. This scheme provided

significant financial incentives for property acquisitions by first home owners, particularly for properties under the value of \$500,000.

In February 2009 we refined our residential sales strategy to capitalise on this government initiative and the positive impact it was likely to have on the DOHMC portfolio. With approximately 230 residential properties in the DOHMC portfolio with most in the first home buyers price bracket, we engaged specialist property consultants to drive the execution of this sales strategy, referred to as phase 2. These consultants were or are engaged directly by DOHMC as a more cost effective option.

Phase 2 – 4 February 2009 - ongoing

Phase 2 involved a much more aggressive approach to the realisation of property. Consultants have been engaged to prepare properties for sale and manage the marketing and realisation process. This includes ensuring vacant possession where tenanted, disclosing or resolving issues with the properties which includes structural issues, body corporate issues, rectification of building problems, painting, providing new carpet in some cases and clean up.

A new project marketing sales strategy was implemented. The DOHMC portfolio was divided into geographic locations and submissions were sought from prominent local real estate agents who had experience in both rent rolls (tenants) and project marketing sales processes. Once agents were selected, the units were prepared and listed on the market,

Current market valuations were undertaken for a selection of units within each building to benchmark list prices. Strata reports were obtained and any issues deemed to compromise the sales campaign were resolved to the extent feasible. Floor plans were used to assist in marketing properties that were tenanted.

By April 2009, the majority of the properties had been prepared and were available for sale. Residential project marketing strategies were used such as setting up a display suite within each building and with purchasers directed to available units within their individual price points.

To date, we have achieved the following approximate results:

- 70 properties have settled
- 60 properties have exchanged
- 50 properties under offer.

Dealing with predominately first home buyers has been a relatively drawn out and time consuming process. This is because first home buyers are inexperienced, valuations on behalf of lenders do not always support their offers and lenders requirements have become more stringent. Consequently, there are a significant proportion of sales that “fall through” due to, for example, inability to secure the required finance.

It is anticipated that over the following months to the end of September 2009 the DOHMC team will continue to focus on:

1. seeking offers for the properties not currently under offer
2. converting the properties under offer to exchange
3. progressing properties that are exchanged to settlement.

We anticipate that by the end of the calendar year the residential component of the DOHMC portfolio will be less than 50 properties. These residual properties are likely to be the more difficult

to sell being located in less attractive areas, have design issues and/or with limitations on occupation/use. Hence, finalisation of the sale of all residential properties is likely to progress well into next year.

(iii) Performing Loans (Book Debts)

As at the time of our appointment as receivers, the company held 10 performing construction loans which totalled \$19.6m. To date we have received \$9.0m in relation to these loans and the progress made can be summarised as follows:-

- We have collected 7 loans in full from property settlements totalling \$6.1m;
- As advised in our last report, we had taken possession as Mortgagee of a further 2 loans resulting in an additional 9 units coming under our control.

We have taken all reasonable steps to collect the last remaining construction loan however, the ability of the developer to repay in full has been hindered by the current property market. As a result we have performed the following:

- Requested that the developer refinance the loan or provide additional repayment to DOHMC to enhance its security position;
- Set key milestones for the developer to meet to ensure that positive steps are made to repay the loan; and
- Continued to closely monitor performance of the developer, reviewing regular updates and participating in meetings to ensure they continue to meet strict requirements.

The borrower continues to be cooperative and is currently pursuing new refinancing opportunities that could settle the loan by early 2010. Whilst we understand that this may be challenging due to the current economic environment, the borrower continues to realise properties, paying down the loan. Since our last report this loan has reduced by \$1.8m as a result of property sales.

(iv) Other progress made to date

Townhouse development site under construction

The rectification of the 7 townhouses within stage 1 is complete with these properties actively marketed at present.

Stage 2 involves the construction of 8 townhouses and works that provide services for the entire development. We have considered the sale of stage 2 as a site to other parties who can complete the works but, this is not possible under the Development Approval and based upon valuation advice would yield a much lower outcome compared to completion of the development by the Receivers.

Prices received for sales achieved to date for the stage 1 properties are consistent with our estimates however, these sales can not be completed until the strata plan is registered for these units which is forecast to be in October 2009. Completion of stage 2 is forecast for mid 2010. Note, the proceeds from sale of these properties are not recorded in table 1 (page 3) as they have not completed.

To ensure that cost and time overruns are minimised we have engaged experienced project managers to coordinate onsite trades and subcontractors and a development manager with in excess of 20 years development experience.

Legal Cases

As noted in our last report, several disputes involving litigation on behalf of the Company exist that had commenced at the time of our appointment. In pursuing these cases, we are constantly reviewing the cost/benefit of continuing as we are always mindful of seeking to achieve the maximum net realisation for Debentureholders.

Following a recent judgment, mediation for one particular dispute was undertaken during June, resulting in a reasonable settlement. This will involve possession and sale of property with the majority of its value applied for the benefit of DOHMC and therefore Debentureholders.

Further enforcement action

As previously reported, DOHMC was a mortgage lender that lent money to property developers and as a result of defaults, DOHMC was forced to take possession as Mortgagee as a means to recover their borrowings.

As well as having security over the underlying property assets, DOHMC sometimes held security over other assets. Due to the completion sales strategies adopted over recent weeks we have now sold all of the properties in four of the developments at Terrigal, Oxley Park, Westmead and Guildford. Settlement proceeds are recorded in 'completed property sales' in table 1 on page 3. We are focussed on completing sales at a further seven developments by December 2009.

As expected, sale prices achieved on these properties were insufficient to recover all moneys owed to DOHMC and we are assessing possible legal action against relevant borrowers to seek further recovery. Our overarching objective is to maximise the return to Debentureholders, only commencing action and incurring costs where we reasonably assess the claim has good prospects and the borrowers have capacity to pay. Unfortunately, we are not optimistic at this stage of significant recovery from this source as the majority of these developers are in liquidation, with their principals often being undischarged bankrupts.

Section 4: Distributions

The following table summarises the distributions made to Debentureholders to date.

Table 2: Distributions Summary

Date	Total Distribution to Debentureholders (\$)	Worked example (\$)	Description	Character of Distribution
12/03/08	1,361,620.93	65.15	Accrued interest (Feb 2008)	Interest
14/04/08	1,449,425.80	69.64	Accrued interest (Mar 2008)	Interest
14/05/08	21,093,511.41	1,000.00	10% Principal distribution	Principal
14/05/08	1,440,904.00	68.31	0.683% Principal distribution	Principal
13/06/08	1,441,454.35	68.34	0.683% Principal distribution	Principal
14/07/08	1,441,398.27	68.33	0.683% Principal distribution	Principal
13/08/08	1,441,398.10	68.33	0.683% Principal distribution	Principal
12/09/08	1,441,398.39	68.33	0.683% Principal distribution	Principal
14/10/08	1,441,398.25	68.33	0.683% Principal distribution	Principal
14/11/08	1,441,396.13	68.33	0.683% Principal distribution	Principal
12/12/08	1,441,396.19	68.33	0.683% Principal distribution	Principal
14/01/09	1,441,398.78	68.33	0.683% Principal distribution	Principal
13/02/09	1,440,375.58	68.33	0.683% Principal distribution	Principal
13/03/09	1,441,398.05	68.33	0.683% Principal distribution	Principal
14/04/09	1,441,396.35	68.33	0.683% Principal distribution	Principal
14/05/09	1,440,733.43	68.33	0.683% Principal distribution	Principal
12/06/09	1,440,716.91	68.33	0.683% Principal distribution	Principal
Total	44,081,320.92	2,091.40	19.562% Principal distribution	Principal

The interest component of distributions was based on interest at 8.2% per annum.

Historic Distributions

Since our appointment we have continued with our strategy of maintaining the monthly distributions of around \$1.44m as well as making an additional 10 cents in the dollar distribution in May 2008.

To date we have distributed \$44,081,320.92 to Debentureholders. Of this amount, \$41,270,274.19 is classified as a return of principal which represents a return of 19.562% of the balance owed to Debentureholders as at the date of our appointment.

Future Payments

We are pleased to confirm that due to asset sales achieved to date we continue to have sufficient funds to distribute money to Debentureholders in line with the distribution plan proposed in previous reports. With our expectations of property sales we predict we will be able to continue monthly payments to at least March 2010.

On this basis our distribution plan will continue to include two components:

- Monthly distributions equivalent to the principal paid to each Debentureholder in each month from May 2008 to June 2009. These will continue up until at least March 2010; and
- Additional payments, in excess of the monthly amount paid, in the event of surplus funds arising.

Surplus Funds

We are pleased to advise that we intend to pay an additional payment of 10 cents in the dollar during July 2009. This will be paid within 2 days of the regular July payment. Hence, July 2009 payments will be:

- The regular monthly payment (being the same as the amount paid to you on or around 14 June 2009); and
- An amount of approximately 10 cents in the dollar of Debentureholders' principal account outstanding as at the time of our appointment on or around 16 July 2009. This will be equivalent to the "surge" payment paid to you in May 2008.

As we noted in our last report, any further downturn in the property market could result in a change to our realisation strategy. Any reduction in property realisations will directly impact our ability to continue to meet both the monthly and one off distributions.

Section 5: Ongoing Property Strategy

As stated in previous reports, excluding the site under construction, the property portfolio can be split into three broad property categories namely residential, commercial and industrial units. Progress made to date and our ongoing strategy is discussed in more detail below:

(i) Residential Units

All residential properties within the DOHMC portfolio that can be on the market are on the market and will continue to be marketed/advertised as appropriate. We continue to keep the focus on converting properties under offer to exchange and units exchanged to settlement. Certain units which are either located in regional areas, have a qualified use/occupation (e.g. SEPP5) or have a price point circa \$1million have been difficult to sell and we expect will remain difficult to sell.

It should also be recognised that sales volumes have started to reduce as the number of purchasers within the first home buyers pool is being diminished as a result of the activity in the market as a whole. Units that remain attractive in the current market due to their compliance with the FHOGS will continue to be advertised within an aggressive sales campaign.

Winter is usually a slower season for residential sales and we have adapted by developing a simple and cost effective internet marketing campaign for any of the units that do not comply with the first home buyers market during this period. A more active re-launch during the spring/summer months will be instigated where we anticipate that the demand of any residual residential property to pick up towards the end of the year.

Notwithstanding this marketing campaign, due to the quality of the remaining stock it is anticipated these units will sell slowly over the coming months/year.

(ii) Industrial and Commercial Units

Consistent with our last report, the market for the industrial and commercial property in the portfolio remains bleak. Given the strong sales results achieved to date with the residential component of the DOHMC portfolio, focus is now being shifted to engage consultants with industrial expertise to co-ordinate a more aggressive marketing approach of the industrial and commercial strata units.

Interviews have been undertaken with candidates to ensure the appropriate skills are engaged to undertake this task. In most instances, real estate agents are already appointed to this part of the portfolio however, due to the very thin market, marketing budgets are limited and sales are slow.

Our forward strategy will be to engage the appropriate consultants to remedy or minimise the impact of outstanding building issues then to actively market the units for lease, sale or both. By endeavouring to lease the units it is intended to broaden the marketability of the units to both owner occupier and investment users whilst generating a return for an otherwise un-saleable unit.

Section 6: Estimated Outcome

In our second report to you dated 2 April 2008, we forecast that the estimated return to Debentureholders was to be around \$150m, which translated to a return of approximately 70 cents in the dollar based on the total amounts owed to Debentureholders at the time of our appointment.

Whilst we still remain confident that we will be able to achieve a return to Debentureholders of around 70 cents in the dollar, our original estimate was performed between February and April of 2008 and a number of factors have come to light which were not apparent at that time which have provided challenges to our strategy. These include:

- The Global Financial Crisis and the impact on the Australian economy, resulting in unit prices falling from the valuations obtained as of February 2008. In addition, some have ended up being unattractive compared to local competition which has placed pressure on sales prices and demand.
- Due to the poor quality of some of the properties as discussed earlier in this report, additional costs have been incurred to rectify nearly every unit prior to listing on the market. Rectification works have often been extensive but, necessary to comply with statutory requirements and to achieve sales. We have also performed non essential rectification works to increase marketability and we have achieved improved prices as a result.
- Additional building costs for the townhouse development site. Our estimates as of April 2008 were based on estimates made by the directors of DOHMC and the consultants who were engaged at that time. Their estimates were significantly lower than the actual costs of rectifications and works which we have since identified. We are about to embark on more significant construction works on this site which are forecast to maximise funds for Debentureholders from this site.

Future and uncertain risks

Whilst we remain on track to achieve the forecast return of 70 cents in the dollar to Debentureholders, the following challenges remain significant factors which will impact our ability to meet our forecast distribution levels. These factors are largely outside of our control.

- Significant concern over the poor performance of the Sydney commercial and industrial property markets and the likely impact that this will have in relation to the 44 industrial and 13 commercial units which remain in the portfolio.
- The ability of the developer responsible for the remaining 'performing' loan to achieve the refinancing of its debt.

We will continue to update Debentureholders in further reports.

Section 7: Investigations

We have completed a significant amount of our investigations into the affairs of the Company however, as this work is ongoing we are unable to comment further to Debentureholders at this stage.

Our investigations of the conduct of third parties is also ongoing and can not be completed until properties are sold and losses are crystallised. As some of the properties have now been fully sold we should be able to progress some of these potential actions shortly. We should be able to update you further in our next report.

Section 8: Shareholder Loan Accounts

As previously reported, at the date of our appointment as receivers the accounts of DOHMC included Shareholder loans of \$6.5m. These loans were made by DOHMC to its Shareholders: related party companies which were ultimately controlled by each of the Directors of DOHMC

Negotiations are continuing in relation to the Shareholder loan repayment plan and \$3.7m has been repaid to date. At this time, we will not disclose specifics in relation to the personal financial situation of Directors however, as mentioned in our previous report, we note that some Directors will be able to repay their loans sooner than others.

Section 9: Receivers' Remuneration

Our fees to date (drawn with the approval of the Trustee) are \$3,261,300.

The following represent some (but not all) of the key tasks that we have performed to date:

- Taking control and organising the management of over 300 units, plus ensuring appropriate work is performed to reach a saleable condition;
- Implementing and monitoring the accelerated property sales strategy for over 230 residential units (value approx \$70m) from January 2009 to June 2009 to take advantage of demand caused by the First Home Owners Grant Scheme ("FHOGS");
- Dealing with trading issues such as the day to day operating requirements of the business and ensuring appropriate structures are in place for the business to continue to operate to the extent necessary; including dealing with many of the Debentureholder queries, maintaining the Debentureholder register, dealing with most of the day to day expenses and assisting in the provision of historical information;
- Undertaking investigations into the Company, its Directors and other parties associated with the Company;
- Dealing with Debentureholder communications;
- Dealing with Goods and Services Tax issues which are complicated by the fact that the sale of property is the sale of property owned by borrowers of DOHMC and that the GST obligations on sale are determined by the GST position of the borrower; and
- Completion of our statutory duties.

As noted in our previous report, a significant proportion of our work will be non-recurring and that some of these issues would have been encountered by the Company whether or not the Receivership had occurred.

Section 10: Other Matters

Business Premises

We continue to maintain the DOHMC Port Macquarie office located at Suites 9 & 10, 111 William Street, Port Macquarie and you can contact the Company on (02) 6583 0444 or 1300 654 849.

Staffing Matters

Peter Hannaford, who was employed on a part time basis, left the business as 5 March 2009. Peter continues to remain as a Director of DOHMC for statutory purposes. Please note that none of the directors are paid for this role.

We continue to employ three other staff in the Port Macquarie office. This remains the most cost effective staff structure for the Receivership limiting the time requirements of the Receivers' staff for many administrative issues.

Liaison with the Trustee

The Trustee, Trust Company Fiduciary Services Limited, holds the security over the assets of DOHMC on behalf of Debentureholders. We provide reports to and continue to be in frequent contact with the Trustee to seek their input and approval in connection with important matters associated with the Receivership.

Future Communication

We will provide a short circular on or around 30 September 2009 to provide details of the proposed "surge" payment in mid October and a more comprehensive report on or about 1 February 2010. In the meantime, if you require further information or have questions please use one of the following:

- Visit the website www.pwcrecovery.com by selecting 'Donovan Oates Hannaford Mortgage Corporation' under 'Businesses Under Management' for regular updates and information in relation to DOHMC.
- Call the DOHMC Port Macquarie Office on 1300 654 849.
- Write to:
The Receivers and Managers
Donovan Oates Hannaford Mortgage Corporation Limited (Receivers and Managers appointed) (in Liquidation)
PricewaterhouseCoopers
GPO Box 2650
Sydney NSW 1171

Section 11: Next Steps

- We propose that the next communication will be on or about 30 September 2009.
- You will continue to receive further monthly payments of principal on or around the 14th of every month until at least March 2010. Payments beyond this time will be advised in future reports; and
- You will receive a 10 cent in the dollar "surge" payment in July in addition to your regular monthly payment;

Yours sincerely



Greg Hall
Receiver & Manager



Phil Carter
Receiver & Manager