

## NOTICE TO DEBENTUREHOLDERS

28 February 2008

Dear Debentureholder

### **Donovan Oates Hannaford Mortgage Corporation Limited (Receivers & Managers Appointed) ACN 086 879 307**

On Wednesday 27<sup>th</sup> February 2008 the Directors of Donovan Oates Hannaford Mortgage Corporation Limited (DOHMC) requested that the trustee for debentureholders of DOHMC, Trust Company Fiduciary Services Limited (Trustee) appoint a Controller over the property of the company charged in favour of the Trustee.

As a result I was appointed, together with my partner Phil Carter, Receiver and Manager, (together, Receivers), of DOHMC later that day.

I am writing to inform you of this event and provide some information in relation to how this is likely to impact you and what the next steps are in relation to our appointment.

Also enclosed with this notification is a letter from Peter Hannaford, director of DOHMC.

#### **What is the role of the Receivers?**

The role of the Receivers is to act as an independent party that effectively takes control of the property of a company in order to ensure that the property is protected in the interests of the debentureholders. The Receivers are empowered to administer the property and manage the company.

The Receivers are appointed pursuant to a company charge which is a form of security that the Trustee maintains on behalf of debentureholders. This security entitles the debentureholders to be paid in priority to other pre-receivership creditor claims, except for employees' claims which will be relatively minor.

#### **What are the reasons for the appointment?**

The following points are relevant in explaining the background to our appointment and the reasons why the Directors sought the appointment:

- The Directors recently contacted the Trustee to discuss the future conduct of the business.
- The Trustee engaged us to assist them and we first met with the Directors late last week.
- The Directors advised that they wished to wind down the business activities, and to determine a strategy by which the business of the company could be ended over a period of time. They also expressed a concern that if nothing was done, the company could at some time become insolvent. They had recently conducted a

28 February 2008

review of the assets and liabilities of the company which indicated that, dependant upon valuation accuracy, the assets could be exceeded by the liabilities. The value of the assets was arrived at after making allowances for the fall in the value of the properties which secure the loans that have been made to DOHMC's customers.

- The Directors advised the company has approximately \$30M in cash and its loans to its customers are secured by 1<sup>st</sup> mortgages on property. Unlike some other companies operating similar business models, there are no other lenders holding a first mortgage in front of debentureholders' interests.
- The Directors wished to ensure that the company would not run out of funds at some future date. This may have occurred if redemptions continued to be paid or if properties needed to be sold, in both instances, at an accelerated rate.
- The key risk identified by the Directors was that later maturing debentureholders may have been worse off.
- The Directors decided that a controlled wind down of the company's activities would be the best outcome for all debentureholders. This required a freeze on redemptions, ie the repayment of principal other than on a pari passu basis (ie repayments of principal should be on an equal basis to all debentureholders).
- Given the information currently available, the prospects of a relatively high level of return to debentureholders is good.

#### **What this means**

Whilst it is not possible to make definite statements or promises at this time and for some aspects legal input will be required, I make the following comments based on information currently available:

- Monthly interest (or an amount equal to or greater than monthly interest) is expected to be to be paid for at least the next 12 months from our appointment date after which an assessment will be made as to the amount and regularity of further payments. This will ensure that debentureholders receive ongoing cashflow. The reason these payments will change is to increase the extent of repayments to include a return of principal.
- As a consequence of our appointment redemptions of debentures are frozen. This is to ensure all debentureholders are treated equally.
- As funds become available we will repay debentureholders' principal on an equal basis.
- DOHMC will continue to operate for a period which is expected to be at least 2 years. We will sell property controlled by the company and recover loans made by the company in an endeavour to pay back all debentureholders' loan amounts.

28 February 2008

- There are many factors which will influence the total amount that will be repaid to debentureholders but our current understanding is that it may be possible to return a significant amount of debentureholders' original funds.
- We will provide you with regular updates and will provide a further update in one month, at that time we expect to provide you with our estimate of the final outcome for debentureholders.

#### **Background – What Happened**

- DOHMC lent money to property developers who in most cases purchased land on which they built residential and commercial property predominantly in and around Sydney.
- The money was lent on the basis that it was no more than 66.6% of the estimated value of the development.
- A number of these property developers have become unable to pay back the loans DOHMC made to them and DOHMC have consequently exercised their security rights and are the mortgagee in possession of many of the properties.
- DOHMC owes debentureholders a total of approximately \$210M.
- In order to pay back debentureholders DOHMC needs to sell the development property where it is in possession.
- Because of the fall in property prices in some parts of Sydney and some surrounding areas the value of the property is significantly less than expected in many cases.
- If DOHMC were to rapidly sell the development property in the current environment we expect the cash received will not be enough to pay all debentureholders back in full.
- The security properties in the main comprise completed residential and industrial /commercial projects.

#### **What are the next Steps**

The steps that we will be taking in the short term include:

- Take control of the company and its assets.
- Work with Directors and staff of DOHMC to:
  - Confirm the financial position of the business
  - Agree on a strategy for the sale of the property assets

28 February 2008

### Communication

We will provide you a further report in one months time at which time we will know more about the company's affairs. In the meantime if you require further information or have questions please use one of the following:

- Visit the website [www.pwcrecovery.com.au](http://www.pwcrecovery.com.au) by selecting 'Donovan Oates Hannaford Mortgage Corporation' under 'Businesses Under Management' for regular updates and information in relation to DOHMC.
- Call the debentureholder information line on (02) 8266 4440 (please note there may be delays if there a large number of calls at the same time).
- Write to:  
The Receiver and Manager  
Donovan Oates Hannaford Mortgage Corporation Limited (In Receivership)  
PricewaterhouseCoopers  
GPO Box 2650  
Sydney NSW 1171

In addition to the above we will provide a regular circular to debentureholders which will provide relevant information.

Yours sincerely



Greg Hall  
Receiver & Manager

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PricewaterhouseCoopers is committed to providing our clients with the very best service. We would appreciate your feedback or suggestions for improvement. You can provide this feedback by talking to your engagement partner, calling us within Australia on 1300 792 111 or visiting our website <http://www.pwcfeedback.com.au/>

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