

3 September 2013

TRUSTEE APPOINTS RECEIVERS TO GIPPSLAND SECURED INVESTMENTS LIMITED

Trustee's focus remains on maximising returns for note holders

The Trust Company (Nominees) Limited, as Trustee of the notes or debentures issued by Gippsland Secured Investments Limited (GSI), says its focus remains on ensuring the best outcome and maximising returns for note holders after the Trustee today appointed partners of Ernst & Young (EY), Adam Nikitins and Simon Cathro, as receivers and managers of GSI (Receivers).

Yesterday (Monday, 2 September), the Federal Court of Australia made orders sought by The Trust Company including that the security held by the Trustee, as a secured charge over the assets and undertakings of GSI on behalf of note holders, be enforceable immediately. The board of the Trustee today decided to enforce its security and appoint the Receivers to GSI.

Since November 2012, The Trust Company has been engaged in an extensive review of GSI's operations to assess whether GSI has sufficient assets to continue to meet its obligations to note holders.

On 25 July 2013, The Trust Company applied to the Federal Court for orders to protect the interests of note holders. The Court ordered that GSI freeze the notes (by not making any payments to note holders) and that GSI not make any payments to related parties until further notice.

The Australian Securities and Investments Commission (ASIC) supported The Trust Company's application to the Court.

David Grbin, Group Executive General Manager, Corporate Client Services at The Trust Company, said: "We have worked closely with GSI over the past year, and the appointment of Receivers comes after a detailed review of GSI and Federal Court proceedings where there was an exhaustive examination of other options."

"The evidence to date points to management shortcomings that led to a deficiency of tangible assets to meet GSI's obligations to note holders. As Trustee we have worked closely with GSI for an extended period to try and resolve these issues in the business and protect the interests of note holders."

The appointment of Receivers follows The Trust Company's careful consideration of a recapitalisation proposal put forward by the board of GSI and a Rescue Group formed by members of the Gippsland community.

However given ongoing uncertainty around the viability of that proposal, The Trust Company, with the approval of the Court and support from ASIC, concluded it was not in the best interests of note holders to continue to delay the appointment of Receivers to GSI.

MEMORANDUM
FOR THE BOARD OF DIRECTORS
DATE: 2 SEPTEMBER 2013
SUBJECT: APPOINTMENT OF RECEIVERS TO GIPPSLAND SECURED INVESTMENTS LIMITED



Trustee and Receivers working to maximise returns

The Receivers are currently refining their receivership strategy, mindful that note holders' funds have been frozen since 19 July. A top priority for the Receivers is to accelerate returns for note holders, while ensuring that any distributions do not compromise other recovery options as part of the receivership.

Adam Nikitins, EY Receiver, said: "Our primary concern is to ensure the interests of note holders are protected. We will be working closely with the Trustee to manage GSI's assets in a manner to maximise financial returns for note holders."

"We remain willing to engage with all parties who are prepared to make proposals to recapitalise GSI, and with the Gippsland community as a whole."

"While the total returns for note holders are inherently uncertain at this early stage of the receivership, we expect the returns will be meaningful and exceed an estimated 80 cents in the dollar" Mr Nikitins said.

Mr Grbin added: "We will focus our attention on ensuring note holders are treated fairly and equally. We are committed to working in the best interests of note holders to maximise returns in the most cost effective way possible."

Further information for note holders

The Trustee and Receivers are committed to communicating with note holders openly and regularly, and will act in their best interests throughout the receivership.

The Trustee and Receivers will issue a report to note holders in the near future, and convene a meeting of note holders to provide important information and get input from note holders.

A dedicated hotline for GSI note holders, other creditors and borrowers of GSI has been established by the Receivers.

ENDS

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NOTES TO EDITORS

About Gippsland Secured Investments Limited (GSI)

- GSI is based in Bairnsdale in regional Victoria and is a finance company with 10 full time staff specialising in regional lending. It also has offices in Warragul and associated offices in Sale, Maffra, Lakes Entrance and Orbost.
- GSI has approximately \$143m in notes or debentures on issue from their predominantly local client base of approximately 3,500 account holders.
- GSI has a loan book of \$117m and finances property developments (41%), rural land (22%), commercial and industrial property (17%) and residential property. Its lending is predominantly to East Gippsland (38%), Baw Baw Shire (22%), and Melbourne (14%) and across the La Trobe, Wellington and Bass Coast Shires. GSI's lending portfolio has grown by almost 100% over the course of 3 years to its current level (January 2010 to December 2012).
- Following general instability in the non-bank lending sector late last year, with GSI's consent, the Trustee appointed Ernst & Young to conduct an independent business review of GSI.
- The review occurred in December 2012 and January 2013, with Ernst & Young reporting back to the Trustee in late February 2013.
- In light of this review, the Trustee requested GSI agree to a reporting and undertakings protocol which required GSI (amongst other things) to:
 - Provide the Trustee with weekly liquidity reports;
 - Obtain new valuations of over 30 properties over which GSI held security;
 - Obtain an investigating accountant's report into GSI's largest assets – loans associated with the Riviera Group;
 - Provide the Trustee with a plan for addressing GSI's equity position and resourcing in respect of non-performing loan management.
- In accordance with our agreement with GSI, in April 2013 GSI instructed valuers to conduct a number of valuations and for one asset (Riviera) to be investigated by an investigating accountant. Valuers used for this review and the investigative accountant were selected and instructed by GSI's directors with the Trustee's consent.
- In light of the changing financial condition of GSI, the Trustee was unable to give GSI its consent to be named in a replacement prospectus. Given this decrease in valuations, on 19 July 2013 GSI announced that it had frozen repayments and new investments of debentures noting GSI may have to recognise material impairments which may result a net asset deficiency.
- On 19 July 2013, GSI implemented a voluntary freeze on redemptions of its notes. Since that time GSI notes with a face value in excess of \$40 million have fallen due for payment and not been paid.
- On 25 July 2013, the Trustee applied to the Federal Court to for orders enabling the Trustee to be in a position to appoint receivers to GSI. During



the Court proceedings, GSI recognised a net tangible asset deficiency of \$3.8m.

- In early August 2013, GSI's directors confirmed that as at 30 June 2013 GSI was not able to repay note holders in full as and when the notes fell due.
- On around 2 August 2013, GSI disclosed to the Trustee that it had commenced discussions with a group of local investors which were seeking to recapitalise GSI and to contribute further equity to restore its balance sheet. A series of adjournments were negotiated in respect of the Court proceedings, to enable further discussions between the Trustee, GSI and the Rescue Group.
- The Trustee and Ernst & Young met with representatives of the Rescue Group and GSI to further discuss the proposal. Some feedback was given in respect of the Rescue Group's indicative proposal and transaction structure. A number of queries were raised from the Trustee's perspective.
- On 18 August 2013, GSI entered into the Indicative Term Sheet with the Rescue Group. Under the Indicative Term Sheet, contemplating a cash injection, a pledge to convert some debenture holders notes into equity, the creation of 2 managed investment scheme, the Rescue Group funding some of the transactions costs of the proposal.
- Further detailed discussions and correspondence were held between representatives of the Rescue Group, GSI and the Trustee in relation to the Indicative Term Sheet. Specifically, there were all parties conference calls on 21 August and 30 August 2013 where the detail of the proposal was discussed. The Trustee expressed a number of concerns in relation to the Indicative Term Sheet and reservations about its execution risk.
- After a series of adjournments, the Court proceedings were heard on 22 and 23 August 2013. ASIC and the Trustee made submissions raising concerns regarding the solvency of GSI and the capacity of GSI to continue to trade as a going concern.
- On 26 August 2013, Justice Farrell reserved the Court's decision. On 2 September 2013, the Federal Court of Australia made an order under section 283HB(1)(c) of the Corporations Act 2001 that the security held by the Trustee under the Trust Deed be immediately enforceable.
- On 3 September 2013, the Trustee appointed Adam Nikitins and Simon Cathro of Ernst & Young as receivers and managers of GSI.



About The Trust Company

The Trust Company is one of the region's foremost trustee companies, offering services for individuals, companies and charitable trusts.

Our Corporate Client Services in Australia and Singapore include Responsible Entity, Property and Infrastructure Custody, Superannuation Compliance and Trustee, Structured Finance Trustee and REIT Trustee services. In New Zealand we offer trustee services for Debt Securities, Securitisation, Unit Trusts, Superannuation and KiwiSaver.

Across the Group we provide wide-ranging advice and expertise in Personal Client Services including Estate Planning and Administration, Lifestyle and Executor Assist, Financial Planning, Personal Trusts, Charitable Trusts, Wealth Management and Health and Personal Injury services.



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