

27 November 2018

CIRCULAR TO DEBENTURE HOLDERS

Dear Debenture Holder

Eurofinance Capital Limited (Receivers & Managers Appointed) (In Liquidation) ACN 101 785 282 (the Company)

I refer to my previous correspondence to debenture holders dated 3 July 2018.

As you are aware, David John Frank Lombe and I were appointed joint and several receivers and managers (**the Receivers**) of the Company on 7 November 2017 pursuant to a First Ranking Debenture Stock Trust Deed and Company Charge both dated 6 September 2002 created by the Company in favour of The Trust Company (Nominees) Limited (formerly known as Permanent Nominees (Aust) Limited) (**Trustee**).

An update on the progress of the asset realisations to date and status of the receivership is as follows:

1. Receivers' realisations

A summary of the Receivers' realisations to date is attached as **Annexure A**.

2. First distribution to debenture holders

We advise a first and interim dividend of 8 cents in the dollar on a remaining balance of \$5,151,997 owed to debenture holders totalling \$412,160 was made to debenture holders on 17 October 2018.

3. 11-25 Carmody Street, Warwick QLD 4370 (Warwick Property)

We are now in the final stages of realising the Warwick Property following an expressions of interest sale and marketing campaign. The co-mortgagee of the Warwick Property is considering the purchase of the Warwick Property as part of this process.

The co-mortgagee of the Warwick Property is Ms Julia Tully. Ms Tully shares the mortgage debt with the Company, with the Company having an interest of approximately 37% of the mortgage debt. The mortgage debt has been in default for a number of years with unpaid interest continuing to capitalise on the loan. The total face value of the mortgage debt was greater than \$3,000,000 by mid-2017 with the Company expecting to cover this debt by developing and then selling the Warwick Property security asset as part of its wind down plan prior to the appointment of the Receivers.

The valuation commissioned by the Receivers has disclosed the value of the Warwick Property is substantially less than the valuation obtained by the Company prior to the appointment of the Receivers. The valuation obtained by the Company was provided on the basis of 82 lots being developed on the Warwick Property. As you would be aware, this development did not eventuate and was not realistic in a town such as Warwick. As a consequence, debenture holders should anticipate a significant shortfall in relation to the sale of the Warwick Property and payment of the mortgage debt.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

CONFIDENTIAL

4. Other recoverable actions

The Receivers are also investigating a number of areas that may result in a recovery for debenture holders.

The Receivers are presently considering claims against;

- (a) a former director of the Company, Mr Dimitrios 'Jim' Socratous; and
- (b) former employee, Claire Jones with respect to dealings related to Lot 7, 36 Old Ferry Road, Banora Point NSW 2486 (**Banora Property**).

Discussions are ongoing with the solicitors representing those parties, however, liability has been denied by both parties at this stage. Litigation is currently being considered by the Receivers.

The Receivers are presently considering another claim against Mr Socratous who, the Receivers contend, represented to debenture holders that he would personally reimburse the Company with respect to a GST dispute with a former mortgagor in respect of a property located at Toukley. A demand has been made of Mr Socratous and Mr Socratous has denied liability at this stage. Litigation is currently being considered.

Claims are also being considered against firms that provided professional services to the Company prior to the appointment of the Receivers. Investigation of those claims are continuing at this stage.

5. Report to the Australian Securities and Investments Commission (ASIC)

The Receivers have reported possible contraventions of the *Corporations Act 2001* (Cth) (**the Act**) and recommended to ASIC that aspects of the Company's pre-receivership management warrant further inquiry pursuant to Section 422 of the Act. Unfortunately, ASIC has responded to this report by advising that their intention was not to commence an investigation into the matters identified in our report and our verbal communications. We are attempting to have further discussions with ASIC as well as providing further information in an attempt to try to interest ASIC to support further investigations and prosecutions. ASIC has not at this stage made available to the Receivers any funding or other support in connection with any further investigations or prosecutions.

6. Appointment of liquidator

On 15 November 2018, the Company's directors voluntarily resolved to appoint Liam Bailey of O'Brien Palmer as liquidator of the Company. This step was taken without prior notice to or consultation with the Receivers, and appears to have been prompted by the Company having been issued with a creditor's statutory demand by the Trustee, as a step toward a Court-ordered liquidation of the Company.

The Trustee has separately determined that it does not itself propose to take steps to have Mr Bailey replaced as liquidator at this time, however, the Trustee will monitor the liquidator's progress of the liquidation - if any difficulties with the liquidator arise, then the Trustee will reconsider its current position.

The Receivers will liaise with Mr Bailey as liquidator per any requests received from the liquidator, from time to time, and will assist Mr Bailey with the liquidation as appropriate.

For further information, please refer to **ASIC Information Sheet 45** available from the following link: <https://asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/liquidation-a-guide-for-creditors/>

7. Second interim distribution to debenture holders

We will make a second interim distribution to debenture holders following the completion of the sale of the Warwick Property and progress with any recoverable legal actions.

We will write to debenture holders again in due course to provide an update on the Receivership.

Should you have any further queries in relation to the process described above, please contact Jack McGrath of my office on (02) 8260 4867 or by email at jackmcgrath@deloitte.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to read 'DJF Lombe', written over a thin horizontal line.

DJF Lombe

Joint Receiver and Manager

Annexure A – Summary of Receivers' realisations to date

Summary of Receivers' realisations to date	\$ (inc GST)
Cash at bank at appointment	107,189
ATO tax refund	4,521
Sale of Lot 3 Banora Property	198,000
Less:	
Council rates	(26,574)
Commission	(4,950)
Sale adjustment	(1,068)
Net proceeds from sale of Lot 3 Banora Property	165,409
Sale of Lot 4 Banora Property	198,000
Less:	
Council rates	(26,348)
Land tax	(1,261)
Commission	(4,950)
Sale adjustment	(798)
Net proceeds from sale of Lot 4 Banora Property	164,643
Sale of Lot 11 Banora Property	220,000
Less:	
Council rates	(28,515)
Commission	(5,500)
Sale adjustment	(942)
Net proceeds from sale of Lot 11 Banora Property	185,042
Proceeds from the sale of Lot 12 Banora Property received from Socratous Holdings Pty Ltd	218,835
Net realisations	845,639