

Our Ref: 3468-4356-5321 v.1

29 May 2018

The Secretary
Australian Securities and Investments Commission
PO Box 4000
GIPPSLAND MAIL CENTRE VIC 3841

Dear Sir/Madam

**Gunns Group of Companies per Annexure A
(All in Liquidation) (All Receivers and Managers Appointed)
(The Gunns Group)**

Background

Please refer to our initial Annual Report dated 4 June 2014 for background on our appointment to the Gunns Group of Companies on 25 September 2012, and subsequent annual reports for updates on the Liquidators' progress.

Our report detailing our actions and dealings during the last 12 months of the liquidations is set out below in accordance with the transitional provisions of Section 1603 (noting Section 508 has been repealed) of the *Corporations Act 2001 (the Act)*.

This report addresses the following:

- 1. Conduct of the liquidations and the Liquidators' acts and dealings**
- 2. Actions to be carried out**
- 3. Estimated time to completion**

1. Acts and dealings of the liquidations and conduct of the winding up

1.1 Asset realisations

Concurrent to our appointment to the Gunns Group on 25 September 2012, Mark Korda and Bryan Webster of Korda Mentha were appointed as Receivers and Managers over the assets of the Gunns Group (**Gunns Receivers**).

The only assets of the Gunns Group not the subject of the Receivers' appointment are the assets held by Gunns Plantations Limited in its capacity as the responsible entity of the Schemes referred to in section 1.4 of this Annual Report (the **Scheme Assets**). The Scheme Assets are held on trust for, and available for distribution to, the members of the Schemes referred to in sections 1.4.

1.2 Future realisations

Any future realisations will be for the benefit of creditors and will result from recoveries made by the Liquidators from:

- unfair preference claims;
- claim against the Gunns Group auditors; and
- claim against certain directors and officers of the Gunns Group.

These matters are further discussed in section 1.5.

1.3 Distributions to creditors

1.3.1 Secured creditors

The Liquidators have been advised by the Gunns Receivers that it is unlikely there will be sufficient proceeds from secured asset realisations to satisfy the secured creditors' debt.

1.3.2 Priority creditors

Based on the recovery of unfair preference payments (detailed in section 1.5.1), the Liquidators expect to have sufficient recoveries from unfair preference claims to enable a dividend payment to priority creditors for outstanding wages and superannuation. Given the uncertainty with settlement of the ongoing claims, the amount and timing of any return is not yet known.

1.3.3 Unsecured creditors

It is unlikely that there will be any return to unsecured creditors.

1.4 Gunns Plantations Limited (GPL)

The Liquidators continue to act as Responsible Entity (RE) over various schemes, summarised below:

- 7 Gunns Plantations Woodlot Schemes (**GPL Woodlot Schemes**)
- 9 Great Southern Plantations Schemes (**GSP Schemes**)
- 3 Wine grape schemes (**Winegrape Schemes**)

(together, Schemes).

A full list of these schemes is attached as Annexure B.

1.4.1 Distribution of GPL Woodlot and GSP Scheme Proceeds

The Liquidators have distributed Scheme proceeds to all growers in the GSP Schemes and GPL Woodlot Schemes, except Great Southern Plantations 2001 Scheme (**GSP 2001**) and Gunns Plantations Woodlot Scheme 2008, Option 1 (**GPL 2008 Option 1**).

GSP 2001 and GPL 2008 Option 1 Growers will not receive a return as proceeds from the sale of relevant Scheme assets were insufficient to cover associated costs.

Any distribution entitlements payable and not subject to a competing claim from a financier (but incapable of being paid to the individual Growers for various reasons e.g. some Growers have not provided banking details) will shortly be sent to the Australian Securities and Investments Commission (**ASIC**) Unclaimed Monies. Growers will be able to check the ASIC website to locate and claim any unpaid distributions.

1.4.2 Winding up of GPL Woodlot and GSP Schemes

We have commenced preparation of outstanding financial accounts for the GPL Woodlot Schemes to be audited and lodged with ASIC. We have obtained relief from ASIC from the requirement to prepare financial accounts for the GSP Schemes.

We will be able to wind up the Schemes once:

- financial accounts are lodged with ASIC (GPL Woodlot Schemes only)
- remaining landowner leases are disclaimed (see section 1.4.3); and
- all proceeds have been distributed.

1.4.3 Third Party Landowners' competing claims

Scheme assets were planted on land owned by a number of third party landowners (**Landowners**). Prior to the distribution of Scheme proceeds, Landowners had the option to enter into a Sale of Trees and Surrender of Leases Deed, whereby:

- Landowners surrendered all claims (including for past and future rent) against GPL and the Schemes
- GPL relinquished all Scheme investor interest in the trees (i.e. ownership of the trees transferred to Landowners)
- GPL surrendered and terminated the lease that encumbered the Landowners' land.

All proceeds realised from these transactions were for the benefit of the Scheme investors.

Despite most Scheme proceeds having been distributed, Landowners still have the opportunity for any lease and/or forestry right between the individual landowner to be removed from their title by agreeing to cover the Liquidators' costs of preparing the forestry right release.

At the time of this report, there are 57 leases/forestry rights remaining (51 GPL and 6 GSP).

1.4.4 Winegrape Schemes

In 2012, the Liquidators gave notice to ASIC and to Growers of the Winegrape Schemes pursuant to Section 601NC of the Act, of GPL's intention to commence the winding-up of these Schemes. Growers' rights will remain unchanged until the winding-up of the Winegrape Schemes pursuant to Section 601NC of the Act is completed, the timing of which will be once statutory financial reports have been finalised.

1.5 Investigations

The Liquidators have continued their investigations into the financial affairs of the Gunns Group in the lead up to the commencement of the voluntary administration. Investigations have comprised a review of:

- transactions which may be voidable under Part 5.7B Division 2 of the Act, including claims for unfair preference payments pursuant to section 588FA of the Act;
- conduct of the Gunns Group auditors; and
- conduct of the directors' and officers of the Gunns Group.

An update on the status of these investigations is provided below.

1.5.1 Unfair Preference Payments

The Liquidators investigated approximately 170 claims and commenced legal proceedings against 74 creditors to recover alleged unfair preference payments (in accordance with Section 588FA of the Act). The Liquidators also settled a number of unfair preference claims prior to having commenced legal proceedings. To date, claims against 80 creditors have been settled for a combined total of c.\$9.65m. There are 8 claims remaining on foot with a total estimated value of c.\$17.6m (**Ongoing Claims**).

Despite continued negotiations with the remaining defendants, we have been unable to reach settlement in relation to the Ongoing Claims and therefore proceeded to trial on preliminary issues common to all claims held in the Federal Court of Australia in Victoria. On 6 March 2018, the Court delivered its judgment in favour of the Liquidators, ruling that:

- Gunns Limited (**Gunns**) and its subsidiaries were insolvent from 30 March 2012; and
- s.588FF(3) of the Act (regarding amendment of the Liquidators' claims after the expiration of the 3-year time limit to bring claims) did not apply, thereby allowing the Liquidators to pursue the full value of Ongoing Claims.

Two defendant creditors have appealed the Court's judgment relating to the s.588FF(3) issue. We have filed Notices of Objections to Competency for both appeals on the basis that the Court has not granted leave to appeal. The Court will hear the appeals and our Notices of Objections to Competency on 2 July 2018.

Pursuant to the Court's directions, the Liquidators will attend mediations with a number of the defendants to the Ongoing Claims. The Liquidators intend to settle the mediated claims on the best commercial terms available, having regard to litigation risk and cost should these claims proceed to trial. To date we have held mediations with two creditors which we were unable to reach settlement with. Given the value of these claims (c.\$3.3m and c.\$6.8m, respectively), we will pursue these claims to trial if necessary, which is likely to be held in March 2019.

The Liquidators anticipate sufficient recoveries from unfair preference claims to enable a partial dividend payment to priority creditors for outstanding wages and superannuation. Given the uncertainty as to settlement of the Ongoing Claims, the amount and timing of any return is not yet known. It is unlikely that surplus funds will be available to allow a distribution to unsecured creditors.

We continue to provide updates to representatives of ASIC on the progress of these claims and to address any queries.

1.5.2 Audit Claim/Directors and Officers Claim

As noted in our last report, a claim against the Gunns' auditors (**Audit Claim**) had commenced. The Audit Claim alleges that the auditors breached their contractual and statutory duties and were negligent and misleading in their conduct by making false and/or misleading representations regarding the financial position of Gunns and the Gunns Group, which resulted in Gunns and the Gunns Group entering into loss-making transactions, and ultimately suffering loss.

On 30 June 2017, the Liquidators filed and served a further and related Statement of Claim against the Directors & Officers (**D&O Claim**) of Gunns. The D&O Claim similarly alleges that the directors did not exercise reasonable care, skill and diligence in exercising their duties which resulted in false and misleading representations regarding the financial position of Gunns which resulted in Gunns and the Gunns Group entering into loss-making transactions, and ultimately suffering loss.

The Audit Claim and D&O Claim (together, **the Claims**) relate to the same losses. On 16 August 2017, orders were made by the Court that the Claims be jointly managed meaning that the Claims will effectively be heard and determined together.

On 15 March 2018, the Court ordered that Gunns file its evidence by 31 July 2018 and that the matters be listed for further directions on 22 August 2018, at which time it is intended that a timetable will be set down for the trial of the Claims. We remain of the view that the Claims have good prospects and ought to be pursued.

We expect that the Claims may take up to a further eighteen months to finalise (assuming a trial occurs and there are no appeals). As noted in our last report it is likely that the majority of any recovery in the Claims will be caught by the security held by the secured lenders to the Gunns Group.

1.5.3 Gunns Grower Action

A claim has been issued against GPL, Gunns and several former directors and officers of GPL (**GPL Directors**) by Growers (**the Grower Applicants**) of the GPL Woodlot Schemes (**Grower Claim**). The Grower Applicants are claiming they suffered loss due to the following:

GPL

Breach of:

- management duties as responsible entity of the GPL Woodlot Schemes in accordance with the following:
 - scheme constitutions;
 - management agreements;
 - forestry right lease deeds;
 - compliance plans;
- trust fund duties; and
- statutory duties under the Act – Section 601FC(1).

Gunns

Failure to:

- preserve the Grower Applicants' funds as trust property;
- act in good faith and in the best interests of the Grower Applicants; and
- avoid any conflict between interest and duty.

GPL Directors

Failure to:

- comply with statutory duties under Section 601FD(1) of the Act;
- act with due care and diligence;
- ensure GPL complied with its obligations as responsible entity of the GPL Woodlot Schemes; and
- act in the best interests of the GPL Woodlot Schemes' members.

The Grower Applicants were granted leave to proceed against Gunns and GPL, although they cannot enforce any judgment without a further order of the Court. A directions hearing is scheduled for 13 July 2018 at which a timetable is likely to be set for progression of the proceeding. Gunns and GPL's defence is due to be filed by 29 June 2018.

1.6 Receipts and payments

Pursuant to Section 1592 of the Act (noting Section 539 has been repealed) details of all receipts and payments made since our appointment in respect of each of the Gunns Group entities have been lodged with ASIC.

To date, the only entities with receipts and payments are Gunns and GPL (i.e. all receipts and payments of the other Gunns Group entities lodged to date have been nil returns).

We attach at Annexure C, a summary of the GPL receipts and payments for the 12-month period ended 4 March 2018. These receipts and payments primarily relate to GPL's role as RE of the various managed investment schemes, including the distributions made to Growers in the GSP Schemes and GPL Woodlot Schemes and proceeds received from settlements with landowners.

We attach at Annexure D, a summary of the Gunns receipts and payments for the 12-month period ended 4 March 2018. These receipts and payments mainly relate to recoveries from claims made by the Liquidators and the associated costs of pursuing those claims.

2. Expected acts and dealings to be carried out

Following are some of the key actions to be completed by the Liquidators prior to finalising the liquidations:

Actions for all Gunns Group entities:

1. Complete the Liquidators' investigations and pursue recoveries from voidable transactions and other claims, including the Audit Claim and D&O Claim.
2. Completion of statutory requirements.
3. Payment of creditor dividends as funds allow.
4. Await the retirement of the Gunns Receivers.

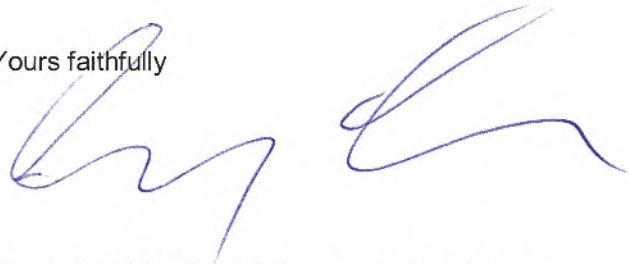
Actions specific to GPL only:

- Complete the winding up of the GSP Schemes and GPL Woodlot Schemes, including matters such as:
 - finalisation of distributions of Scheme proceeds to ASIC; and
 - finalisation of statutory reports to wind-up the Schemes.
- Complete the winding up of the Winegrape Schemes.

3. Estimated time to completion of liquidations

Given the size and complexity of the Gunns Group and the actions outlined at section 2 above, we estimate the liquidations will take another 18 to 24 months to complete.

Yours faithfully



Craig Crosbie, Daniel Bryant and Ian Carson
Liquidators

Date of appointment:	5 March 2013
Contact name:	Hamish Graham
Telephone number:	(03) 9269 4162
Email:	hgraham@ppbadvisory.com

ANNEXURE A

GUNNS GROUP COMPANIES

ASSOCIATED FOREST HOLDINGS PTY LTD	ACN 004 352 078
AUSPINE LTD	ACN 004 289 730
AUSPINE PLANTATIONS PTY LTD	ACN 002 327 808
AUSPINE TREE FARMS PTY LTD	ACN 100 307 373
EAST COAST PASTORAL CO PTY LTD	ACN 009 519 528
GTP ALEXANDRA PTY LTD	ACN 121 653 772
GTP CHINA PTY LTD	ACN 093 919 414
GTP HEYFIELD PTY LTD	ACN 000 041 814
GTP HOLDINGS PTY LTD	ACN 009 478 068
GTP SEYMOUR PTY LTD	ACN 091 652 550
GTP SOUTHWOOD PTY LTD	ACN 081 613 710
GUNNS CONSOLIDATED INVESTMENTS PTY LTD	ACN 128 619 045
GUNNS FINANCE PTY LTD	ACN 091 861 700
GUNNS FOREST PRODUCTS PTY LTD	ACN 004 208 904
GUNNS HOLDINGS PTY LTD	ACN 009 520 085
GUNNS LTD	ACN 009 478 148
GUNNS NEW ZEALAND PTY LTD	ACN 069 051 378
GUNNS PLANTATIONS LTD	ACN 091 232 209
KAURI TIMBER COMPANY LTD	ACN 004 085 714
KVIC PTY LTD	ACN 126 089 950
MANNA HOLDINGS PTY LTD	ACN 008 008 197
NORTHERN FOREST INVESTMENTS PTY LTD	ACN 009 493 707
S.E.A.S. ESTATES PTY LTD	ACN 007 923 971
S.E.A.S. PLANTATIONS PTY LTD	ACN 005 791 695
S.E.A.S. SAPFOR FORESTS PTY LTD	ACN 007 872 120
S.E.A.S. SAPFOR HARVESTING PTY LTD	ACN 007 511 211
S.E.A.S. SAPFOR INVESTMENT SERVICES PTY LTD	ACN 008 164 289
SAPFOR TRADING PTY LTD	ACN 007 924 254
SORISDALE PTY LTD	ACN 054 548 971
SOUTH EAST AFFORESTATION SERVICES PTY LTD	ACN 007 898 259
TASMANIAN PULP & FOREST HOLDINGS LTD	ACN 009 488 733
TASMANIAN SOFTWOODS PTY LTD	ACN 009 501 786
TASPINE PTY LTD	ACN 009 477 730
TBVIC PTY LTD	ACN 004 161 782
TIMBERSALES PTY LTD	ACN 004 848 864
WESLEY VALE ENGINEERING PTY LTD	ACN 006 955 568
(ALL LIQUIDATORS APPOINTED) (ALL RECEIVERS AND MANAGERS APPOINTED) (THE 'GUNNS GROUP')	

ANNEXURE B - MANAGED INVESTMENT SCHEMES

- 1 Gunns Plantations Woodlot Project 2002 ARSN 099 584 675
- 2 Gunns Plantations Woodlot Project 2003 ARSN 104 213 710
- 3 Gunns Plantations Woodlot Project 2004 ARSN 108 690 080
- 4 Gunns Plantations Woodlot Project 2005 ARSN 113 092 854
- 5 Gunns Plantations Limited Woodlot Project 2006 ARSN 118 534 106
- 6 Gunns Plantations Limited Woodlot Project 2008 ARSN 128 933 237
- 7 Gunns Plantations Ltd Woodlot Project 2009 ARSN 135 490 292
- 8 Gunns Plantations Winegrape Project 2004 ARSN 108 955 193
- 9 Gunns Plantations Winegrape Project 2005 ARSN 114 011 737
- 10 Gunns Plantations Limited Winegrape Project 2007 ARSN 123 393 528
- 11 Great Southern Plantations 1998 ARSN 092 780 204
- 12 Great Southern Plantations 1999 ARSN 092 452 849
- 13 Great Southern Plantations 2000 ARSN 085 669 361
- 14 Great Southern Plantations 2001 ARSN 089 958 029
- 15 Great Southern Plantations 2002 ARSN 095 343 963
- 16 Great Southern Plantations 2003 ARSN 099 131 825
- 17 Great Southern Plantations 2004 ARSN 107 811 709
- 18 Great Southern Plantations 2005 ARSN 112 744 877
- 19 Great Southern Plantations 2006 ARSN 112 744 902

Annexure C - Receipts and Payments (GPL)	
5 March 2017 to 4 March 2018	
RECEIPTS	(\$)
GST Received	606,403.00
Interest Income	230,953.12
Cost Reimbursement for Removal of Forestry Rights	36,300.50
Settlements with Landowners	17,500.00
IT Hosting Services	5,920.75
PAYG Withheld	5,736.00
	902,813.37
PAYMENTS	
Appointee Fees and Disbursements	(7,848,462.23)
Distributions to Growers	(4,650,108.97)
Legal Fees and Disbursements	(1,449,304.67)
Receiver's Maintenance and Office Costs	(687,667.02)
Distribution Services	(442,560.44)
Wages & Salaries	(57,040.92)
Printing & Stationery	(26,217.00)
Storage	(11,316.04)
Accounting Services	(9,240.00)
Superannuation	(6,351.84)
Postage	(4,540.59)
Insurance	(870.08)
Telephone & Fax	(801.91)
IT Services	(719.18)
Third Party Monies	(340.00)
Bank Charges	(243.60)
	(15,195,784.49)
Net Receipts (Payments)	(14,292,971.12)
Opening Net Receipts	25,525,390.25
Add Net Receipts/ (Payments)	(14,292,971.12)
Total Net Receipts to Date	11,232,419.13

Annexure D - Receipts and Payments (Gunns Limited)	
5 March 2017 to 4 March 2018	
RECEIPTS	(\$)
Recoveries from Preference Claims	2,177,749.99
Litigation Funding	2,147,418.41
GST Received	551,621.00
Interest Income	26,606.81
	4,903,396.21
PAYMENTS	
Legal Fees and Disbursements	(2,716,926.10)
Appointee Fees and Disbursements	(1,662,113.95)
Litigation Funder's Commission	(136,850.00)
Document Services	(82,092.36)
Postage	(721.24)
Bank Charges	(0.12)
	(4,598,703.53)
Net Receipts (Payments)	304,692.68
Opening Net Receipts	1,817,676.09
Add Net Receipts/ (Payments)	304,692.68
Total Net Receipts to Date	2,122,368.77