

**PROVIDENT CAPITAL LIMITED
(RECEIVERS AND MANAGERS APPOINTED)
(IN LIQUIDATION)**

ACN 082 735 573

**NOTICE OF MEETING OF DEBENTUREHOLDERS
AND
EXPLANATORY STATEMENT**

15 November 2012

Dear Debentureholder

**Provident Capital Limited
ACN 082 735 573
(Receivers and Managers Appointed) (In Liquidation) (“Provident” or “the Company”)**

We refer to our appointment as Joint and Several Receivers to the Company pursuant to an Order of the Federal Court of Australia on 3 July 2012 and our subsequent appointment as Joint and Several Receivers and Managers to the Company on 10 July 2012 pursuant to a fixed and floating charge granted by the Company in favour of Australian Executor Trustees Limited (**AET**).

On 18 September 2012, AET appointed Tony McGrath and Joseph Hayes of McGrathNicol as Joint and Several Voluntary Administrators to the Company pursuant to Section 436C of the *Corporations Act 2001 (Cth)*. On 24 October 2012, a meeting of creditors of Provident resolved that the Company should be wound up and be placed into Liquidation.

Meeting of Debentureholders

The purpose of this communication is to invite you to attend a Meeting of Debentureholders to consider and vote on a proposal to amend the Trust Deed to facilitate what the Receivers believe as a more efficient and fairer distribution of money to Debentureholders now that Provident is insolvent.

On 23 October 2012, the Trustee and the Company approached the Federal Court of Australia for directions in relation to a proposed amendment of the Debenture Trust Deed. A copy of the application is available on our website. If you wish to obtain a copy of the evidence before the Court please contact us to arrange a copy of that material. Currently the Trust Deed provides that interest will be payable before principal.

The proposed amendment of the Trust Deed is designed to facilitate the payment of interim distributions to Debentureholders in the following order:

- first, the return of interest accrued but unpaid as at 3 July 2012 on all debentures (whether interest was paid periodically or on maturity);
- second, capital (as in the face value of your debenture); and
- finally, in the unlikely event that there is any surplus, interest at the rate of 10% per annum for the time which the face value of debentures remained unpaid.

The nature of the amendment is set out in the attached Explanatory Statement.

The reason for the proposed amendment is that the Receivers may be unable to make interim distributions due to the high level of losses experienced by Provident and the complexities in assessing entitlements under the current terms of the Trust Deed. This may mean that you will have to wait several years before receiving any payment (in the form of a final distribution) under the current terms of the Trust Deed.

Ultimately, the effect of the amendment on you will depend upon your rate of interest, the maturity date of your debenture, and in terms of the timing of payments to you from the money the Receivers have on hand, whether you hold a lump sum or a periodic interest debenture and whether your debenture is at, above or below the average interest rate and term (concepts which are discussed below).

We set out in greater detail in the Explanatory Statement how the proposed amendment may potentially affect you.

Generally, if the proposed amendment is adopted, you may be better off if your debenture has a rate of interest below 8.4%, a term that has expired or expires before 1 September 2013.

In contrast if your debenture has a rate of interest rate above 8.4% or your term expires after 1 September 2013 you may receive less than you would under the current Trust Deed if the amendment is implemented. However, the more favourable taxation treatment, the lower administrative costs and the potential for a faster return may offset any reduction in your return even if your debenture pays interest at a rate above 8.4% for a relatively long term (refer section 5.5 and 9 of the Explanatory Statement).

The Court has asked the Receivers to ensure that it is possible to identify sub-groups of Debentureholders who share particular characteristics to determine whether these Debentureholders support the resolution. Therefore, the Court will have regard to the wishes (as sub-groups) of lump sum, periodic and expired Debentureholders. Similarly, the voting process will allow the Receivers to identify whether any particular type of group of Debentureholders oppose the amendment.

If for instance, one group of Debentureholders is overwhelmingly opposed to the amendment, this may be a factor that the Court will have regard to in determining whether or not the proposed amendment of the Trust Deed should be implemented. How the Court will approach issues such as this is a matter for the Court and is outside the control of the Receivers.

Once the meeting is held, the Receivers will then approach the Court again for appropriate final orders in light of the results of the poll conducted at the meeting. It is anticipated that the Court will take into account the wishes of Debentureholders as indicated by their voting preferences. The Court has scheduled that hearing for **9:30am on Monday, 17 December 2012**. Please let us know if you would like to put any matters to the Court on that occasion.

If you have any concerns in relation to the meeting process or the outcome of the meeting, you will have an opportunity to make submissions to the Court as to why the proposed amendment should or should not be approved. Please contact us if you would like copies of the material already before the Court or wish to appear before the Court on the return of the application.

If, after the meeting, the Court approves the amendment, the Trust Deed will then be amended and the Receivers will be in a position to start making interim distributions, subject to the availability of funds.

Finally, even if the amendment is adopted, your principal (or face value) will not be repaid in full.

Enclosed for your consideration is a Notice of Meeting, together with an Explanatory Statement and a proxy form(s) for the meeting of Debentureholders to be held on Thursday, 13 December 2012. Further details of the meeting are provided below:

State	Venue	Address	Time
NSW	SMC Conference & Function Centre	Grand Lodge Room, Level 1, 66 Goulburn Street, Sydney NSW 2000	11.30 AM
VIC	Rydges	186 Exhibition St, Melbourne VIC 3000	11.30 AM
QLD	Christie Conference Centre	Caribbean Room, Level 1, 320 Adelaide St Brisbane QLD 4000	10.30 AM
SA	The Sebel Playford Adelaide	120 North Terrace, Adelaide SA 5000	11.00 AM
WA	Parmelia Hilton Perth	Karri Room, 14 Mill Street, Perth WA 6000	8.30 AM

The Notice of Meeting and Explanatory Statement contain the information you need to make an informed decision on how to vote.

Please note that the only formal business of the meeting will be for Debentureholders to consider and vote on the Resolution set out in the enclosed Notice of Meeting.

Attendance at the meeting of Debentureholders

You may participate in the meeting by attending and voting personally or through your attorney. However, attendance at the meeting is not compulsory and you or your attorney may appoint a proxy to vote on your behalf by completing the enclosed proxy form and returning it in the self-addressed envelope to Link Market Services ("Link") in accordance with the instructions on the proxy form. You may also appoint and direct the chairperson to vote as your proxy if you or your representative cannot attend the meeting personally.

If you do not intend to attend in person, wish to vote and do not have a representative to nominate you should nevertheless complete and return your proxy appointing the chairperson.

Information session

Following the formal business at the Meeting of Debentureholders, we propose to convene an informal Information Session.

Should you wish to pose a question at the Information Session, then please return the attached questionnaire via post using the Business Reply Envelope enclosed prior to Monday, 10 December 2012. This will assist us in ensuring that we can adequately prepare to respond to all concerns raised by Debentureholders at the Information Session.

Finally, we kindly ask that all Debentureholders arrive at the venue at least 30 minutes prior to the meeting, bringing a copy of their proxy with you, in order to allow sufficient time for registration and seating.

In the event that you cannot attend, all information provided at the Information Session will be made available on our website at www.ppbadvisory.com under 'Provident Capital Limited' in the Creditors Information section.

Further information

Further information is available on our website at www.ppbadvisory.com under 'Provident Capital Limited' in the Creditors Information section.

Otherwise, please direct any further queries to the Debentureholder registry service maintained by Link.

Link's contact details are as follows:

Address: Provident Capital Limited (Receivers and Managers Appointed)
c/- Link Market Services Limited
Locked Bag A14, Sydney South
NSW 1235, Australia
Telephone: + 61 2 8280 7110
Facsimile: +61 2 9287 0303
Email: provident@linkmarketservices.com.au

Yours faithfully



Phil Carter, Tony Sims and Marcus Ayres
Joint and Several Receivers and Managers
Provident Capital Limited

Provident Capital Limited
(Receivers and Managers Appointed) (In Liquidation)
ACN 082 735 573 (“the Company”)

Notice of Meeting of Debentureholders

Notice

The Company gives notice that a meeting of Debentureholders will be held on Thursday, 13 December 2012, further details as follows:

State	Venue	Address	Time
NSW	SMC Conference & Function Centre	Grand Lodge Room, Level 1, 66 Goulburn Street, Sydney NSW 2000	11.30 AM
VIC	Rydges	186 Exhibition St, Melbourne VIC 3000	11.30 AM
QLD	Christie Conference Centre	Caribbean Room, Level 1, 320 Adelaide St Brisbane QLD 4000	10.30 AM
SA	The Sebel Playford Adelaide	120 North Terrace, Adelaide SA 5000	11.00 AM
WA	Parmelia Hilton Perth	Karri Room, 14 Mill Street, Perth WA 6000	8.30 AM

Business of the meeting

The business of the meeting will be to consider and if thought fit, pass the following resolution (**Resolution**):

That clause 11.5 of the Debenture Trust Deed dated 11 December 1998 (as amended from time to time) (**Trust Deed**) the should be amended so as to insert the underlined text and to delete the struck out text, as set out below:

11.5 Application of Money Received by Trustee

Notwithstanding clause 2.3, subject always to the rights of persons whose claims to payment are preferred by law, all money received by the Trustee or any receiver from the Company, as a consequence of enforcement of the Trustee's rights against the Company, must be applied in the following order:

- 11.5.1 first, in payment of the Trustee's remuneration and other expenses under this deed;
- 11.5.2 second, in payment of the receiver's remuneration and expenses;
- 11.5.3 third, in payment to the Trustee for the account of debenture holders in respect of interest accrued but unpaid on current debentures up to (and including) 3 July 2012;
- 11.5.4 fourth, in payment to the Trustee for the account of debenture holders in respect of the face value of current debentures;
- 11.5.4A fifth, when the face value of current debentures has been repaid in full, in or towards payment to the Trustee for the account of debenture holders in respect of interest accrued but unpaid on current debentures after 3 July 2012 (such interest to accrue after 3 July 2012 at a flat rate of 10% per annum on each current debenture on the daily balance of the face value remaining unpaid of that debenture despite any provision to the contrary in this deed or in the Terms of Issue of any debenture);

and

11.5.5 ~~fifth~~sixth, when the amounts referred to in clause 11.5.4A have been paid in full, any balance to the Company.

Outcome of meeting

After the resolution is voted upon by Debentureholders, the results of the voting on the resolution will be provided to the Court in order to assist the Court in determining whether the amendment proposed in the resolution should be implemented.

Detailed information concerning the make-up of the votes that are cast in relation to the resolution will be made available to the Court. The Court will then determine whether the Receivers would be justified in giving effect to the proposed amendment having regard to that information.

The Court has scheduled that hearing for **9:30am on Monday, 17 December 2012**. Please let us know if you would like to put any matters to the Court on that occasion.

Dated:

By order of the receivers and managers of the Company.



Marcus Ayres

Joint and Several Receiver and Manager
Provident Capital Limited (Receivers and Managers
Appointed) (In Liquidation)

Notes to the Notice of Meeting

1 Eligibility to vote

A Debentureholder may attend, speak and vote at the meeting either personally or through an appointed proxy or attorney.

For the purposes of determining entitlement to vote at the meeting, debentures issued by the Company will be taken to be held by the persons registered as holders of debentures on 3 July 2012 or their personal representatives or authorised attorneys.

The Resolution will be determined by a poll. On a poll, each Debentureholder present in person or by proxy has one vote for each \$1,000 of the face value of debentures held by that person.

2 How to exercise your vote

If you are an individual, you may vote in person or by proxy or by attorney:

- (a) by attending the meeting and voting in person (voting papers will be issued when you register before the meeting); or
- (b) by appointing a proxy to vote for you. For more information on appointing a proxy, please refer to page 24; or
- (c) by your appointed attorney appointing a proxy or attending the meeting on your behalf.

3 Voting requirement

Your votes will be tallied and the results of the voting will be put before the Federal Court of Australia for the purpose of considering whether to implement the Resolution.

4 Explanatory Statement

An explanatory statement, which explains the purpose of the proposed resolution, accompanies this Notice of Meeting. You should carefully read and consider the Explanatory Statement and seek appropriate independent professional advice if you are in doubt as to the course of action you should follow.

Provident Capital Limited
(Receivers and Managers Appointed) (In Liquidation)
ACN 082 735 573

Explanatory Statement

1 SUMMARY OF PROPOSED AMENDMENTS TO THE TRUST DEED

The Resolution seeks to amend clause 11.5 of the Trust Deed to vary the procedure for how post enforcement moneys recovered by the Trustee (or any receiver) may be applied to Debentureholders.

Based on the information the Receivers have to date, it appears that Provident will have a significant shortfall in assets and limited operating income from which to pay interest. If distributions are made in accordance with the current wording of clause 11.5, then a substantial portion of Provident's assets will be exhausted paying interest and it is possible that no principal (or a substantially reduced sum) will be repaid. Assessing an entitlement to interest during a receivership will also be complex because the Trust Deed requires that all debentures be treated equally. Therefore, to avoid over-paying some Debentureholders and under paying others, the Receivers will probably need to wait until they are in a position to make a final distribution before making any payment.

As a result, under the current terms of clause 11.5, the following is most likely:

- (i) some Debentureholders (for example expired Debentureholders, being those which matured prior to 3 July 2012) will receive a very limited return or potentially nothing;
- (ii) some Debentureholders (for example those who receive interest in a lump sum) will receive significantly less than a Debentureholder with the same interest rate, face value, term, but where interest is paid periodically; and
- (iii) all Debentureholders are likely to need to wait several years before receiving any distribution.

The Receivers are proposing an amendment to the Trust Deed. That amendment is in terms that:

- (a) **All interest accrued but unpaid as a 3 July 2012 (including on lump sum debentures) be paid first.**
- (b) **Next, all payments be made in reduction of principal (or face value) on a pro-rata basis (the amount you will receive will be a uniform cents in the dollar return on the total amount of your investment and will be paid by way of gradual distributions).**
- (c) **If face value is repaid in full, then all Debentureholders will receive interest at the rate of 10% per annum on amounts owed to them by Provident from 3 July 2012 to the date of payment. If the surplus is insufficient to repay 10% in full, then all Debentureholders will receive the same cents in the dollar return on the amount they are owed for interest.**

The amount each Debentureholder is owed for interest after 3 July 2012 will reflect the total investment in Provident.

Some Debentureholders may receive less than they would under the current terms, but it is anticipated that they will receive their distributions much more quickly and frequently. There are also likely to be tax advantages if capital is repaid rather than interest (because income tax is payable on interest), see paragraph 5.4 below.

Generally, if the proposed amendment is adopted, you may be better off if your debenture has a rate of interest below 8.4%, a term that has expired or expires before 1 September 2013.

In contrast if your debenture has a rate of interest rate above 8.4% or your term expires after 1 September 2013 you may receive less than you would under the current Trust Deed if the amendment is implemented. However, the more favourable taxation treatment, the lower administrative costs and the potential for a faster return may offset any reduction in your return even if your debenture pays interest at a rate above 8.4% for a relatively long term (refer section 5.5 and 9 below).

We note that irrespective of the amendment it is extremely unlikely that you will receive all of the money you have invested in debentures back.

NOTE: It should be noted that the two main assumptions underlying the distribution predictions referred to above are that Provident will have a significant shortfall in assets and limited operating income. The Receivers do not currently have full and accurate information concerning Provident's financial position but they consider that there is sufficient information for these assumptions to be made and that the distribution predictions have a reasonable basis. See section 2 for a discussion in relation to these assumptions.

Once a vote has been taken from Debentureholders, the Receivers will approach the Federal Court again to confirm they are justified in implementing the proposed resolution.

2 BACKGROUND TO THE PROPOSED AMENDMENTS

On 29 June 2012 Philip Patrick Carter, Anthony Milton Sims and Marcus William Ayres of PPB Advisory (**Receivers**) were appointed as Joint and Several Receivers of the Company pursuant to an Order of the Federal Court of Australia. The Receivers' appointment took effect from 3 July 2012.

Immediately after the Receivers were appointed they commenced an urgent review of what assets were available to repay Debentureholders. That review is ongoing.

From their investigations to date, the Receivers consider that Provident is likely to have suffered large losses for a number of reasons including the following:

- A significant number of Provident's borrowers were non-conforming, credit impaired and/or high credit risk borrowers. As a result, a number of Provident's loans were of low credit quality with the primary source of repayment being the realisation of the underlying security property (via voluntarily sale from the borrower or enforcement action by Provident as mortgagee in possession) or re-finance to another lender.
- As a result:
 - Over 90% of loans made by Provident within the debenture portfolio ultimately resulted in the borrower defaulting;

- recovery within the debenture portfolio in many cases depends largely or wholly on the underlying value of the security offered by the borrower; and
 - Provident's claim against many of the borrowers appears to be worthless aside from real property security because those borrowers have limited, if any capacity to repay, and in some instances are already bankrupt or in some form of external administration.
- In relation to the underlying security:
 - Provident appears to have, in some instances, lent on poor and unsuitable security. Provident also appears to have lent on a partly unsecured basis (including to related parties) in some instances;
 - Provident, by its reliance on underlying security became and remains extremely vulnerable to movements in the property market; and
 - Provident failed to maintain assets that it took possession of, and as such many security properties which Provident has been in control of for a substantial period of time are damaged or severely run down and will be difficult to realise or are of very limited value.

The timing of asset realisations (being mostly property sales) will depend on the progress of marketing campaigns, development approvals and other factors outside the control of the Receivers.

Given there are likely to be a large number of security properties where Provident expects to suffer a shortfall, Provident may also need to pursue action against the borrowers, guarantors and in some instances third parties to exhaust all avenues of likely recovery (which will take further time and costs).

At present, the Receivers are unable to estimate the final return available to Debentureholders from the assets of Provident owing to a number of matters, including the factors set out above. The Receivers believe that Provident's accounts for the period ending 31 December 2011, which were the last set of financial statements prepared prior to our appointment as Receivers, substantially overstate Provident's net asset position.

The broad estimate of Provident's losses assumes that there is no substantial improvement in the property market (and in particular for development sites), the finances of Provident's borrowers (and their guarantors) and that Provident cannot recover its losses in full from third parties. It appears likely that these assumptions will continue to have relevance and will not change in any material respect throughout the course of the receivership.

The Receivers are not in a position to estimate when Provident will receive payment of a large number of debts. Coupling the above with the fact that there may be areas which involve further investigation and potentially litigation (which would also result in increased costs, may delay the outcome of the Receivership but which could increase amounts recovered), it is difficult for the Receivers to provide a precise timeframe for repayment.

As a result of these matters, the Receivers consider that the Company will be unable to repay Debentureholders in full from its assets and will not generate sufficient income to service its interest payment obligations on the debentures on

an ongoing basis. The likely consequence of this is that a very substantial (or in a worst case scenario total) shortfall on principal (or face value) is anticipated.

Once all accrued but unpaid interest on debentures **up to and including the appointment of the Receivers on 3 July 2012** has been paid (so that all Debentureholders are treated equally as to their accrued interest entitlements), any returns to Debentureholders after then would best be characterised as a repayment of principal (also called "face value") rather than a payment of interest to reflect the source of the repayment being from asset recovery and realisation rather than from operating revenue.

3 HOW THE TRUST DEED CURRENTLY GOVERNS REPAYMENTS TO DEBENTURE HOLDERS

3.1 Order of payment

Under the Trust Deed the Receivers are required to repay (after costs and expenses are paid):

- First, all interest accrued but unpaid to Debentureholders; and
- Second, the face value of all debentures equally in proportion to their face value.

3.2 Pro-rata payment

As Provident is unlikely to repay all of its debt to Debentureholders (for reasons set out in the Explanatory Statement), any payment made under the Trust Deed will be paid on what is known as a "pro-rata" basis. Pro-rata means an equal cents in the dollar return is paid for each dollar outstanding.

Under the Trust Deed there will be separate pro-rata returns for claims for interest and claims for principal (or face value).

Example

By way of example, if \$100 was available to pay interest of \$1,000, then for every dollar of interest owed to a person, they would receive 10 cents by way of the pro-rata distribution.

THEREFORE, THE HIGHER YOUR CLAIM FOR INTEREST, THE HIGHER AMOUNT YOU WILL SUBMIT A CLAIM FOR IN THE PRO-RATA DISTRIBUTION OF INTEREST. THE HIGHER YOUR CLAIM IS RELATIVE TO OTHER CLAIMS, THE MORE OF PROVIDENT'S AVAILABLE MONEY YOU WILL RECEIVE PER DOLLAR YOU HAVE INVESTED.

4 WHY THE GENERAL TERMS OF THE TRUST DEED DO NOT WORK PROPERLY IN THE CONTEXT OF THE RECEIVERSHIP OF PROVIDENT

Under the current Trust Deed provisions that require interest to be paid first:

- It is likely that recoveries from Provident's loan book will only be sufficient to pay interest rather than repay principal (also known as face value).

It may be that there will be insufficient returns to pay any principal (or face value) or it may be that some portion of face value is repaid.

- Because Provident is likely to be only able to pay interest, the return on your debenture is likely to be **influenced** by the nature of your claim for interest.
- Your claim for interest depends on how and when interest is paid on your debenture.
- The basis on which each debenture pays interest is different. We cannot give specific advice on individual debentures, but we can give general examples or illustrations of how changes to the interest component of each debenture affects your potential return and how, in certain circumstances, it can result in **unequal** treatment.
- However because the interest provisions for debentures vary widely, the return paid per dollar invested on interest under the Trust Deed will also vary widely. You may benefit from this relative to other Debentureholders or you may be disadvantaged by this. It may be that someone with less invested in Provident will receive more of a return than you or vice versa.
- There are three principal factors that affect your claim for interest:
 - the interest rate;
 - the term of your debenture (that is the period for which you are being paid interest on your debenture); and
 - whether your debenture pays interest periodically or in a lump sum on maturity.

We discuss each of these factors in more detail below.

- Due to the unequal way interest accrues, the current terms of the Trust Deed may prevent, or restrict the Receivers ability to pay interim payments to Debentureholders as funds become available (for reasons set out in this document). If interim payments are delayed, there may be no return on your debenture for several years.

5 EXAMPLES

The examples below assume that Provident is able to pay interest and potentially provide some return on the principal (or face value) of your debenture. However, these examples assume that Provident will not have enough money to pay all of the principal (or face value) of your debenture. This reflects the matters set out in section 2 above, including the various assumptions that the Receivers have proceeded under.

Although it is an unlikely scenario, if Provident recovers enough money to pay all interest and all principal (or face value) then your total return on your investment will still be affected by the factors below in terms of interest component.

5.1 Term

Interest is only payable on your debenture during its term. Once your debenture expires, no further interest is payable on it by Provident.

The average remaining term of debentures invested with Provident is 425 days.

Longer Term	Consequences under current Trust Deed
Your maturity date falls on or after 1 September 2013	You will receive interest payments for longer. So long as Provident still has assets to pay interest, your total claim for interest will be higher.
	Debentures with longer terms will receive more (so long as assets remain available to repay interest) than a debenture with the same rate of interest and the same principal (or face value) but for a shorter term.
	If Provident exhausts its assets or in (the unlikely) event that Provident repays the face value of all debentures before the expiry of the term of your debenture, then the longer term of your debenture may not increase your claim relative to other Debentureholders.

Shorter Term	Consequences under current Trust Deed
Your maturity date falls before 1 September 2013	For the term of your debenture, you will receive a lower return for each dollar invested with Provident than the average investor.
	Debentures with lower rates of interest are likely to receive less in total than debentures with the same term and the same amount invested.
	If Provident exhausts its assets or in (the unlikely) event that Provident repays the face value of all debentures before the expiration of the term of your debenture, the shorter term of your debenture will not adversely affect your claim for interest.

Expired Debentures	Consequences under current Trust Deed
Your maturity date has passed and you have previously received interest	Your debenture no longer pays interest and you will receive nothing for interest. If Provident only repays interest, you will receive nothing. Otherwise you must wait until all interest has been repaid before receiving any money.

Example

Take three debentures all for the same amount and at the same interest rate.

- (a) One has a further 350 days in its term;
- (b) One has 700 days of its term remaining;
- (c) One debenture is expired.

The debenture with 700 days of term remaining will receive twice as much for interest as the debenture with a remaining term of 350 days. The expired debenture receives nothing for interest.

5.2 Interest Rates

The average interest rate paid by Provident on debentures is 8.4% per annum.

High Interest Rates	Consequences under current Trust Deed
Rates above 8.4%	For the term of your debenture, you will receive a higher return for each dollar invested with Provident than the average investor on a daily basis. After the expiry of the term of your debenture you will receive no interest.
	Debentures with higher interest rates are likely to receive more in total than a debenture with the same term and the same amount invested.
	Payments on account of interest will be taxed as income.

Low Interest Rates	Situation under current Trust Deed
Rates below 8.4%	For the term of your debenture, you will receive a lower return for each dollar invested with Provident than the average investor on a daily basis. After the expiry of the term of your debenture you will receive no interest.
	Debentures with lower rates of interest are likely to receive less in total than debentures with the same term and the same amount invested but a higher rate of interest.
	Payments on account of interest will be taxed as income.

Example

Assume a one off payment of \$1,000 is paid to two people with respect to interest, both of whom have an investment of \$10,000. No interest has been paid for a year. One debenture pays interest at 8% (Debentureholder A) and one has an interest rate of 10% (Debentureholder B).

- (a) The total claim on the \$1,000 is \$1,800 which results in a pro-rata return of approximately 55.5 cents for each dollar of interest owed;
- (b) Even though Debentureholder A and Debentureholder B have the same amount invested:
 - (i) Debentureholder A will receive \$444.44 because its claim is for \$800 (reflecting the 8% interest rate); and
 - (ii) Debentureholder B will receive \$555.56 because its claim is for \$1,000 (reflecting an interest rate of 10%).

5.3 Maturity

Another factor that will affect your claim for interest is whether you have received regular interest payments or whether you will receive a lump sum.

Longer Term	Consequences under current Trust Deed
Periodic Interest	You have received interest payments on your debenture prior to 13 June 2012.

Shorter Term	Situation under current Trust Deed
Lump Sum Debenture (interest on your debenture was payable at the end of the term)	You have not received interest to date.
	Your claim for interest prior to 3 July 2012 will be treated the same as your claim to interest after 3 July 2012. Therefore, if Provident is unable to repay its interest bill in full you will have a large claim for interest, but unlike people holding periodic interest debentures, you would not have been paid up to date as at 13 June 2012 (when the Federal Court of Australia made a freezing order preventing further payments).
	If Provident repays interest in full you will still need to wait longer for a return on your investment.

Example

Take two debentures. Both are for \$10,000 with an interest rate of 10%. Both have been invested for two years, with a further term of one year.

One debenture paid interest monthly. That debenture holder has received as at 3 July 2012 two years interest (\$2,000) (**Debenture A**).

The other debenture pays interest on maturity (in a years time) (**Debenture B**).

In one years time Debenture B will have a claim for \$3,000 of interest and Debenture A will have a claim for \$1,000. If a dividend of 40 cents in the dollar is paid on outstanding interest then Debenture A will receive a further \$400 (taking the total amount received to \$2,400). Debenture B will receive \$1,200 in total.

5.4 Taxation effects

Payment Type	Taxation status
Interest	Treated as income. Income tax is payable at your marginal tax rate without regard to the fact that you may not be repaid the principal (face value) of your investment by Provident.
Principal (Face Value)	Treated as a return of capital. Not taxed as income. If you do not receive 100% of your principal (or face value) back, you will have a capital loss. A capital loss may be set off against capital gains. However, a capital loss may not be deducted from income.

The potential **importance** of this taxation effect, and how it is dealt with under the proposed amended Trust Deed, is dealt with in section 6 below.

5.5 Effect of interest rate, term and maturity on return

The term, interest rate and periodic or lump sum payment types will affect your total return.

Debentureholders who may be potentially better off under current Trust Deed include the following classes:

Debentureholders with debentures that have a Term that expires after 1 September 2013	Debentureholders with debentures that have an interest rates above 8.4%
Debentureholders with a combination of an interest rate above 8.4% and a term that expires after 1 September 2013 on their debenture	Debentureholders who have debentures that paid interest on a periodic basis before 3 July 2012.

Debentureholders who may be potentially worse off under the current Trust Deed include the following classes:

Debentureholders with debentures that have Terms that have already expired	Debentureholders with debentures that have Terms that expire before 1 September 2013
Debentureholders with debentures that an interest rate below 8.4%	Debentureholders who have debentures that pay interest on maturity after 3 July 2012 (otherwise known as a lump sum basis)

In theory, if Provident pays a substantial amount of money in meeting interest payments, then the higher your claim to interest relative to other Debentureholders means the better your return per dollar invested will be because you will be getting more from the pool of money available to pay interest. For every additional amount you receive over the average rate of return, someone else will receive a lower cents in the dollar amount compared to the average rates.

This analysis is the same irrespective of how much Provident fails to return of the principal (or face value) of the Debenture because it will affect how much payment you will receive as interest (which is paid first).

However, the more cents in the dollar for face value (or principal) that Provident returns, the smaller the difference between the best return per dollar invested, and the worst return per dollar invested. In a best case scenario under the current Trust Deed, this is an approximate difference of 10%, noting that given the factors above, the actual difference is likely to be substantially larger.

However, because the term of your debenture is only relevant while there remain funds to be paid out, it is impossible to know now whether you will end up with an above or below average return on each dollar invested in Provident.

Accordingly, if Provident's assets take less time than the average term (of the debentures on issue) to be realised, investors with an above average rate of interest will have a larger theoretical claim than those with a longer term and a lower interest rate.

However, if Provident's assets are realised over a period of time above the average term, then eventually, investors with a longer term, but a below average interest rate will have a larger theoretical claim than an investor with a much higher interest rate and an average or below average term.

The interaction between the term of a debenture and the factors are represented in the graph below that shows the effect of term and interest on a debenture of \$100,000.:



By way of example, the table above shows that if Provident can pay all interest claims in full, but it takes a substantial period of time to repay that interest, a Debentureholder with a longer term will receive a greater total return than a Debentureholder with a higher rate of interest.

Conversely, if Provident's assets are realised rapidly, then the Debentureholder with the highest interest rate will receive more than the Debentureholder with the longer maturity date.

Example

By way of example we set out a few hypothetical examples based on the following facts:

- (a) Assume Provident has issued 6 debentures and makes its last payment to Debentureholders on 1 July 2012;
- (b) Debenture 1 pays interest monthly at 10% and matures on 1 July 2014 and is for \$10,000;
- (c) Debenture 2 pays interest monthly at 8% and matures on 1 July 2014 and is for \$10,000;
- (d) Debenture 3 pays interest monthly at 10% and matures on 1 July 2013 and is for \$10,000;
- (e) Debenture 4 pays interest monthly at 8% and matures on 1 July 2013 and is for \$10,000;
- (f) Debenture 5 has expired on 3 July 2012 and is for \$10,000 and accruing no interest; and
- (g) Debenture 6 pays interest as a lump sum upon its maturity 1 July 2012, was invested on 1 July 2011 and is for \$10,000 at an interest rate of 10%

Assuming that an amount of \$20,000.00 is available for distribution from asset realisations to return to Debentureholders after 1 July 2014, we have outlined in the table below, the total return to Debentureholders and the apportionment of those funds between interest and face value:

Debenture	Interest repayment (\$)	Repayment of face value (\$)	Total repayment (\$)
Debenture 1	2,000.00	2,099.54	4,099.54
Debenture 2	1,600.00	2,099.54	3,699.54
Debenture 3	1,000.00	2,099.54	3,099.54
Debenture 4	800.00	2,099.54	2,889.54
Debenture 5	0.00	2,099.54	2,099.54
Debenture 6	2,002.74	2,099.54	4,102.28

We note that this reflects (in principle) one probable outcome of the receivership

where interest will be able to be paid in full under the existing Trust Deed, together with a limited return of principal (or face value).

It is also important to note that it is unlikely any interim distributions will be received by Debentureholders in these circumstances given that the Receivers would likely make one final distribution towards the end of the Receivership which may take several years due to the issues with the current Trust Deed, as detailed within this document.

We otherwise highlight that income tax will be payable on the interest repayments, subject to your personal tax circumstances.

6 PROBLEMS WITH THE CURRENT TRUST DEED AND POTENTIAL SOLUTIONS

- Your return under the Trust Deed as presently drafted may depend more on the interest rate and term of your debenture than the amount invested. This has the potential to produce an **unequal** treatment between Debentureholders and be inherently very **unfair** as illustrated by the example in paragraph 5.5 above.
- Some Debentureholders will receive no or very limited return because of the term of their debenture.
- Paying interim distributions to Debentureholders (which gets money out sooner) is complicated and likely to be delayed because the amount of Provident's interest liability and the total amount of your claim (if any) to that amount will change from month to month. The Receivers may have to wait until all assets have been realised to pay a distribution (which may take **several years**) or alternatively develop a very complicated mathematical model to make distributions that will involve both large expense (in the order of \$300,000) and large amounts of money being held in reserve to meet future claims rather than the maximum amount being paid out to Debentureholders as soon as possible.

The Receivers believe, for the reasons above, that Debentureholders should have the opportunity to consider an amendment to the existing Trust Deed.

The Receivers consider that the Trust Deed could be amended to provide:

- (a) **All interest accrued but unpaid as a 3 July 2012 (including on lump sum debentures) be paid first;**
- (b) **Next, all payments be made in reduction of principal (or face value) on a pro-rata basis (the amount you will receive will be the a uniform cents in the dollar return on the total amount of your investment);**
- (c) **If face value is repaid in full, then all Debentureholders will receive interest at the rate of 10% per annum on amounts owed to them by Provident from 3 July 2012 to the date of payment. If the surplus is insufficient to repay 10% in full, then all Debentureholders will receive the same cents in the dollar return on the amount they are owed for interest. The amount each Debentureholder is owed for interest after 3 July 2012 will reflect the total investment in Provident.**

7 WHY THE AMENDMENT MAY BE TO THE BENEFIT OF DEBENTUREHOLDERS AS A WHOLE

7.1 Certainty of equal return on debentures of same value

Debentureholders will:

- have received interest on the same basis prior to Provident's receivership;
- be treated equally with all other Debentureholders for returns of principal and face value so that your return on investment will be based on the total amount invested.

7.2 Taxation treatment of capital returns

You may prefer to receive repayment from Provident as a return of principal (that is capital), rather than as interest. Generally speaking, interest attracts income tax, while returns of capital do not. However, your preference for this will depend on your individual circumstances and your individual taxation advice.

7.3 Administrative savings in the receivership

We have set out in the Explanatory Statement our estimate of the cost savings incurred by making the amendment. Those savings potentially amount to \$300,000 (assuming that if the amendment was not adopted, the Receivers would still try and make some interim distributions).

7.4 Potential for accelerated distributions

Because all Debentureholders will be getting an equal cents in the dollar return on capital, the Receivers will not need to hold money in reserve to account for future changes in the interest outstanding to you as a percentage of the total amount outstanding on account of interest. This will accelerate the amount that can be paid on an interim basis otherwise there is a prospect that the Receivers will need to hold back payment for a substantial period of time (up to several years).

Particularly given the financial circumstances of Provident, the realisation of its assets is likely to be an uneven process. Accordingly, distributions to Debentureholders (that will arise from the realisations) are unlikely to be made on a regular basis.

8 WHY THE AMENDMENT MAY PREJUDICE CERTAIN DEBENTURE HOLDERS

8.1 Debentureholders with higher total interest claims or periodic interest may be prejudiced

If you have a high rate of interest, a longer term or a periodic interest debenture, you may be better off if the Trust Deed is not changed.

If you have large capital gains but limited income tax liability, you may prefer to receive payments of interests before principal (capital).

9 COMPARATIVE EXAMPLE

Example

Assume Provident has issued 6 debentures and makes its last payment to Debentureholders on 1 July 2012;

- (a) Debenture 1 pays interest monthly at 10% and matures on 1 July 2014 and is for \$10,000;
- (b) Debenture 2 pays interest monthly at 8% and matures on 1 July 2014 and is for \$10,000;
- (c) Debenture 3 pays interest monthly at 10% and matures on 1 July 2013 and is for \$10,000;
- (d) Debenture 4 pays interest monthly at 8% and matures on 1 July 2013 and is for \$10,000;
- (e) Debenture 5 has expired on 3 July 2012 and is for \$10,000 and accrues no interest; and
- (f) Debenture 6 pays interest as a lump sum upon its maturity, 1 July 2013, was invested on 1 July 2011 and is for \$10,000 at an interest rate of 10%

Consistent with the earlier example, for the purposes of the below comparison, we have assumed that an amount of \$20,000.00 is available for distribution from asset realisations to return to Debentureholders after 1 July 2014. The tables below outline the total returns to Debentureholders (and the apportionment between interest and face value) modelled under both scenarios, if the Trust Deed is maintained in its current form and if the Proposed Resolution is adopted (disregarding any likely reduction in available assets under the Existing Trust Deed scenario due to additional costs). We note that this reflects (in principle) one probable outcome of the receivership where interest will be able to be paid in full under the existing Trust Deed, together with a limited return of principal (or face value).

Existing Trust Deed

Debenture	Interest repayment (\$)	Repayment of face value (\$)	Total repayment (\$)
Debenture 1	2,000.00	2,099.54	4,099.54
Debenture 2	1,600.00	2,099.54	3,699.54
Debenture 3	1,000.00	2,099.54	3,099.54
Debenture 4	800.00	2,099.54	2,889.54
Debenture 5	0.00	2,099.54	2,099.54
Debenture 6	2,002.74	2,099.54	4,102.28

As noted earlier in this document, under this scenario, then it is unlikely any interim distributions will be made to Debentureholders. Rather Debentureholders will likely receive one final distribution towards the end of the Receivership which may take several years.

We further remind Debentureholders that income tax will be payable on the interest repayments, subject to your personal tax circumstances.

Amended Trust Deed

Debenture	Interest repayment (\$)	Repayment of face value (\$)	Total repayment (\$)
Debenture 1	5.48 (as at 3 July 2012)	3,162.01	3,167.49
Debenture 2	4.38 (as at 3 July 2012)	3,162.01	3,166.39
Debenture 3	5.48 (as at 3 July 2012)	3,162.01	3,167.49
Debenture 4	4.38 (as at 3 July 2012)	3,162.01	3,166.39
Debenture 5	0.00 (received all interest prior to 3 July 2012)	3,162.01	3,162.01
Debenture 6	1,008.22 (accounting for interest prior to 3 July 2012)	3,162.01	4,170.23

Should the Proposed Resolution be adopted, we would anticipate making regular interim distributions to Debentureholders over the course of the Receivership as and when sufficient asset realisations permit.

Based on the above analysis it would appear that some Debentureholders are slightly prejudiced in terms of the total return to them (without regard to the additional costs to administer the existing Trust Deed), however it would appear that there are significant timing and tax advantages to the proposal.

10 SUMMARY OF CONSEQUENCES

We outline in the below table a summary of the consequences if the Proposed Resolution is adopted compared to retaining the status quo as provided for in the existing Trust Deed:

Item	Proposed Resolution	Existing Trust Deed
Timing of distributions	<ul style="list-style-type: none"> Allows for immediate interim and ongoing distributions subject to sufficient asset realisations. 	<ul style="list-style-type: none"> No distributions to be made until near the end of the Receivership.
Entitlement to distributions	<ul style="list-style-type: none"> Interim distributions to be made on a pro-rata basis will ensure all Debentureholders are treated equally. 	<ul style="list-style-type: none"> Interim distributions depending on whether interest or principal (face value) can be made.
Risks of making interim distributions	<ul style="list-style-type: none"> As interim distributions are to be made on a pro-rata basis, this will ensure all Debentureholders are treated equally, there is no risk to any Debentureholder of being treated unfairly. 	<ul style="list-style-type: none"> Interim distributions risks exhausting funds available for Debentureholders not due any interest until after proposed dividend dates.

Costs to administer	<ul style="list-style-type: none"> Significantly cheaper administrative system to maintain 	<ul style="list-style-type: none"> Likely to incur ongoing significant costs to maintain calculations of interest accrual.
Tax effects	<ul style="list-style-type: none"> Only unpaid and accrued interest owing as at 3 July 2012 will be classified as interest, with all distributions thereafter to be considered a return of capital (until all capital is repaid in full). 	<ul style="list-style-type: none"> Subject to individualised and specialised tax advice, all payments are likely to be categorised as income and subject to tax (until all interest has been paid in full).
Maximum theoretical claim¹	<ul style="list-style-type: none"> Allows for Expired Debentures or debentures with maturity dates closer to 3 July 2012 to have a larger Theoretical Claim. 	<ul style="list-style-type: none"> Your maximum theoretical claim may be higher should you hold a debenture with a long dated maturity relative to 3 July 2012, yet you would not be able to receive anything until post maturity of your investment and only if sufficient assets remain as you risk the assets available being exhausted.
Interest entitlement	<ul style="list-style-type: none"> All Debentureholders will benefit by being entitled to claim interest on the unpaid balance of their debenture as at 3 July 2012. Debentureholders receiving less than the maximum current rate offered by the Company (i.e. – 10%) will benefit due to the proposed rate. 	<ul style="list-style-type: none"> Debentureholders will only be entitled to interest for the term of their debenture at the pre-existing rate agreed with the Company.

11 RECOMMENDATION AND APPROVAL

Australian Executor Trustees Limited in its capacity as trustee under the Trust Deed recommends the amendment as set out in the Notice of Meeting and recommends that Debentureholders vote in favour of the Resolution.

12 WHAT HAPPENS AFTER THE VOTE

After the vote is conducted, the Federal Court of Australia will be asked to make directions in relation to whether the Receivers would be justified in making amendments in terms of the proposed amendment. If you are dissatisfied with the outcome of the meeting or believe that you have been prejudiced (or you wish to support the proposed amendment) you can seek to be heard before the Court at that hearing and put your view forward.

13 APPOINTING A PROXY OR ATTORNEY

If you are entitled to attend and vote at the meeting, you have the right to appoint a proxy or attorney to attend and vote on your behalf.

A proxy can be an individual or a company. Your proxy does not need to be a debenture holder.

¹ As set out above, while your maximum theoretical claim is unable to be paid in full, the higher that claim, the higher your likely return per dollar invested is.

If the person you wish to appoint as your proxy is someone other than the chairperson of the meeting please write the name(s) of that person in Step 2 – Appoint a Proxy of the proxy form. If you leave this section blank, or your named proxy does not attend the meeting, the chairperson of the meeting will be your proxy.

If you appoint a proxy, you may still attend the meeting. However, your proxy's rights to speak and vote are suspended while you are present.

14 LODGING YOUR PROXY FORM

If you wish to exercise your right to vote on the resolutions by proxy, you must complete and sign the enclosed proxy form and send it, along with the authority (if any) under which it is signed (or a certified copy of that authority) to the Receivers by no later than 72 hours before the meeting.

Proxy forms may be delivered to Link Market Services Limited by:

- (a) posting the proxy form to Locked Bag A14, Sydney South NSW 1235, Australia; or
- (b) by facsimile to +61 2 9287 0303; or
- (c) by email to provident@linkmarketservices.com.au.

15 CORPORATE DEBENTUREHOLDERS

Corporate Debentureholders may elect to appoint a representative to exercise all or any of the powers that the corporation may exercise at the meeting. A person authorised to act as a representative of a corporate Debentureholder must produce the appointment document prior to the commencement of the meeting.

16 WHEN CHAIR IS PROXY

If the chairperson is your proxy and you wish to specifically direct how the proxy is to vote, you should tick the relevant box on the proxy form and by doing so, you will be taken to have directed the chairperson to vote accordingly and the chairperson must exercise your votes as directed.

The chairperson intends to vote all undirected proxies **in favour of** the Resolution.

17 DISCLAIMER

While all care has been taken in the provision of this statement, you should seek your own advice on the proposed amendment.