

Circular to Creditors

**Henry Walker Eltin Group Limited and subsidiaries
(Administrators Appointed)**

14 March 2005

As creditors will be aware, Tony McGrath, Scott Kershaw, Joseph Hayes and Shaun Fraser, all of McGrathNicol+Partners ("McN+"), were appointed Administrators of 26 entities in the Henry Walker Eltin Group ("HWE") on 1 February 2005.

We provide this update on key aspects of the Administration.

1 Communication and Creditor Committees

We convened meetings of creditors which were held on 8 February 2005 in Sydney, Perth and Darwin, at which time creditors elected representatives to various committees of creditors. Committee details are available on the McN+ website at www.mcgrathnicol.com.au in the 'engagements' section.

The Administrators convened a meeting of the Creditors' Committees on 28 February 2005 to provide them with an update on key activities. These meetings will be held monthly. Additionally, the Administrators have met with key financial creditors to deal with specific issues and also maintain a dialogue with unions and employee groups as needed. All suppliers and customers have received details of the processes for dealing with HWE during the Administration, and a dialogue continues with key customer groups.

2 Business Stabilisation

Since our appointment, we have worked to stabilise operations including:

- Ensuring key management and staff are retained by HWE to assist with the Administration process;
- Establishment of a Management Steering Committee, to manage operational issues and employee communication to address any concerns and queries that arise in those areas;
- Regular liaison with customers, and undertaking viability assessments of the range of businesses and ventures carried on by HWE;
- Taking immediate remedial action to renegotiate or exit unprofitable arrangements, such as the East Coast HWE Civil contracts, and to dispose of significant unfunded investments;
- Putting in place arrangements to ensure there are sufficient controls over HWE's overseas operations, where entities are not in Administration;
- Continuance of key sale mandates commenced by HWE prior to our appointment.

All of these activities have been undertaken to ensure business operations proceed smoothly whilst the asset realisation strategy is progressed. In general terms, HWE's

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customers and suppliers have been very supportive in assisting the Administrators continue operations, to ensure potential asset realisations are maximised.

3 Asset realisation

The Administrators have made good progress on a range of initiatives as detailed below:

- The sale of the Simon Engineering businesses to Abigroup Asset Services for \$17.5 million before adjustments. The business has been maintained and offers of employment made to Simon's 1,050 staff, preserving a significant number of jobs for HWE employees;
- The imminent sale of HWE Civil's Northern Territory Assets, which protects further jobs and preserves HWE's established and highly regarded business in the Northern Territory;
- The sale of PT HWE Indonesia (HWE's Indonesian subsidiary) for about \$42 million to exit HWE's operations there and avoid a further financial commitment in the order of \$140 million;
- The sale of HWE's 50% interest in African Mining Services (Ghana) Pty Ltd to Ausdrill for \$3.6 million in cash and shares, to exit HWE's mining operations in Ghana;
- Closing of binding offers for the sale of the assets of Bridge Autos, the Group's Darwin-based Toyota dealership. The sale is scheduled to complete on 1 April 2005;
- Offers have been sought for HWE's water treatment assets in Aldinga and Castlemaine, and we are working with authorities with a view to closing these transactions as soon as possible;
- Progressing the various initiatives put in place by HWE to realise on the value in HWE's land and development initiatives in the Northern Territory; and
- Appointment of Macquarie Bank as HWE's financial advisers, to advise the Administrators on the recapitalisation options for HWE's contract mining operations.

Finalising our strategy for the mining assets will take some time. In this regard, we expect that the sale of HWE's other interests will be substantially finalised and, by the time of our second creditor's meeting, the contract mining businesses will be the primary focus of HWE operations.

The Administrators are very pleased with progress of the sale strategy to date. We note work continues both with counterparties in relation to the transition of the assets and businesses that have been sold, and on finalising plans for residual assets.

4 Second creditors meetings

The Administrators successfully applied to the Court for an extension of the period within which to convene creditors meetings, to 23 May 2005. Before the meeting a detailed report will be forwarded to Creditors outlining the results of our investigations, our assessment of financial position of the various entities, and recommendations

regarding the adoption of a Deed of Company Arrangement (“DOCA”) or Liquidation of certain entities.

Given the extent and nature of creditor claims, the complexity of the HWE’s intercompany arrangements, the existence of negative pledge and cross guarantees, and the impact of HWE’s ASIC Class Order, it is too early to comment on the likelihood of either a DOCA or liquidation for certain entities. Our work continues with a view to putting a proposal to creditors at the second meeting.

5 Administrator’s Remuneration

The *Corporations Act* provides that in a Voluntary Administration, the Administrators’ remuneration be fixed by the Court or by resolution of the company’s creditors at the second meeting of creditors.

As you will appreciate from the asset realisation activity outlined above, the Administrators and their employees have undertaken a substantial amount of work during the first six weeks of the Administration. However, as we have received an extension of the convening period, the meetings at which we would normally seek fee approval will not be held until nearly four months after our appointment. For these reasons, we intend to apply to the Court to facilitate approval by the Committee of Creditors of our fees to the end of March 2005, and thereafter, approval of fees on a monthly basis. This request is consistent with other large Voluntary Administrations.

Whilst it may be possible to seek interim approval of our fees from the entire body of creditors, the logistics and costs of doing so, having regard to the number and spread of creditors, makes this impractical unless we are ready to report generally on HWE matters. As an alternative, the Committees of Creditors represent a good cross section of the wider body of creditors, and having regard to the cost savings, we consider approval of fees by the Committee of Creditors to be the most practical and efficient course in the circumstances.

Accordingly, the Administrators propose to make an application to the Federal Court under section 447A of the *Corporations Act*, to amend section 449E to permit the Administrators’ remuneration to be fixed by resolution of the Committees of Creditors. This will be on the basis that Committee members are given 7 days notice of any resolution for the fixing of fees and such notice be accompanied by detailed information supporting the remuneration sought.

This application is likely to be made in late March and we ask that any creditor wishing to be heard on the application contact our office no later than Wednesday, 23 March 2005

6 Conclusion

Over the period between now and the convening of the second meeting of creditors, the Administrators’ primary focus will be:

- Continuing to progress requirements to finalise the sale of HWE’s Northern Territory and East Coast Assets;
- Exit HWE’s overseas businesses and joint venture operations on terms satisfactory to HWE;

- With Macquarie Bank, finalise the scoping study and embark upon a course of action to restructure the mining assets;
- Make payments to priority employee creditors where possible, and continue the rationalisation and downsizing program where appropriate;
- Continue our investigations into the failure of HWE, understand its financial position and determine the impact of various guarantees, orders and arrangements on the likely returns to unsecured creditors of each entity; and
- Working with key stakeholders and the Committees of Creditors in relation to all of the above.

Creditors who have any queries concerning the content of this report should contact Louise Ryan at McGrathNicol+Partners on (02) 9338 2643, or Louise Hicks/John Butcher at HWE on (02) 9887 6400 / 9887 6425.

Yours sincerely



*J D Hayes
Administrator*



*S B Kershaw
Administrator*