



AUSTRALIAN GROWTH MANAGERS LIMITED

AUSTRALIAN GROWTH TIMBER PROJECT 4 AUSTRALIAN GROWTH TIMBER PROJECT 2002/2003

EXPLANATORY MEMORANDUM

PURPOSES OF THE MEETINGS

The purposes of the concurrent meetings are:

In relation to the whole scheme

- to amend the Constitution of the Scheme so that Plan A, Plan B and Plan C can be terminated separately should the Growers in any of those Plans decide to do so.
- to amend the Constitution of the Scheme so that fire insurance is only taken out for those Growers who request it, unless the insurer requires a minimum proportion of Growers requesting and that proportion does not request fire insurance, in which case fire insurance will be taken out for all Growers.
- to amend the Lease and Management Agreement to provide for the distribution to Growers who claim of any insurance proceeds in proportion to the Woodlots held by those Growers.

In relation to Plan A

- to amend the Constitution of the Scheme so that Plan A can be terminated separately should the Growers in that Plan decide to do so.

In relation to Plan B

- to amend the Constitution of the Scheme so that Plan B can be terminated separately should the Growers in that Plan decide to do so.
- to give Growers an opportunity to ask questions in relation to the contents of the viability reports prepared by Poyry Forestry Industry Pty Ltd (Poyry) and David Geddes, principal of David Geddes Management Pty Ltd (Geddes), our independent consulting forester.
- to determine whether Plan B is viable, marginally viable or not viable
- should Growers so wish, to ask the Responsible Entity to call a meeting of Growers in Plan B to terminate Plan B.

In relation to Plan C

- to amend the Constitution of the Scheme so that Plan C can be terminated separately should the Growers in that Plan decide to do so.
- to give Growers an opportunity to ask questions in relation to the contents of the viability reports prepared by Poyry Forestry Industry Pty Ltd (Poyry) and David Geddes, principal of David Geddes Management Pty Ltd (Geddes), our independent consulting forester.

ABN 61 079 141 969

AFSL No. 288721

PO Box 732 FREMANTLE WA 6959

Tel: 08 9430 5262 Fax: 08 9430 5552 Email: admin@primarysecurities.com.au

- to determine whether Plan C is viable, marginally viable or not viable
- should Growers so wish, to ask the Responsible Entity to call a meeting of Growers in Plan C to terminate Plan C.

AMENDMENTS TO THE CONSTITUTION

Each Scheme is divided into three Plans (or Sub-schemes):

Plan A: Bluegums

Plan B: Eucalypt Timber (Nitens)

Plan C: Radiata Pine

The Growers in each Plan have different lease terms and their proceeds will be paid only to Growers in their Plan. Each Plan is to all intents and purposes, a separate Scheme. However apart from providing that the proceeds of each Plan are to be paid only to the Growers in that Plan, until recently, the Constitution did not distinguish between the Plans and treats all Growers the same.

The Responsible Entity has already unilaterally amended the Constitution to provide that references to the scheme as a whole can be regarded as references to a particular Plan.

However, no amendment has been made to permit any individual Plan to be terminated.

There are currently four mechanisms for termination, all of which require termination of the entire Scheme, that is of all three Plans in the Scheme.

- The Constitution of the Scheme permits the Growers by Special Resolution to resolve that the entire Scheme (that is, all Plans) be terminated.
- The Corporations Act permits the members of the Scheme to resolve by extraordinary resolution to wind up the Scheme (Section 601NB).
- The Corporations Act also permits the Responsible Entity to take steps to wind up the scheme if the Responsible Entity considers that the purpose of the scheme cannot be accomplished (Section 601NC)
- The Corporations Act permits a Court to order the winding up of a scheme.

The Responsible Entity proposes that each class of Grower, that is, Growers in each Plan, should be able to resolve to wind up their own Plan. An amendment to the Constitution to permit the winding up of any individual Plan might be considered adverse to the rights of Growers in that Plan, but would not be adverse to the interest of Growers in any other Plan, as the Growers in each Plan represent a separate class of Grower.

Therefore, we are seeking the resolution of Growers in each Plan to approve amendments to permit any Plan to be terminated without prejudicing the balance of the Scheme. These are technical amendments only.

The effect of the amendments, if passed, is that the current termination provisions in the Constitution for termination of the Scheme as a whole will now also apply to Plan A, Plan B and Plan C.

VIABILITY OF PLAN B AND PLAN C

The reports issued by Poyry and Geddes cast doubt on the viability of Plan B and Plan C.

Growers should read these reports. The reports can be downloaded from the websites of RuralAus and Primary Securities, namely:

www.ruralaus.com.au and www.primarysecurities.com.au

REASONS TO TERMINATE PLAN B AND PLAN C

- The purpose of Plan B and Plan C was to produce timber for sawmilling.
- The sawmill at Kangaroo Island closed earlier in the year, and while it has reopened on a trial basis by a potential purchase of the sawmill, it has subsequently closed. The sawmill is dedicated to producing softwood (pine) timber. This is the second time that the sawmill has failed. This indicates that the stumpage price a viable mill on Kangaroo Island would be prepared to pay Growers might be significantly less than has been used in the current viability reports, thus possibly reducing Growers' potential returns even further.
- A crucial process in producing sawlogs for milling is to carry out thinning of the plantation, which is the removing of 60% of the trees. This is an expensive process, which was to be funded by the proceeds of the thinnings. For a number of reasons, there is no viable market for the thinnings and therefore Poyry have concluded that the projects are no longer viable as a sawlog project. It was envisaged in the Prospectus that the thinnings could be sold as woodchip. However there is still no port facility available on Kangaroo Island and transporting to the mainland is not viable.
- The current high price for the Australian dollar is also having a negative impact on the export of sawlogs and timber.
- Whilst Poyry has suggested that there may still be some value as a woodchip project, there is no port at Kangaroo Island suitable for shipping the timber as chips or for trucking chips to Adelaide where woodchip facilities could be constructed. Whether or not a port will be built in the future will depend upon which entity purchases the land currently owned by Great Southern Land Holdings Ltd (in receivership) and whether or not they will have the means or a plan to construct a port.

REASONS TO CONTINUE

- The position in relation to Great Southern's plantations at Kangaroo Island may be resolved within the next 12 months increasing the likelihood of a port being constructed.
- It is inappropriate to terminate while the international markets continue to suffer from the global financial crisis.
- The Plan is still young and it is premature to terminate the Plan, after all the money that Growers have paid to date.

BENEFITS TO GROWERS IF THE PLAN IS TERMINATED

- Growers will not have to pay any more rent and management fees.

DRAWBACKS TO GROWERS IF THE PLAN IS TERMINATED

- Growers will lose their investment entirely and will not receive anything.

WHAT HAPPENS IF A PLAN IS TERMINATED?

All contracts are terminated for that Plan.

The RuralAus group will resume occupancy of the land.

The land is not readily saleable as other Australian Growth schemes occupy a portion of the land on the same title and the land is not sub-divisible.

RuralAus will cease to invoice and receive rent and management fees in the following sums and will have the problem of there being no funds to pay for the ongoing maintenance of the trees:

	4B	4C	5B	5C	TOTAL
Rent	\$37,209	\$31,053	\$26,645	\$17,763	\$112,670
Management Fees	\$49,642	\$41,429	\$35,548	\$23,699	\$150,318

The total of rent and management fees foregone is \$262,988. On balance, the termination of the Plan presents practical problems for RAPM.

FIRE INSURANCE

The original Constitutions for schemes 4 and 5 provided that "if requested by the Grower in writing" the Responsible Entity will use its best endeavours to arrange insurance of the Grower's Woodlot against damage by fire.

This presented serious practical issues for the Responsible Entity, the Manager and Growers in that

- almost no Grower ever requested that fire insurance be taken out
- the cases where this occurred were so few that it was not possible to get a policy for only the one or two who requested fire insurance, companies requiring either the entire plantation be insured or a fair proportion of the plantation (such as 60%)
- If a Grower requested that fire insurance be taken out and the only way to achieve this was to insure the entire Plantation, it was not fair to the Grower to impose the entire premium on that Grower. Likewise, it was not fair on the Responsible Entity or Manager that the Grower pay a lesser amount and the Responsible Entity or Manager pay the balance when they did not have an insurable interest. Hence the Manager was self-insuring the Growers who requested fire insurance.

Our forestry officers and independent experts have consistently advised us that it is prudent for Growers to take out fire insurance. As advised to Growers in December 2008, and given the frequency of severe bushfires in recent years, the Responsible Entity decided that rather than continue with the previous unsatisfactory situation, it would add to its powers the power to request that fire insurance be taken out on behalf of all Growers. With this power added, we then took out fire insurance on behalf of Growers and Growers were invoiced their proportion in 2008/2009 and again for 2009/2010.

This has led to communications from some Growers that they had not requested fire insurance and that they considered it unnecessary, particularly in the case of bluegums, notwithstanding that the cost per Woodlot is very small. One of the main grounds for this view is that the projected returns for the plantations are not so high as to justify the extra cost of fire insurance premiums.

The Responsible Entity has therefore decided that this matter should be brought to a head by amendments to the Constitution which set out a workable regime for fire insurance for schemes 4 and 5, namely, if any number of Growers wish to insure (and an insurer will insure for those Growers) then insurance will be taken out at the cost of Growers, but if an insurer cannot be found who will insure on this basis, then the Responsible Entity will insure all Woodlots for all Growers.

Hence the purpose of the proposed amendments is to put into effect such a regime. The regime is practical in that it takes into account whether or not insurers will permit insurance of only part of a plantation, and if they do, whether or not the insurer has specified a minimum percentage of proportion of the plantation to be insured.

BENEFITS TO GROWERS OF THE PROPOSED FIRE INSURANCE REGIME

- Only those Growers who elect to insure will have to pay premiums (provided an insurer is found willing to do this).
- This is a return to the situation in which fire insurance is optional

DRAWBACKS TO GROWERS OF THE PROPOSED FIRE INSURANCE REGIME

- If a Grower chooses not to insure, and there is a fire, those Growers could lose their investment entirely and will not receive anything
- If an insurer cannot be found that will permit insurance of only part of a plantation or if the insurer insists that a high percentage of Woodlots be insured or else there will be no cover, all Growers will be insured and will have to pay their share of the premium.

RECOMMENDATIONS OF THE RESPONSIBLE ENTITY

The Responsible Entity recommends that you vote for the amendments to the Constitution to permit separate termination of any Plan as the Constitution was deficient in not permitting each Plan to be separately terminated.

The Responsible Entity recommends that you vote for the amendments to the Constitution in relation to fire insurance.

The Responsible Entity does not make a recommendation as to whether or not you wish to have another meeting to terminate Plan B or Plan C.

PROPOSED PROCEDURE

The meetings are to be held concurrently for discussion and debate purposes and then when voting commences, each meeting will be held separately. Growers will be identified by colour coded voting sheets.

Formal meetings will be held in the following sequence:

- Growers in Australian Growth Timber Project 4 ARSN 096 164 153 managed investment scheme;
- that class of Growers holding Bluegum Woodlots (Plan A) of the Australian Growth Timber Project 4 ARSN 096 164 153 managed investment scheme;
- that class of Growers holding Niten Woodlots (Plan B) of the Australian Growth Timber Project 4 ARSN 096 164 153 managed investment scheme; and
- that class of Growers holding Pine Woodlots (Plan C) of the Australian Growth Timber Project 4 ARSN 096 164 153 managed investment scheme;
- Growers in Australian Growth Timber Project 2002/2003 ARSN 100 466 126 managed investment scheme;
- that class of Growers holding Bluegum Woodlots (Plan A) of the Australian Growth Timber Project 2002/2003 ARSN 100 466 126 managed investment scheme;
- that class of Growers holding Niten Woodlots (Plan B) of the Australian Growth Timber Project 2002/2003 ARSN 100 466 126 managed investment scheme; and

- that class of Growers holding Pine Woodlots (Plan C) of the Australian Growth Timber Project 2002/2003 ARSN 100 466 126 managed investment scheme;

MORE INFORMATION

Should you have any queries in relation to this matter, please do not hesitate to contact Mr Peter Kinnear, CEO of RAPM on (08) 6103-6900 or the managing director of the Responsible Entity, Australian Growth Managers Limited, Mr Robert Garton Smith, on (08) 9430 5262. These gentlemen are available to discuss the matters set out in this Explanatory Memorandum, or explain further any part of this Explanatory Memorandum.