

9 May 2008

MELBOURNE

Level 29 600 Bourke Street
Melbourne VIC 3000 Australia
PO Box 290 Collins Street West
Melbourne VIC 8007
phone +61 3 9600 4922
fax +61 3 9642 5887
email fhmelb@melb.fh.com.au
www.ferrierhodgson.com
DX 125 Melbourne

BY EMAIL TO THE CREDITOR AS ADDRESSED

Dear Sir/Madam

**RE: PASMINGO LIMITED
SUBJECT TO DEED OF COMPANY ARRANGEMENT
ACN 004 368 674
AND ITS WHOLLY OWNED AUSTRALIAN SUBSIDIARIES ("PASMINGO")**

**SETTLEMENT - PROCEEDINGS ISSUED BY LUMBERMANS MUTUAL
CASUALTY COMPANY (TRADING AS KEMPER INSURANCE COMPANIES)
"KEMPER"**

CREDITOR APPROVAL - RESOLUTION BY CIRCULAR

ADELAIDE
BRISBANE
NEWCASTLE
PERTH
SYDNEY
HONG KONG
JAKARTA
KUALA LUMPUR
MANILA
MUMBAI
SHANGHAI
SINGAPORE
TOKYO

Affiliated through
Kroll Worldwide
UNITED STATES
UNITED KINGDOM

I refer to the previous correspondence regarding the Administration of the Pasmingo Group.

The purpose of this correspondence is to give notice of a meeting of creditors and to give creditors details of the background to the proposed settlement with Kemper, an understanding of the options available and provide the Deed Administrators' recommendation on the proposal.

Background

Kemper is currently an admitted creditor in the sum of AUD33.6 million. The majority of the claim relates to a demand made by Westpac Banking Corporation ("Westpac") against revised undertakings provided on behalf of Kemper by Bank of America. Westpac paid the funds received under the demand to New South Wales WorkCover to release guarantees which it had given to New South Wales WorkCover.

As reported to creditors on 28 February 2008, cash funds earning interest (currently AUD44 million) remain deposited with the New South Wales WorkCover Authority in support of Pasmingo's New South Wales self insurance obligations in respect of workers compensation.

When replying please quote:
Our Ref: :DP:
Your Ref:

g:\rjs\pasmldt.dca\employees\ltr to creditors re approval kemper settlement.doc
Liability limited by a scheme approved under the Professional Standards Legislation

[Ferrier Hodgson is an affiliation of independent partnerships](#)

CORPORATE ADVISORY 
FORENSICS 
CORPORATE RECOVERY 

Kemper issued legal proceedings against Pasmenco and other associated entities, claiming ownership of these funds. Pasmenco maintained that the funds should be returned to Pasmenco following the satisfaction of the self insurance obligations.

Mediation of the proceedings which occurred in June 2007 did not result in any agreement between the parties. The matter was set down for trial commencing 5 May 2008. Leading up to trial, the Deed Administrators initiated further settlement discussions. Those discussions resulted in a settlement between the parties, subject to the Deed Administrators obtaining creditor approval.

Settlement Terms

The terms of settlement provide for the payment of AUD25.5 million to Kemper. Kemper will return the dividends received to date (1st and 2nd dividends only) amounting to AUD4.6 million. The settlement therefore provides a net further sum to Kemper of AUD20.9 million.

This net sum will be met by funds to be returned by NSW WorkCover shortly of approximately AUD22.8m.

As part of the settlement Kemper will withdraw their proofs of debt amounting to AUD33.6 million and not participate in any future dividends.

Pasmenco and Kemper will bear their own costs, with NSW WorkCover's costs to be met by Kemper.

There will be mutual releases.

Deed Administrators recommend settlement

The Deed Administrators recommend the settlement as one in the interests of creditors. In agreeing to the proposed settlement and recommending its terms, the Deed Administrators took into account the following:

- NSW WorkCover currently holds approximately AUD44 million, of which they are currently prepared to release AUD22.8 million, with the balance to be held and released in the future on a conservative basis, having regard to the remaining level of Pasmenco's New South Wales self insurance obligations in respect of workers compensation.
- Advice that the prospects of Pasmenco successfully defending the proceedings and retaining any interest in the NSW WorkCover moneys was between 40-50%.

- The risk weighted potential returns to Kemper as illustrated below:

Risk weighted outcome to Kemper (AUD \$m)		Prospects of Kemper success		
		50%	55%	60%
PV cash available now	22.77			
PV cash available in future	19.02			
Less risk*	10% -1.90			
Kemper legal costs	2.00			
Kemper win - total return	<u>41.89</u>	20.94	23.04	25.13
Dividends	7.53			
Pasminco legal costs	-1.00			
Kemper lose - total return	<u>6.53</u>	3.26	2.94	2.61
Risk weighted return to Kemper		<u>24.21</u>	<u>25.97</u>	<u>27.74</u>

* Represents a risk premium for unforeseen events which may reduce the PV of future cash amounts to be repaid by NSW WorkCover

- The current AUD / USD exchange rate which resulted in the settlement sum returning to Kemper a USD sum approximating their original loss in USD.
- The nature of the dispute was such that any judgment in these proceedings was likely to be appealed (possibly to the High Court) and final settlement of the legal issues was likely to be protracted and expensive.
- AUD2 million will be released to Pasminco from New South Wales WorkCover Authority on receiving creditor approval.
- Pasminco will benefit from the release of the remaining AUD21.2 million held by NSW WorkCover over time as Pasminco's New South Wales self insurance obligations in respect of workers compensation are settled. Moneys held by NSW WorkCover will continue to earn interest until released.
- A loss for Pasminco would result in a return to Pasminco of the dividends paid to Kemper to date. However after Pasminco and Kemper's' legal costs are factored in would result in an immaterial return to the Administration.
- The settlement represents an approximate mid case result (a reduction of 0.1 cents on the nominal dividends discounted at 8%) as incorporated into the dividend estimates issued on 28 February 2008. The settlement improves the return to creditors by 0.5 cents (on the nominal dividends discounted at 8%) compared to the outcome of Pasminco running the case and losing. The settlement forgoes a return to creditors by 0.4 cents (on the nominal dividends discounted at 8%) compared to the outcome of Pasminco running the case and winning. A full analysis of the effect of the settlement can be seen at **Annexure 1**.

In this regard, please find enclosed at **Annexure 2** a creditors meeting notice for a meeting of creditors to be held at the offices of Ferrier Hodgson at 10.00am on Tuesday, 20 May 2008 in which a resolution will be proposed to approve the settlement between Pasminco and Kemper. For voting purposes, attached at **Annexure 3** is a Proxy form which incorporates the resolution for the proposed settlement. This document should be completed and returned to my office by midday on Monday, 19 May 2008.

Should you have any queries in this regard, please do not hesitate to contact Mr Richard Bastow of this office (telephone: +613 9604 5175 or mobile +61 415 209 720)

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter McCluskey', with a long horizontal flourish extending to the right.

PETER MCCLUSKEY
DEED ADMINISTRATOR

Annexure 1

Analysis of the effect of the settlement (cents in the dollar)

Dividend Forecast as at 31 December 2007 - Issued 28 February 2008 (cents in the dollar - AUD)			
	Worst case	Mid case	Best case
Nominal	4.7	6.4	7.4
Discounted - 8%	3.5	4.7	5.4
Discounted - 10%	3.3	4.4	5.0
Discounted - 12%	3.1	4.1	4.7

Dividend Forecast as at 31 December 2007 - Issued 28 February 2008 Flexed to reflect settlement with Kemper (cents in the dollar - AUD)			
	Worst case	Mid case	Best case
Nominal	5.2	6.3	6.6
Discounted - 8%	3.8	4.6	4.8
Discounted - 10%	3.6	4.2	4.5
Discounted - 12%	3.4	4.0	4.2

Dividend Forecast as at 31 December 2007 - Issued 28 February 2008 Flexed to reflect effect of running case and losing (cents in the dollar - AUD)			
	Worst case	Mid case	Best case
Nominal	4.5	5.6	5.9
Discounted - 8%	3.4	4.1	4.3
Discounted - 10%	3.2	3.8	4.0
Discounted - 12%	3.0	3.6	3.8

Dividend Forecast as at 31 December 2007 - Issued 28 February 2008 Flexed to reflect effect of running case and winning (cents in the dollar - AUD)			
	Worst case	Mid case	Best case
Nominal	5.8	6.9	7.3
Discounted - 8%	4.3	5.0	5.2
Discounted - 10%	4.0	4.6	4.8
Discounted - 12%	3.7	4.3	4.5

**FORM 529
CORPORATIONS ACT 2001**

NOTICE OF MEETING OF CREDITORS

**PASMINCO LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 004 368 674**

**PASMINCO INVESTMENTS HOLDINGS PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 082 291 736**

**PASMINCO COCKLE CREEK SMELTER PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 000 083 670**

**PASMINCO FINANCE LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 007 289 296**

**PASMINCO PACIFIC PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 005 416 008**

**PASMINCO INTERNATIONAL PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 004 934 534**

**THE EMU BAY RAILWAY COMPANY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 009 475 790**

**PASMINCO INVESTMENTS PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 082 291 674**

**PASMINCO BROKEN HILL MINE PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 000 005 774**

**SAVAGE RESOURCES LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 009 551 624**

**RAMALA HOLDINGS PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 056 689 117**

**SAVAGE AUSTRALIAN EXPLORATION PTY LTD
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 071 375 169**

**SAVOX PIGMENTS PTY LTD
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 003 035 694**

**SAVAGE EHM PTY LTD
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 071 375 114**

**SAVAGE EHM FINANCE PTY LTD
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 071 375 221**

ANNEXURE 2

NOTICE is given that a meeting of the creditors of the abovenamed companies will be held at the offices of Ferrier Hodgson, Level 29, 600 Bourke Street, Melbourne on Tuesday, 20 May 2008 at 10.00am.

AGENDA

1. Seek creditors' approval for the Deed Administrators' to execute the terms of settlement with Kemper as summarised in the attached letter dated 9 May 2008.
2. Any other business that may be lawfully brought forward.

Proxies to be used at the meeting should be lodged at the office of the Deed Administrators by midday on Monday, 19 May 2008. **A corporate creditor may only be represented by proxy or by an attorney appointed pursuant to Corporations Regulations 5.6.28 and 5.6.31A or by a representative appointed under Section 250D of the Corporations Act.**

In accordance with Corporations Regulation 5.6.23(1), creditors will not be entitled to vote at the meeting unless they have previously lodged particulars of their claims against the abovenamed companies with the Administrators and the claim is or has been admitted in whole or in part for the purposes of voting pursuant to Corporations Regulation 5.6.26.

In accordance with Corporations Regulations 5.6.13A, creditors should note that telephone conference facilities will be available for creditors to attend the meeting via telephone.

Any person who wishes to participate in the meeting via telephone must contact Mr Richard Bastow in writing no later than midday on Monday, 19 May 2008 providing a written statement setting out, the name of the person and of the proxy or attorney, an address and or facsimile number to which notices to the person, proxy or attorney may be sent; and a telephone number at which the person, proxy or attorney may be contacted.

Following receipt of the above details, Mr Richard Bastow will contact you and provide you with a specific telephone number and a password to enable you to attend the creditors meeting via our conference telephone facilities.

Consequently the person, proxy or attorney of a person, who participates in the meeting by telephone must pay any costs incurred in participating the meeting and is not entitled to be reimbursed for those costs from the assets of the company.

DATED this 9th day of May 2008



PETER McCLUSKEY
DEED ADMINISTRATOR

MEETING OF CREDITORS PROXY FORM

Annexure 3

FORM 532

Regulation 5.6.29

CORPORATIONS ACT 2001
APPOINTMENT OF PROXY

Form 7a

PASMINCO LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 004 368 674
AND ITS WHOLLY OWNED AUSTRALIAN SUBSIDIARIES
(SUBJECT TO DEEDS OF COMPANY ARRANGEMENT) ("THE COMPANIES")

*I/*We(creditor name)
of(creditor address)
a primary creditor of.....(Pasminco company name)
appoint(proxy appointed)
or in their absence(proxy alternate)
as *my/our *(i) general OR *(ii) special proxy to vote at the meeting of creditors to be held on 20 May 2008 at 10:00am, or at any adjournment of that meeting, to vote
(i) on all matters arising at the meeting; OR
(ii) on each of the following kinds of resolution in the manner specified:

	For	Against	Abstain
1. A resolution that the Deed Administrators execute the terms of settlement for the payment of AUD25.5 million to Kemper. Kemper will return the dividends received to date (1 st and 2 nd dividends only) amounting to AUD4.6 million. The settlement therefore provides a net further sum to Kemper of AUD20.9 million. This net sum will be met by funds returned by funds returned by NSW Workcover totalling AUD22.8 million. As part of the settlement Kemper will withdraw their proofs of debt amounting to AUD33.6 million and not participate in any future dividends. Pasminco and Kemper will bear their own costs, with NSW Workcover's costs to be met by Kemper. There will be mutual releases.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

I am an unsecured creditor and the total amount owed to me is \$

OR

I am a secured creditor and the total amount owed to me is \$

DATED this day of May 2008

.....
Signature² of individual or person³
authorised by corporate resolution to
represent the corporation

OR The Common Seal of¹
was hereunto affixed in the presence of

.....
Director

.....
Secretary

FOR OFFICE USE ONLY	
Proxy Valid:	Yes/No
Cross Deed Creditor:	Yes/No
Amount admitted for voting:	
\$.....	

¹ The method of affixing the Common Seal should be prescribed by the creditor corporation's articles. See Note (2).

² The signature of the creditor is not to be attested by the person nominated as proxy.

³ Note that a corporation may by resolution of its directors provide standing authority for a person to represent it at members meeting and appoint proxies. Copy of authority to be annexed.