1 Executive Summary

1.1 Introduction

John Menzies Spark and Peter Damien McCluskey were appointed joint and several Voluntary Administrators ("Administrators") of Pasminco Limited and its wholly owned Australian subsidiaries ("the Companies" or "Pasminco") on 19 September 2001 pursuant to Section 436A of the Corporations Act (2001) ("the Act").

Pursuant to Section 439A(4) of the Act, the purpose of this report is to provide creditors with:

- Information about the business, property, affairs and financial circumstances of the Companies;
- The Administrators' opinions and recommendations to creditors; and
- Details of the proposal for Deeds of Company Arrangement ("Deeds") for the Companies that will enable Pasminco to be restructured.

1.2 Pasminco Overview

We note the following background information regarding Pasminco:

- Pasminco was formed in July 1988 through the merger of the zinc-lead-silver mining, smelting and international marketing activities of CRA Limited and North Broken Hill Peko Limited.
- Pasminco's major original operations included smelters at Cockle Creek, Hobart, Port Pirie, Avonmouth in the United Kingdom and a 50% share in the Budel Smelter in the Netherlands. Its initial mining activities included underground operations at Broken Hill, Elura and Rosebery.
- Pasminco's operations expanded in the period from 1997 to 1999 through the acquisition of the (undeveloped) Century Mine for AUD340 million (subsequently developed at a further cost of AUD788 million) and the takeover of Savage Resources Limited ("Savage") for AUD457 million.
- At the date of our appointment, Pasminco was a large publicly listed company. The following key trading and operational information reflect its size and complexity:
    - 11 substantial operating sites across Australia, the Netherlands and USA.
    - Pasminco is the world's largest integrated zinc and lead producer.
    - Over 3,500 staff across all sites.
    - Annual turnover in excess of AUD2 billion.
    - Key supply linkages between various operating sites.
    - Supplier to about 1,200 customers in 30 different countries.
    - Approximately 60,000 shareholders.

- Following our appointment we assumed control of the affairs of Pasminco. During the period of our appointment, we have been required to perform a substantial number of tasks. In particular, we have:
  - In conjunction with Pasminco Management and staff, been responsible for the numerous facets of the trading of Pasminco's businesses. This necessitated the arrangement of a banking facility in the amount of AUD300 million to enable Pasminco to continue to trade. This facility enabled the ongoing payment of trade creditors and employees in the ordinary course.
  - Assessed the various components and assets of Pasminco.
  - Analysed the operational aspects of Pasminco and implemented various initiatives to improve its underlying profitability and performance.
  - Liaised with Pasminco Management and our sale advisors, UBS Warburg ("UBS"), with respect to the proposed sales of the Century and Broken Hill Mines. The Broken Hill Mine was sold effective 31 May 2002 and the Century Mine was taken off the market due to the offers received not being acceptable to the Administrators and the Committee of Creditors.
  - Placed the Elura Mine and the US Operations on the market for sale.
  - Considered various alternatives for the future of Pasminco and, in consultation with Pasminco Management, certain advisors and the Committee of Creditors, developed a proposal for the restructure of Pasminco which is to be voted on by creditors. This has been a substantial, time intensive and complex task.

1.3 Proposal for Deeds of Company Arrangement

The Deeds being proposed to creditors involve the implementation of two distinct steps:

a) A restructure of the Group, achieved principally by splitting the Group into two parts; and

b) The exchange of existing debt for equity in the restructured Pasminco, with the sale of 50% (or some other portion) of the equity in the market place.

If the float was not to proceed, the proposed Deeds incorporate certain fallback measures.

The proposal has been formulated over the course of the Administration to date. During this period, we have considered a number of possible restructure options ranging from those with relatively high levels of debt to options with more conservatively geared Balance Sheets.

The proposal to be voted on by creditors is the option that we consider offers the best possibility of maximising the return to creditors. In this regard, the proposal has been formulated in consultation with certain advisors, Pasminco Management and the Committee of Creditors.

A significant amount of the trading information, asset values and modelling which has been produced by the Administrators and Pasminco over the past nine months, by necessity, cannot be shared with the wider group of Pasminco's creditors or the public at large.

This confidential information, which is substantial, has been shared with the members of the Committee of Creditors who have all signed Confidentiality Agreements.

The Committee of Creditors, which represents approximately 99% of creditors in number and approximately 80% in value, has been satisfied with the information provided to them and has indicated its support for the proposal.

Creditors should be aware that it is a pre condition of the Deeds that a Summit Facility (which is required to finance the payment of outstanding Administration liabilities and provide a working capital facility for the Group following the end of the Voluntary Administration) be agreed to with Pasminco's financiers prior to the Deeds being executed. If the resolution for the Deeds is passed on 15 July 2002, they must be executed by 5 August 2002 (unless the Court orders otherwise).

Creditors should also be aware that if the Deeds are accepted by creditors, upon execution by the Companies and the Deed Administrators, they will become binding on all creditors and shareholders affected by its terms.

1.4 Major Restructure Elements

One of the key drivers of the restructure has been the current zinc price, which is at historically low levels. Various industry forecasts indicate that the zinc price will improve over the short to medium term. Accordingly, it was considered a restructure of Pasminco that would enable creditors to participate in improved market conditions in the future would be preferable to a Liquidation of Pasminco's assets.

The major elements of the proposed restructure include the following:

- The restructured Pasminco Group will consist of the more attractive assets of the existing Pasminco. Under the restructure, the Pasminco Group would be split into two distinct Groups prior to the float proceeding. The Groups would comprise:
  a) Entities required for the ongoing operations ("Ongoing Group").
  b) Entities that will not be included in the restructured Pasminco ("Residual Group").
- The ability to appoint a new Board and Management team.
- Security will be granted to assist in the protection of employee entitlements and the vast majority of employees will retain their employment.
- The proposal allows for flexibility so that the most viable structure and offering can be determined prior to the float.
- The restructured Pasminco would have a conservatively geared Balance Sheet after the float.

- It is expected that shares in the restructured Pasminco could commence trading as early as November 2002 with an initial cash distribution made to creditors shortly thereafter. Shares issued to creditors would be subject to certain on-sale restrictions for a period to be determined (currently envisaged to be 12 months). Moreover, shares sold to investors may include an issue of warrants.
- The restructured Pasminco would be able to take advantage of forecast improved market conditions.

If the proposed Deeds are accepted by creditors, the Administrators of the Deeds ("the Deed Administrators") will pursue the implementation of the restructure with a view to proceeding with the recommended restructure option (referred to as the "Equity & Float Option").

It is currently envisaged that the Ongoing and Residual Groups would comprise the following:

Definite Ongoing Group	Possible Ongoing Group
Century Mine	Elura Mine
Hobart Smelter	United States Mines & Smelters
Rosebery Mine	Cockle Creek Smelter
Budel Smelter	Broken Hill Mine (assets already sold)
Port Pirie Smelter	

We note that further analysis is being undertaken in respect of Elura, the US Operations and Cockle Creek. This analysis may suggest that it would be beneficial to include one or more of these assets in the Ongoing Group. This decision will also be affected by offers received for Elura and the US assets which are currently on the market.

The proposed Deeds allow for the decision as to which group each entity is placed within to be made after the execution of the Deeds so as to ensure that the optimum structure is determined prior to the float proceeding.

1.5 Equity & Float Option

In broad terms, this option which forms the basis for the proposed Deeds, involves a public offering to provide creditors with an initial cash return and an allocation of shares in the publicly listed entity. Depending on the amount of creditor equity floated, this option allows for a short-term return. In addition, creditors will be in a position to benefit from the potential increase in value of their listed equity holding.

1.5.1 Phases of the Equity & Float Option

The Equity & Float Option can be divided into two distinct restructure phases:

- Phase 1 involves creditors voting on the proposed Deeds of Company Arrangement at the second meetings of creditors and preparation of the Group for Phase 2.
- Phase 2 involves a public offering to provide creditors with an initial cash return and an allocation of shares.

1.5.2 Newco Structure

The Equity & Float Option will utilise a newly incorporated entity ("Newco") to act as the future parent of the Ongoing Group and raise the float proceeds.

This structure has a number of important advantages compared to using Pasminco Limited as the future parent for the float.

It should be noted that under this structure, existing shareholders will not receive any equity interest in the restructured Pasminco. However, they may be offered a priority allocation in the float.

1.5.3 Is the Equity & Float Option Viable?

We have discussed the Equity and Float Option with six equity capital markets investment banking specialists. They have been provided with a summary of the option and were asked to comment on the viability of successfully executing the Equity & Float Option.

The common views of the various parties are set out below:

Common Views

Key success factors

- **High quality Board and management team**
- **Timing of the offering**
- **Strategy to effectively manage the creditors' ability to sell their shares**
- **Clear plan to deal with non-core assets**
- **Suitable head office structure**
- **Clean/transparent Balance Sheet**

Feasibility of proposal

- **Market is currently short of resource opportunities and large IPOs**
- **Very few pure metal plays**
- **Current market sentiment is positive**
- **ASX listing will be sufficient to attract demand, including offshore investors**

With appropriate management of the key issues and suitable timing the Equity & Float Option is viable

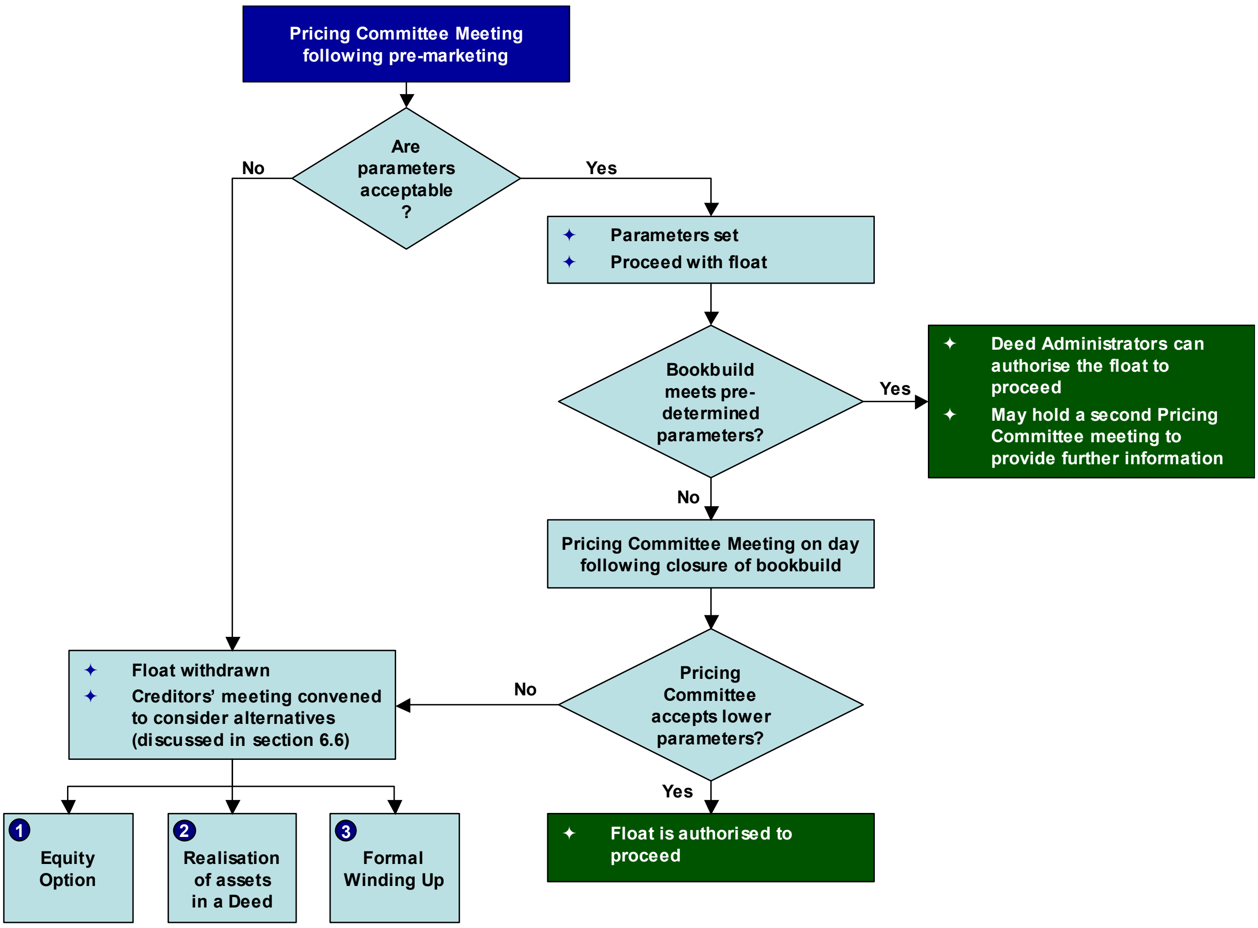
We have since engaged three investment banking firms to act as the Joint Lead Managers ("JLMs") to assist with the proposed float. The firms engaged are Deutsche Bank, Salomon Smith Barney and UBS Warburg. These firms consider that the Equity & Float Option is viable.

1.5.4 Parameters for Capital Raising

We have avoided publishing any potential float values in this report so as not to prejudice the Initial Public Offering ("IPO") process.

A Pricing Committee will be empowered to set clear pricing parameters for the float following the pre-marketing process. In this regard, a Pricing Committee will be made up of creditors with claims in excess of AUD5 million.

The process for setting the pricing parameters and authorising the float to proceed is set out below:



We note that if the float is withdrawn, a meeting of all creditors will be held and certain fallback options will be considered.

1.6 Restructure Analysis

1.6.1 Advantages of the Equity & Float Option

This option has a number of important advantages over Liquidation and the other restructure options contemplated:

- With a successful float, creditors could potentially receive an initial cash return in a short period of time whilst retaining potential for upside via their remaining equity holding.
- The restructure mechanism proposed provides flexibility for those creditors that choose to retain up to their full pro rata equity position.
- The Liquidation risk is reduced.
- The creditors that finance the Summit Facility will have the majority or all of this new funding repaid shortly after the float (if successful).
- The restructured Pasminco has an ability to attract better personnel, including Directors and Management.
- A more viable capital structure would allow Pasminco to make more strategic decisions going forward rather than being weighed down or pre-occupied with the debt burden. It may also be able to take advantage of any growth opportunities.
- It provides a mechanism for creditors to value residual shareholding and carry equity at real value.
- This option is more likely to satisfy the regulatory authorities than the other options.
- The improved borrowing profile should lead to a lower cost of funds.
- As opposed to Liquidation, this option avoids crystallising employee and environmental liabilities.

1.6.2 Disadvantages of the Equity & Float Option

There are also a number of potential disadvantages:

- The cost and uncertainty of equity raising.
- Whilst the advice received to date has been that the market would be receptive to this type of equity raising at the current time, there is no guarantee that market sentiment will not adversely change. Therefore, there is no certainty that the float will occur in the time frame contemplated.
- In the event that the float is withdrawn and Liquidation is contemplated, the future Liquidation return may not be as attractive.

1.6.3 Restructure Risks

It should be noted that such a restructure is subject to a number of risks. These are summarised below:

- Adverse movements in the zinc price
- A significant appreciation in the AUD against the USD
- Production problems, including potential industrial action
- Ability to attract and retain quality Board members and Management
- Environmental risks
- Inability to procure ongoing funding in the period preceding the float

The implications of one of these risks eventuating is that the Float may be withdrawn. If this eventuates, creditors will have a number of fallback options as set out in Section 6.6 of this report.

1.6.4 Summary

Based on our work performed during the Administration, and in consultation with certain advisors, we are able to advise creditors that:

i) The return from the Equity & Float Option is expected to substantially exceed the estimated Liquidation return.

ii) The JLMs consider the proposal to be viable.

1.7 Fallback Restructure Options

There is the possibility that the float will be withdrawn or the bookbuild process may not meet the pre-determined pricing parameters set by the Pricing Committee. If this eventuates, the proposed Deeds require that the Deed Administrators will convene a meeting of creditors as soon as practicable.

The options available to creditors may include, but are not limited to, the following:

Creditors' Meeting

1 Equity Option

- Trade with a conservative gearing level
- Creditors obtain returns from cash distributions or sale of debt or shares
- IPO may be reconsidered in the future
- Similar structural considerations to the Equity & Float Option

2 Realisation of assets in a Deed

- Assets are realised and proceeds distributed within a Deed of Company Arrangement

3 Formal Winding Up

- Assets are realised and the proceeds are distributed in a formal Creditors' Voluntary Liquidation

1.7.1 Equity Option

If the float is withdrawn or the book build price is unacceptable then creditors might decide to continue with a restructure option and undertake to convert a certain level of debt to equity.

1.7.2 Realisation of assets in a Deed

If the creditors elected to adopt this scenario then all of the Companies would be administered pursuant to Deed provisions similar to the manner that the Residual Group is to be conducted under the Equity & Float option. This would involve the timely realisation of the assets of the entire Pasminco Group.

Under this scenario the Deed Administrators would seek to realise Pasminco's assets in an orderly manner. The Deed Administrators would be responsible for ongoing trading whilst the assets are sold, however, they would need to be satisfied that necessary funding was in place to enable trading to continue whilst the assets are sold.

1.7.3 Formal Creditors' Voluntary Liquidation

This option would involve all of the Companies in Voluntary Administration being placed into a Creditors' Voluntary Winding Up. The assets would be sold or shut down as soon as possible under this option.

1.8 Investigations

We have conducted an investigation into the affairs of Pasminco and the conduct of its Directors, related parties and advisors in the period prior to our appointment. In particular, those investigations have focused on:

- The reasons for the failure of Pasminco and whether those reasons may constitute a breach of duty by Pasminco's Directors or advisors; and
- Whether Pasminco traded whilst it was insolvent.

With respect to the key matters investigated by us, we note that:

- In our opinion, a combination of the following factors contributed to the failure of Pasminco:
  - The decline in the world zinc price.
  - Pasminco's debt burden.
  - The acquisition of Savage.
  - The effect of the devaluation of the Australian dollar on Pasminco's hedge book.
  - Inadequate management information systems.
- Further work is required by us and our legal advisors to determine whether any of the Directors or advisors of Pasminco breached their duties to the Companies.
- In our opinion, Pasminco did not trade whilst insolvent.

Importantly, if there is ultimately found to be any actions for breach of duty against Pasminco's Directors or professional advisors, they will be available to the Companies under the proposed Deeds.

Our findings regarding our investigations are discussed in further detail at Section 12 of this report.

1.9 Options Available to Creditors

Concurrent meetings of creditors will be held on 15 July 2002 to consider the proposal for Deeds of Company Arrangement to allow the restructure of Pasminco to proceed.

Under the Act, at the meetings of creditors, creditors may resolve that:

a) Each of the Companies execute Deeds of Company Arrangement as outlined in parts 4 to 6 of this report and the Summary Statement (**Annexure 1**); or

b) Each of the Administrations of the Companies should end; or

c) Each of the Companies be wound up.

1.10 Recommendations of Administrators

We consider that the proposed Deeds offer the greatest opportunity to maximise the return to creditors.

For the reasons set out in this report, in our opinion, it is in the creditors' best interests to accept the Deeds of Company Arrangement for each of the Companies in the form proposed to allow the restructure of Pasminco to proceed.

We do not believe it is in the creditors' best interests for each of the Administrations to end or for each of the Companies to be wound up.

2 Purpose of Report

This report is provided in relation to 22 Companies within the Pasminco Group that were placed into Voluntary Administration on 19 September 2001. A schedule of the Companies is attached at **Annexure 2**.

This report is prepared in accordance with Section 439A of the Act and contains the following:

- Information about the Companies' business, property, affairs and financial circumstances.
- A statement setting out the Administrators' opinion and the reasons for this opinion about each of the following:
  - Whether it would be in the creditors' interests for each of the Companies to execute Deeds of Company Arrangement to enable the restructure of Pasminco to proceed.
  - Whether it would be in the creditors' interests for the Administration of each of the Companies to end.
  - Whether it would be in the creditors' interests for each of the Companies to be wound up.
- A statement setting out details of the proposed Deeds for the Companies.

The information contained in this report has been obtained from a wide range of sources and knowledge accumulated by us during the course of the Administration.

Given the complexity of the business and affairs of Pasminco, we have engaged a number of parties to provide specialist advice to us throughout the course of the Administration.

We have been reliant on information provided to us by these parties, in addition to a wide range of information and representations provided to us or made by Pasminco Management.

This report does not guarantee or warrant the current or future position of Pasminco. A significant amount of the trading information, asset values and modelling which has been produced by the Administrators and Pasminco over the past nine months, by necessity, cannot be shared with the wider group of Pasminco's creditors or the public at large due to its confidential nature.

This confidential information, which is substantial, has been shared with the members of the Committee of Creditors who have all signed Confidentiality Agreements.

We have however provided information that we consider relevant to assist creditors determine how to vote in respect of the future of Pasminco. In doing so, we have made assumptions that we consider to be valid at the time of writing, but which may not prove to be valid.

An audit has not been performed by us, nor, except where otherwise indicated, have any tests or verification work been carried out.

This report may not be referred to, reproduced or quoted from in whole or in part or used for any other purpose whatsoever without the Administrators' express written consent.

3 Chronology of Administration to Date

The key events of the Administration to date are as follows:

i) John Spark and Peter McCluskey were appointed as joint and several Administrators of Pasminco Limited and its wholly owned Australian subsidiary companies on 19 September 2001 pursuant to Section 436A of the Act.

ii) Following our appointment, we took control of the affairs of Pasminco and obtained a funding facility of AUD300 million to enable all Pasminco businesses to continue to trade whilst the alternatives for the future of Pasminco were considered. We also continued the sale processes for Pasminco's Century and Broken Hill Mines that had been commenced by Pasminco prior to our appointment.

iii) The first meeting of creditors was held on 26 September 2001. At that meeting, our appointment as Administrators was ratified and a Committee of Creditors was formed comprising representatives of Pasminco's financiers and employees. We have since met with the Committee of Creditors on nine occasions to discuss the ongoing status of the Administration and in particular the consideration of and development of options for the restructure of Pasminco.

iv) On 5 October 2001, an Order was made by the Court, on our application, extending the period to convene the second meetings of creditors by ninety (90) days to 7 January 2002, thereby requiring the second meetings to be held on 14 January 2002.

v) On 10 October 2001, we applied to the Court and an Order was made that the funding facility obtained by us as Administrators to fund Pasminco operations be classified as a personal liability of the Administrators and that we were entitled to be indemnified out of the property of Pasminco to repay that liability. If this Order was not obtained, it may not have been possible to borrow the funds we considered were required to continue to trade Pasminco.

vi) During December 2001, following a period of due diligence, we received offers for Pasminco's Century Mine.

vii) On 13 December 2001, we applied to the Court for a further Order extending the period to convene the second meetings of creditors by an additional ninety (90) days to 8 April 2002, thereby requiring the second meetings to be held by 15 April 2002. The Order was required to enable consideration of proposals for the restructure of Pasminco to be further progressed.

viii) In December 2001, an application was made to the Australian Securities and Investments Commission ("ASIC") for an exemption from the Chapter 6 (takeovers) and Chapter 6D (fundraising) provisions of the Act to enable the implementation of a restructure of Pasminco to be conducted under a Deed without the need to use a Scheme of Arrangement.

ASIC refused the application.

ix) On 17 January 2002, following a period of extensive negotiations by our sale advisors, UBS, and after consultation with the Committee of Creditors, we terminated the sale process for the Century Mine given that no acceptable offers had been received.

Further revised offers were subsequently received, however, after consultation with the Committee of Creditors, they were also rejected on the basis that they were not acceptable.

x) We sought a review of ASIC's decision refusing the application for the exemption sought by applying to the Takeovers Panel ("the Panel") on 20 February 2002 for a review of ASIC's decision.

On 26 April 2002, the Panel set aside ASIC's decision and granted the application originally applied for.

xi) An agreement was signed for the sale of Pasminco's Broken Hill Mine to Perilya Limited ("Perilya") on 8 March 2002. The sale was subject to the satisfaction of a number of conditions precedent in favour of both parties. Completion of the sale occurred on 31 May 2002.

xii) On 19 March 2002, we commenced a formal sale process for the Elura Mine. UBS was retained by the Administrators to act in relation to the sale process.

xiii) On 27 March 2002, we made a further application to Court to extend the period to convene the second meetings of creditors by an additional ninety (90) days, thereby extending the convening period to 8 July 2002, and requiring the second meetings to be held by 15 July 2002. The application was made to allow us further time to develop and finalise the restructure proposal for Pasminco, given the size and complexity of the Voluntary Administration.

xiv) Since our appointment we have conducted an investigation into the affairs of Pasminco, including the reasons for the failure of Pasminco and whether it traded whilst insolvent.

Our findings, based on our investigations, are outlined in Section 12 of this report.

xv) During the Administration we have spent a significant period analysing and assessing the options available for the future of Pasminco and developing the proposal for the restructure of the Companies, which is to be voted on by creditors at the second meetings.

The proposal has been developed by us with the input and consideration of various parties, including legal, tax and investment bank advisors, the financiers on the Committee of Creditors, representatives of Pasminco's unionised and non unionised workforce and Pasminco's Management and staff.

xvi) On 6 May 2002, the proposal for a restructure and the "Equity and Float Option" as discussed at parts 4 to 6 of this report, was presented to the Committee of Creditors. Shortly following this meeting, the Committee members expressed strong support for this restructure option.

xvii) A press conference was held on 21 May 2002 by the Administrators and Mr Greig Gailey, Pasminco's CEO, outlining the key points of the proposal to the public.

xviii) In May 2002, the Administrators engaged UBS, Salomon Smith Barney and Deutsche Bank as JLMs to assist with the proposed public listing.

xix) The second meetings of creditors for the Companies are to be held at 11.00am on 15 July 2002. At this time, creditors will have the opportunity to determine the future of Pasminco.

In this regard, creditors can resolve that:

a) Each of the Companies execute the Deeds of Company Arrangement in the form proposed; or

b) Each of the Administrations of the Companies should end; or

c) Each of the Companies be wound up.

4 Deeds of Company Arrangement

The Deeds of Company Arrangement being proposed to creditors involve:

1. A **restructure of the Group** (discussed in Section 5).

2. **The exchange of existing debt for equity in the restructured Pasminco**, and the **sale of 50% of the equity (or some other portion)** in the market place (the "Equity & Float Option"). This will provide creditors with an initial cash return and an allocation of shares in the publicly listed entity (discussed in Section 6).

4.1 Deeds of Company Arrangement Background

Once it became clear that the major creditors were likely to support the ongoing trading of Pasminco in the form of a restructured entity (as opposed to Liquidation) we formed a restructure team to analyse the optimal manner in which Pasminco should be restructured with respect to financial, commercial, legal, tax and accounting considerations.

During this period we considered a significant number of options ranging from those with relatively high levels of debt to options with more conservatively geared Balance Sheets. A rigorous analysis of the options was conducted and a number of the options were presented to the Committee of Creditors for feedback. **The option the Administrators consider to be the most attractive to creditors is the Equity & Float Option**.

In addition, this option has received strong support from the Committee of Creditors. The Committee represents approximately 99% of the creditors in number (predominantly employees) and approximately 80% in value of total creditor claims. The Committee comprises major financier creditors, union and employee representatives. The Committee has had access to a considerable amount of information throughout the course of the Administration, including two detailed reports, strategic models, various analyses of Pasminco's assets and numerous discussions and meetings. We have also discussed the restructure proposal with other major creditors that are not Committee members and they have also supported this option.

4.2 Major Elements of the Deeds of Company Arrangement

The ten major elements of the Deeds recommended by the Administrators are set out below:

1. The Pasminco Group will be split into **two distinct groups**.
   - Entities required for the ongoing operations ("the Ongoing Group"). This will include the more attractive assets and entities of the existing Pasminco.
   - Entities that are not required going forward ("the Residual Group").

2. A **public offering** to sell 50% (or some other proportion) of the equity in the Ongoing Group. This will provide creditors with an upfront cash return and an allocation of shares in the publicly listed entity.

3. A **new Board** and **Management team** will be appointed to lead the Ongoing Group into the future.

4. Security will be granted to assist in the protection of **employee entitlements,** with the vast majority of employees to be retained. Most personnel restructuring is to be carried out at the Head Office level.

5. The proposal allows for **flexibility** so that the most viable structure and offering can be determined prior to the float.

6. The Ongoing Group will be **conservatively geared post the Initial Public Offering ("IPO")** except for appropriate working capital facilities that will be put in place. Accordingly, creditors will be compelled to compromise a portion of their debt.

7. **Existing Pasminco shareholders** will have no equity interest in the restructured Pasminco. However, existing shareholders may be offered a priority allocation in the IPO.

8. It is expected that the shares in the restructured Pasminco could **commence trading** on the ASX as early as **November 2002**. It is anticipated that an initial cash distribution would be made to creditors shortly thereafter. Shares issued or transferred to creditors, other than under the IPO Prospectus, will be subject to certain on sale restrictions for at least 12 months.

9. **Creditors with claims of less than AUD10,000** can elect whether to:

   - participate with other creditors to receive a pro rata share of the float proceeds and shares in the listed entity; or
   - accept 50 cents in the dollar in full and final settlement of their claims.

10. The restructured Pasminco will be able to **take advantage of the forecast improved market conditions** with:

    - A conservatively ungeared, robust Balance Sheet.
    - A world class asset base with operations that are low on the cost curve.
    - A new Board of Directors.

    Moreover, the restructured Pasminco will be well positioned to participate in any future industry rationalisation.

The rationale behind the restructure and further details of the proposal are outlined in the following sections.

A statement setting out the details of the proposed Deeds and other restructure documents is attached (**Annexure 1**).

5 Restructure of the Group

- The major driver for the restructure of Pasminco is the forecast industry outlook and specifically the expectation of a recovery in the zinc price.
- As part of the restructure, entities required for the ongoing operations will be placed into the Ongoing Group.

  Entities not required going forward will be placed into the Residual Group.
- Operations that will be placed into the Ongoing Group include:
  - Century
  - Hobart
  - Rosebery
  - Budel
  - Port Pirie
- Operations that may or may not be included in the Ongoing Group include:
  - Elura
  - United States
  - Cockle Creek
- The Broken Hill operations have already been sold.
- The rationale for the retention or possible divestment of the above operations is discussed at Section 5.2 below.
- The restructure would include a thorough review and reorganisation of the Head Office.
- A satisfactory working capital facility being put in place.

Further detail on the restructure of the Group is provided in the following sections:

5.1 Industry Outlook

5.2 Overview of Operations

5.3 Projected Head Office Structure

5.4 Finance Structure

5.5 Advantages of a Restructured Pasminco

5.6 Risks of Restructure

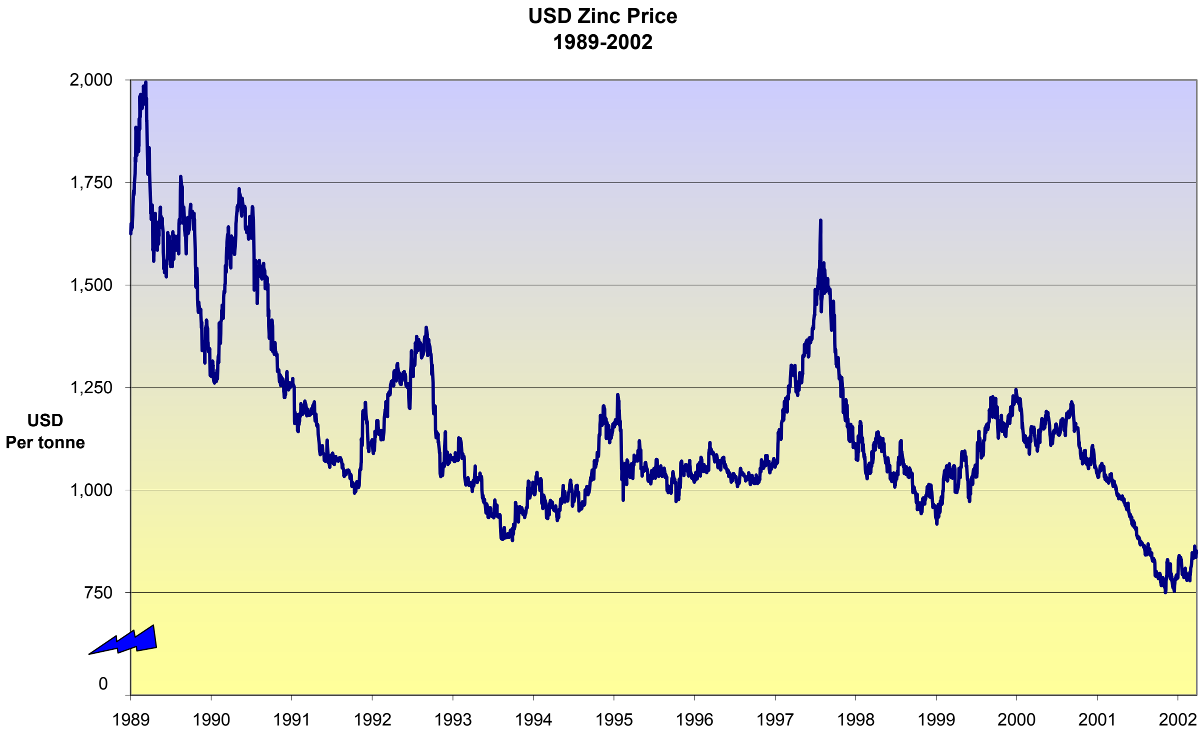
5.1 Industry Outlook

Zinc Price Forecasts

The major factor driving the recommended restructure of Pasminco is the current zinc price which is at historically low levels and the expectation that the zinc price will recover in the short to medium term. Such a recovery would increase Pasminco's revenue stream and the value of its assets and therefore improve the overall return to creditors. A USD1 movement per tonne in the zinc price produces a change of approximately AUD1 million in operating cashflow per annum.

The general market view is that the current low zinc price is unsustainable for the industry as a whole.

The trend in the Nominal USD zinc price since 1989 is illustrated as follows:



As can be seen from the above, there has been a significant decline in the USD zinc price since mid 1997.

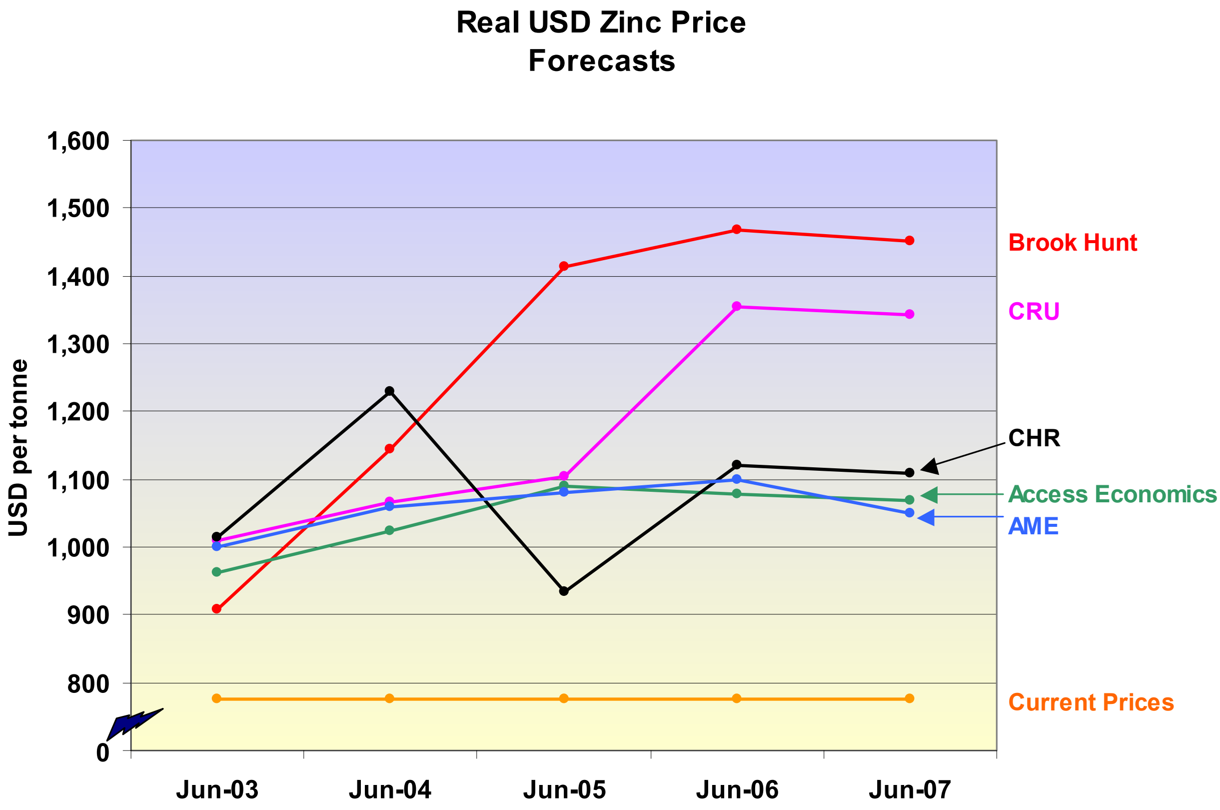
In the zinc industry, the top four producers account for less than 25% of production. In comparison to other mineral commodities, this is a very low level of concentration. Capital investment decisions, which made sense for individual producers, have contributed to overcapacity and poor returns for the industry as a whole.

Given the industry's recent poor track record and the diverse ownership of mining and smelting capacity, there should be opportunity for industry rationalisation. It is considered that a restructured Pasminco would be well positioned to participate in any rationalisation that occurs.

The consensus zinc price forecasts of Access Economics, along with the following four recognised zinc price forecasters have been analysed. These forecasts are based on publications/presentations produced in the period February 2002 to April 2002.

- Australian Mineral Economics ("AME")
- CHR Metals ("CHR")
- Commodities Research Unit ("CRU")
- Brook Hunt

Their forecasts are set out graphically below:



The above graph highlights the industry view that zinc prices are currently at unsustainable levels and that a rise is expected in the short to medium term. It also highlights the divergent views between the zinc price forecasters and the difficulty in accurately forecasting future prices.

USD/AUD Consensus Forecasts

A further major driver of Pasminco's operational cashflow and the resultant asset values is the movement in the USD/AUD exchange rate.

Due to the majority of Pasminco's revenue being denominated in USD and the majority of its costs being denominated in AUD, movements in the USD/AUD exchange rate have a significant impact on Pasminco's cashflow.

A 1 cent movement in the USD/AUD exchange rate produces a change of approximately AUD17 million in annual operating cashflow.

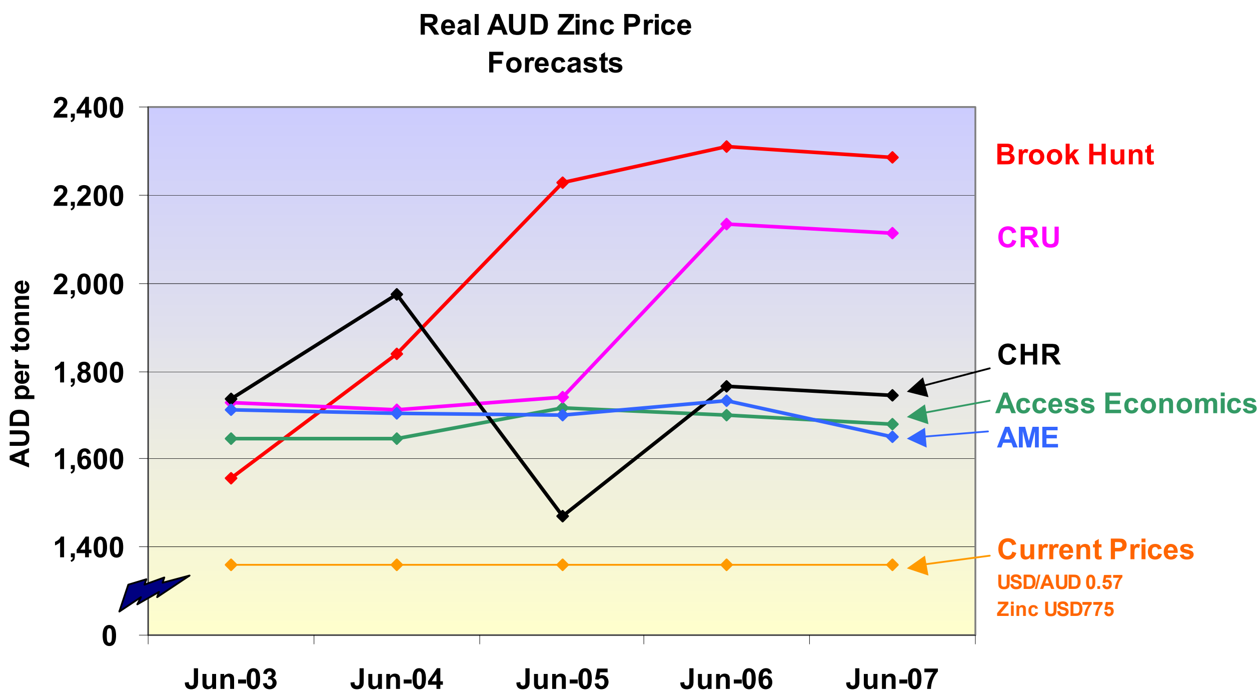
Access Economics provides consensus forecasts in respect of the USD/AUD exchange rate.

The Access Economics consensus USD/AUD forecasts as at February 2002 were as follows:

	June 03	June 04	June 05	June 06	June 07 onwards
USD/AUD	0.584	0.622	0.635	0.635	0.635

As illustrated above, the consensus view is that the Australian dollar will appreciate against the US dollar over the next few years. This projected appreciation negates to some extent the projected increase in the USD zinc price.

Utilising the Access Economics USD/AUD exchange rate forecasts, the AUD zinc price forecasts of the various industry commentators are illustrated below:



As with the zinc price forecasts, creditors should also be aware that foreign exchange predictions have often been highly inaccurate.

5.2 Overview of Operations

An analysis of Pasminco's various sites has been undertaken to assess those sites that the Administrators consider should form part of a restructured Pasminco.

A summary of the Administrators' current views regarding the assets to be retained or possibly divested, which is supported by Pasminco Management, is as follows:

Definite Ongoing Group	Possible Ongoing Group	Operations Divested
Century Mine	Elura Mine	Broken Hill Mine
Rosebery Mine	US Operations Smelters and Mines	
Budel Smelter	Cockle Creek Smelter	
Hobart Smelter		
Port Pirie Smelter		

Pasminco, following the proposed operational restructure as set out above, will represent an integrated mining and smelting company, without a number of assets that are better managed and utilised by other operators.

5.2.1 Operations that should be Retained

These operations include the "world class" assets within Pasminco and those that generate significant operational cash. A sale of these assets should only be contemplated if an offer approaching their value under consensus prices is received and also only after considering the impact of such a sale on the Group as a whole. This is important due to the key linkages that exist between many of the sites and the negative impact that a particular sale may have on the proposed IPO.

Century Mine, Queensland

- Century is a "world class" asset with scope for significant upside if zinc prices recover and efficiency levels are achieved. Century is the world's second largest zinc and lead mine with production expected to reach full capacity within the next two years. It is the jewel in the Group's crown.
- Century would form the major asset as part of a restructure. Therefore, a restructure of Pasminco without Century would be very difficult.

Rosebery Mine, Tasmania

- Rosebery is considered a key asset and its concentrate flows are utilised by Hobart and Port Pirie.
- Rosebery generates significant cashflow, is a low cost producer and has significant potential for additional near mine discoveries. Such discoveries could extend the life of the mine beyond the current estimate of 10 years and enhance the mine's value. Accordingly, the Administrators believe that Rosebery is an important part of a restructured Pasminco.

Budel Smelter, The Netherlands

- Budel is closely integrated with Century and is strategically positioned close to the European market.
- Whilst Budel does not generate significant cashflow at current zinc prices, it is highly leveraged to the zinc price. Any upward movement in the zinc price would have a significant impact on Budel's operational cashflow. It is the Administrators' view that a sale of Budel in the current environment would achieve significantly less than the NPV benefit of retaining Budel.

Hobart Smelter, Tasmania

- Hobart generates significant cashflow. Being a quality smelter supplied by Pasminco controlled mines significantly lowers overall risk.
- It is the view of the Administrators and Pasminco Management that any sale price received for Hobart would be significantly less than the NPV benefit of retaining Hobart. In addition, closing Hobart (if a sale could not be achieved) would crystallise significant employee entitlements, with also a possibility of a significant impost being applied by the Environmental Protection Authority ("EPA").

Port Pirie Smelter, South Australia

- Port Pirie also generates significant cashflow.
- It is the view of the Administrators and Pasminco Management that any sale price received for Port Pirie would be significantly less than the NPV benefit of retaining Port Pirie. In addition, closing Port Pirie (if a sale could not be achieved) would crystallise significant employee entitlements, with also a possibility of a significant impost being applied by the Environmental Protection Authority ("EPA").

5.2.2 Possible Divestments

These operations are not considered integral to a restructured Pasminco. Accordingly, strategies are being put in place to best deal with these assets. This could involve either a sale of the operation(s), a "wind down" of the site(s) operations or inclusion in the restructured Pasminco. Further work is currently being undertaken in this regard.

Elura Mine, New South Wales

- A decision was made to place Elura on the market. UBS has been engaged to conduct the sale process and has undertaken significant work to date.
- The rationale for a sale of Elura is that it would be better operated by a junior miner.

US Operations, Tennessee

- A decision was also made to place the US operations (two mines and a smelter in Tennessee) on the market. Rothschild was engaged to conduct the sale process.
- A detailed review and analysis of the options available in respect of the US operations is currently being undertaken. A decision will then be made in regards to the future of the US operations and whether they should be included in any restructure.

Cockle Creek Smelter, New South Wales

- Cockle Creek is also considered an asset that could possibly be divested.
- A detailed review is currently being undertaken to assess the options available in respect of Cockle Creek. A decision will then be made as to whether Cockle Creek should form part of any restructure.

5.2.3 Operations Divested

Broken Hill Mine, New South Wales

- This asset has been sold, with settlement occurring on 31 May 2002.

5.3 Projected Head Office Structure

As part of the potential restructure of Pasminco, a review and restructure of the Head Office operations has been undertaken.

Pasminco's Head Office was based on a divisional structure, consisting of a Corporate function, a Smelting Division and a Mining Division.

The majority of these staff are located in Melbourne with some Smelting technical support staff located at Cockle Creek and some Metals Marketing staff located at various points throughout Asia Pacific.

As at June 2002, there were a total of approximately 210 employees in Head Office.

Pasminco's Melbourne based Head Office has been restructured a number of times over recent years.

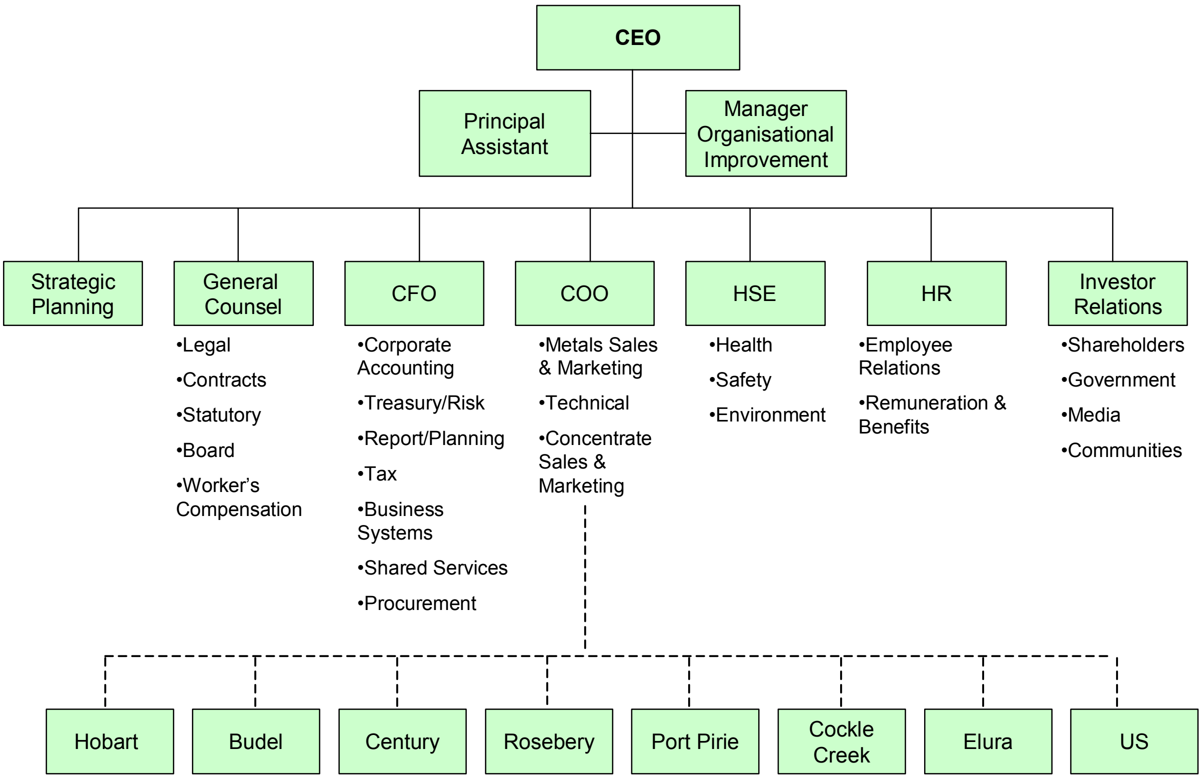
The impact of these restructures on Head Office staff numbers over the last 2 years is demonstrated in the following table:

Head Office					
	Jan 01	June 01	Sept 01	Dec 01	June 02
Melbourne based	208	200	178	165	158
Other locations	54	52	52	52	52
Total	**262**	**252**	**230**	**217**	**210**

Management intend to further reduce Head Office staff levels in a further three phases. This plan is predicated upon Pasminco remaining or a restructured Pasminco becoming a publicly listed company, Century being retained and assets presently proposed for disposal being sold.

Phase 1 was implemented immediately following approval by the Committee of the proposed restructure.

The separate Mining, Smelting and Group Head Office functions will be collapsed into a single business entity. The resultant Head Office structure is shown below:



This amalgamation is forecast to further reduce Head Office numbers by 21 (staff and contractors) to 189. This will represent an estimated annualised cost saving of AUD2.2 million with an upfront redundancy cost of approximately AUD1.3 million.

Phase 2 is planned to be undertaken in early FY2003 and is expected to reduce Head Office staff by a further 25 to 164, with estimated annualised savings of AUD2.5 million and a one off cost of approximately AUD1.5 million. This phase is to involve external reviews of the Technical Support, Marketing and Procurement functions.

Phase 3 involves an evaluation of outsourcing the back office and support functions. Timing of this phase will be dependent upon the successful completion of Phase 2, particularly systems redevelopment. Savings and costs will be better estimated closer to the expected implementation which is not expected to occur before FY2004.

Offsetting to some extent these cost savings flowing from reduced Head Office staff numbers are the increased costs expected in the areas of systems, staff recruitment and development, which effectively ceased in FY2002. These costs will however be more than offset by a reduction in external consultancy costs as Pasminco moves out of Administration.

5.4 Finance Structure

5.4.1 Level of Ongoing Debt

The level of performing debt that the restructured Pasminco should carry post float is a critical variable to be determined prior to the Deeds being executed.

The JLMs strongly recommend that there is no debt in the restructured group other than:

- An appropriate working capital facility.
- The existing leasing facilities including the PPT lease.

We have also considered this issue and, in particular, have contemplated a future Balance Sheet with additional debt. We concur with the view of the JLMs that this would be problematic as Directors (and investors) would have to be satisfied that the restructured Pasminco was sufficiently robust to withstand a further deterioration in the zinc price or, at the very least, extended poor trading conditions. This would be difficult if a level of debt was included in the Balance Sheet of the new entity.

Accordingly, we agree with the JLMs that under the Equity & Float Option the new entity should only carry an undrawn working capital facility together with the existing leasing facilities. However, we also have set out the Equity Option as a fallback restructure option in the event that the float does not proceed. This option is discussed in more detail at Section 6.6 below and allows for a level of gearing to be adopted if the creditors consider this to be appropriate.

5.4.2 Future Funding

Under the restructure, financing arrangements will need to be established to enable ongoing trading.

Summit Facility

The Summit Facility represents the new borrowings that are required to finance the following:

	Approx AUDm
Refinance of the Voluntary Administrators' facilities obtained from the three funding banks (NAB, CBA and Westpac)	225
Refinance of the Standstill Debt for funding during the period 3 July 2001 to 19 September 2001	55*
Undrawn working capital headroom facility in the event of an unforeseen short term deterioration in trading conditions or a shut down at one of the sites	220
Total	**500**

* It is still to be determined whether this funding will form part of the Summit Facility

It should be noted that the quantum of the working capital headroom facility incorporates the anticipated funding requirement for the Group for the year ended 30 June 2003, together with adverse movements in working capital and any further deterioration in trading conditions.

Under the recommended Equity & Float Option, some or all of the drawn components of the Summit Facility may be repaid from the float proceeds.

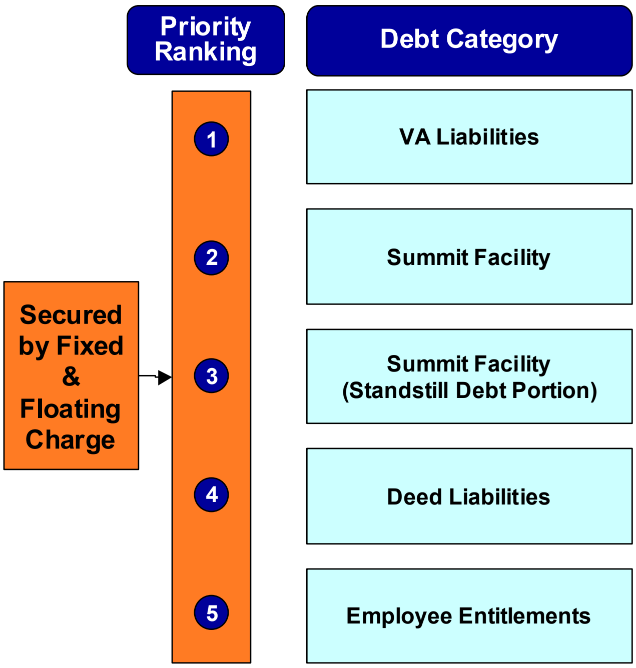
We envisage that the Summit Facility will be raised from a syndicate of the current Financer creditors.

Creditors should be aware that it is a pre condition of the Deeds that a Summit Facility be agreed to with Pasminco's Financiers prior to the Deeds being executed.

5.4.3 Default Priority Structure

Under the proposed restructure a Security Trust Deed will be required to specify the priority structure and rights of certain creditors. This includes how assets are to be distributed in the event of a default by Pasminco. It should be noted that the Security Trust Deed provides for the appointment of a Receiver and Manager in certain circumstances.

The proposed default priority structure (subject to agreement with financier creditors and the employee/union representatives) as stipulated in the Security Trust Deed is set out below:



It should be noted that the above priority structure excludes lease liabilities. In addition, enforcement costs and trustee fees (not expected to be substantial) will have a priority above VA Liabilities.

A number of leases, including the Port Pipeline Transport Lease ("PPT Lease"), are critical to the ongoing operations of Pasminco. There are currently arrears owing under the PPT Lease of approximately AUD9 million. Given the commercial imperative of the PPT Lease, the Administrators have proposed that the arrears be paid under the terms of the Deeds, which will include the following conditions:

i) A waiver of all defaults being provided.

ii) To the extent possible, a mechanism to be put in place to enable the PPT Lease to be placed "on Balance Sheet". This will enhance the transparency of Pasminco's Balance Sheet and is desirable from the perspective of a float.

It is contemplated that similar arrangements may need to be made in respect of other leases.

We make the following comments in relation to the above structure.

1 VA Liabilities

The Voluntary Administrators will retain a first ranking priority over Pasminco's assets to cover any remaining VA liabilities (such as approved VA trade creditors that will be discharged in the ordinary course and other liabilities incurred during the course of the Administration). We expect that the vast majority of these liabilities will be paid during the two months following the execution of the Deed.

2 Summit Facility

This portion of the Summit Facility comprises:

	AUD million
Refinance of the Voluntary Administration funding	225
Undrawn working capital headroom facility	220
Total	**445**

3 Standstill Debt

This amount relates to the funding provided in the period 3 July 2001 to 19 September 2001. This comprises the following:

	AUD million
Wage subrogation account	9.3
Balance of standstill debt	39.3
Total Standstill Debt	**48.6**

The total of this facility, including accrued interest, is approximately AUD55 million.

Commercially, this funding was required for ongoing trading prior to the Voluntary Administration and effectively safeguarded Pasminco's asset values, for the benefit of all creditors including employees. It should be noted that in a Liquidation scenario the AUD9.3 million (plus accrued interest) would have a priority ranking as it was specifically used to pay wages.

Please note: It is still to be determined whether the Standstill Debt funding will form part of the Summit Facility, or have a priority position after the Summit Facility.

4 Deed Liabilities

Any debts incurred by the Deed Administrators whilst the Ongoing Group is Subject to Deed of Company Arrangement will receive a priority. Pasminco will pay out these liabilities in the ordinary course. Accordingly, this class of priority should evaporate as creditor invoices and other costs are paid.

5 All Employee Entitlements

Under the restructure it is proposed that all employees will have a secured priority against all relevant entities. Once Newco is listed on the Australian Stock Exchange, it is proposed that the security for employees will only be against Pasminco Century Mine Limited ("PCML") regardless of the entity in which they are employed. **This security is in addition to the employees' statutory priority within the entity in which they are employed.**

It is proposed that this additional security will fall away when the higher ranking securities are released.

We should also note that the Broken Hill sale has been completed, significantly reducing the remaining employee entitlements and thus providing further comfort to remaining employees.

It should be noted that in a Liquidation, at present, certain employees in asset poor companies would suffer a shortfall with respect to their entitlements.

5.5 Advantages of a Restructured Pasminco

The restructured Pasminco, as set out above would have the following advantages.

- It would maintain the integration that currently exists between the mines and smelters, which reduces volatility and risk.
- By retaining the world class assets, there is a greater likelihood of retaining and attracting high quality employees.
- There would be improved prospects of attaining full value for Pasminco's assets.
- This structure would be more attractive to the equity market and represent a more attractive takeover target, particularly at a time when market commentators foresee opportunities for industry rationalisation.
- It would allow Pasminco to move forward without the burden of debt, including the losses incurred on the hedge book or the continued effects of the Savage acquisition.

- The operation of the Group's key world class sites, with the added benefit of restructure initiatives, places the Group in a position where it can benefit from any increase in the zinc price and any rationalisation that occurs within the industry.

5.6 Risks of Restructure

5.6.1 General Restructure Risks

It is considered that there is potential significant upside to be gained by undertaking the proposed restructure. However, it should be noted that such a restructure is subject to a number of risks. These are discussed below.

Zinc Price

The zinc price is the main driver of Pasminco's financial performance. Therefore, adverse movements in the zinc price pose a significant risk to Pasminco's ongoing performance.

In approximate terms, each USD1 per tonne movement in the zinc price results in an AUD1 million per annum change in operating cashflow per annum.

USD/AUD Exchange Rate

As discussed earlier in this report, as the majority of Pasminco's revenue is denominated in USD and the majority of its costs are denominated in AUD, movements in the USD/AUD exchange rate have a significant impact on Pasminco's cashflow and profitability.

Accordingly, should the Australian dollar appreciate against the US dollar, Pasminco's cashflow would be negatively affected.

In approximate terms, a 1 cent movement in the USD/AUD exchange rate produces a change of approximately AUD17 million in annual operating cashflow.

Production Problems

Whilst the financial modelling undertaken incorporates a number of planned shutdowns at the various sites to enable required capital works to be completed, there is no allowance for any unforeseen major shutdown or catastrophe at any of the sites.

Whilst an unplanned shutdown or catastrophe cannot be foreseen, a risk remains that such an event could occur.

Management and Employees

Given the uncertainty surrounding the Voluntary Administration and the nature of the industry in which Pasminco operates, there remains a risk in respect of Management and employees. These risks include:

- The ability to retain and attract quality Management to ensure the efficient running of the various sites.
- Potential industrial action at one or more of the Group's sites.

These factors would impact on the profitability and cashflow generated by Pasminco and the resultant returns available to creditors. We note that implementing a restructure of Pasminco would mitigate this risk to some degree.

Environmental Risks

There are considerable environmental risks that exist within the industry that Pasminco operates.

Whilst the known environmental rehabilitation and closure costs have been factored into the financial modelling for each of the various Pasminco sites, a risk remains that:

- An unforeseen environmental incident could occur at any of the sites.
- Current environmental regulations and government requirements could change resulting in significantly increased costs for Pasminco to bring operations up to standard.
- Although the future environmental and closure costs have been estimated as accurately as possible, there is the possibility that these costs may differ.

The above factors would also impact on the profitability and cashflow generated by Pasminco and the resultant returns available to creditors.

6 Equity & Float Option

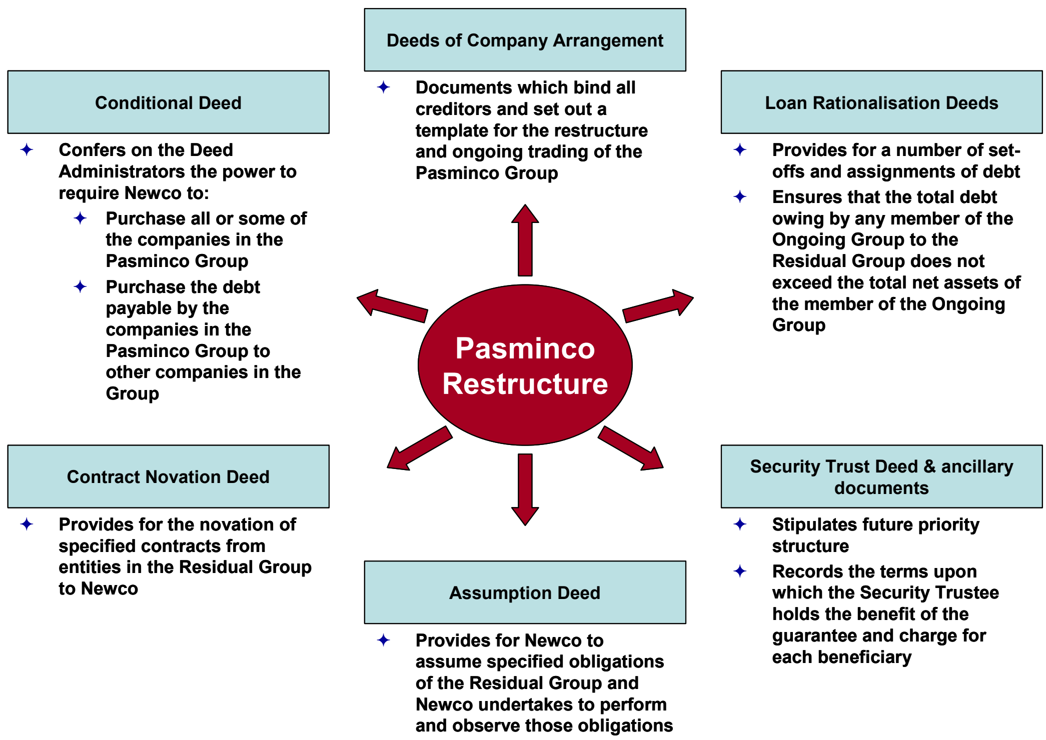
In broad terms this option involves a public offering to provide creditors with an initial cash return and an allocation of shares in the publicly listed entity. Depending on the amount of creditor equity floated, this option allows for a short-term return. In addition, creditors will be in a position to benefit from the expected increase in value of their listed equity holding.

In this section, we discuss the following aspects of the exchange of existing debt for equity, and the sale of 50% (or some other portion) of the equity in the market place:

6.1 Restructure Documents

The proposed restructure is extremely complex and requires a number of restructure documents in order to stipulate the overall terms of the restructure and enable the restructure to occur.

The main restructure documents are set out below:



It is important to note that, subject to the rights of any owner or lessor pursuant to Section 444D(3), each Deed binds:

- All Deed creditors.
- The Deed Company, its officers and members and the Deed Administrators.
- Any owner or lessor who votes in favour of the resolution that the company should execute the Deed.

A statement setting out details of the Deeds and other restructure documents is attached at **Annexure 1**.

The Deeds are required to be executed within 21 days of the resolution being passed (or such further time as the Court allows). The Deeds require the other documents (except the Loan Rationalisation Deed) to be executed at this time.

6.2 Phases of Equity & Float Option

The Equity & Float Option can be divided into two distinct restructure phases:

- Phase 1 involves creditors voting on the proposed Deeds of Company Arrangement at the second meeting of creditors and preparation of the Group for Phase 2.

- Phase 2 involves a public offering to provide creditors with an initial cash return and an allocation of shares. The shares issued to creditors will be subject to certain on-sale restrictions for a period to be determined (currently envisaged to be 12 months). Moreover, the shares sold to investors may include an issue of warrants. The Pasminco Limited Deed will contain relevant provisions facilitating any warrant issue that might take place in the context of the restructure.

6.2.1 Phase 1

Activities

A number of activities need to be undertaken in Phase 1, including:

- Engaging JLMs to assist with the float. We have appointed Deutsche Bank, Salomon Smith Barney and UBS as JLMs to the IPO.
- Holding the second meeting of creditors.
- Executing the Deeds.
- Re-financing the Voluntary Administration facility and Standstill Debt and procuring a working capital headroom facility ("this is combined to form the Summit Facility").
- Finalising the restructure of Management.

- Appointing new Directors.
- Preparation of the prospectus.
- Procurement of requisite exemptions / approvals (eg FIRB, ASX, ASIC).

Objectives

The objectives of Phase 1 include:

- Establishing Pasminco's readiness for the equity market.
- Appointment of a recognised Board and strong Management team.
- Resolving Pasminco's debt burden and Management deficiencies.
- General preparation of Pasminco for Phase 2.

6.2.2 Phase 2

Activities

Phase 2 activities would include:

- Issuing a prospectus to the public for an offer for the restructured Pasminco's shares.
- Offer (say) 50% of equity to the public. Creditors would hold the remaining 50%. The proceeds from the offering would be used to repay debt and some or all of the Summit Facility.
- Creditors would release the Ongoing Group from all liabilities.
- The new Board would assume control of the restructured Pasminco following a successful float.
- Following repayment of creditors' debt and finalisation of any ancillary issues, the Deed Administrators would resign.

It should be noted that any creditor could elect to apply all or part of their initial cash distribution to acquire shares in the float. Shares allotted or transferred as part of this particular process would be free of any escrow provisions.

Objectives

The objectives of Phase 2 include:

- Allowing for the payment of an initial distribution to creditors as soon as possible.
- Reduction of Liquidation risk and acceleration of a cash return.
- Creditors retain approximately 50% (or some other proportion) of equity to participate in any future upside.
- Provides a mechanism for creditors to value their residual shareholding.

6.3 Parameters for Capital Raising

In formulating the proposed Deeds, we have considered setting basic parameters for the float in terms of minimum acceptable cash raised for a particular percentage of equity sold. We have not incorporated such parameters given that:

- Setting pricing parameters or a minimum price threshold at the second meeting of creditors is tantamount to informing the market of the minimum acceptable price. This is obviously problematic and potentially prejudices the final IPO price.
- Providing creditors with a very broad range of values that might be achieved in the float could also negatively affect the marketing of the offering.

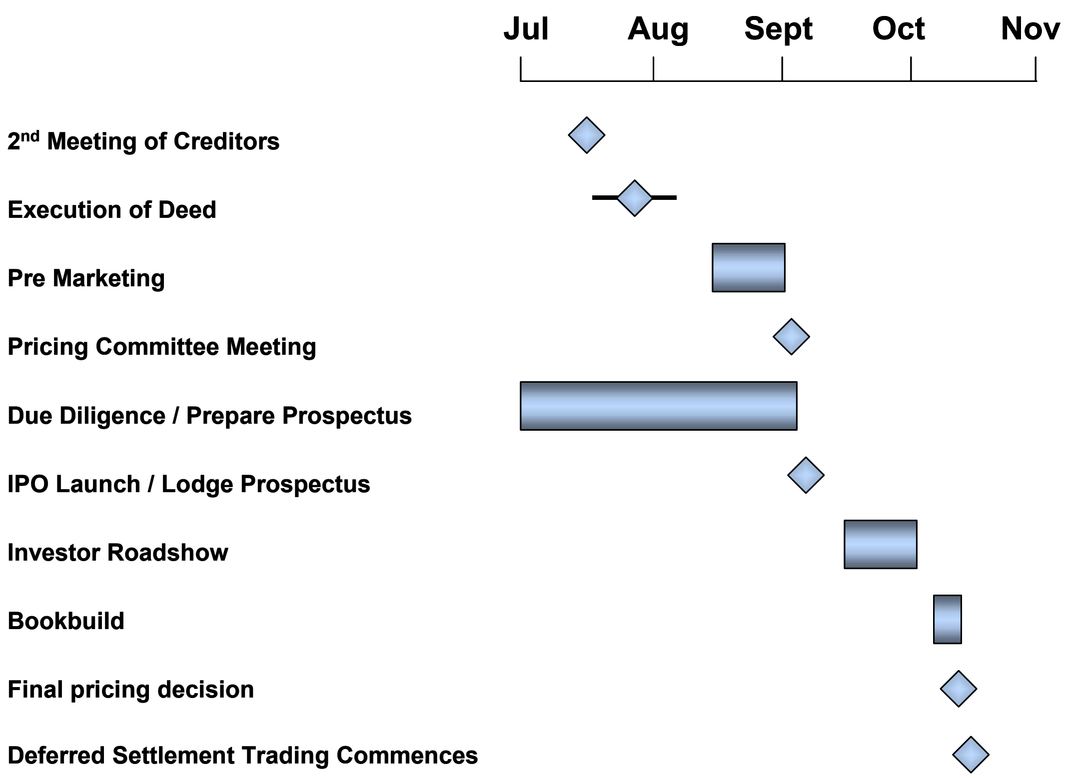
Consequently, we have avoided publishing any potential float values in this report. **Based on our work performed during the Administration, and in consultation with certain advisors, we are able to advise creditors that:**

1) **The return from the Equity & Float Option is expected to substantially exceed the estimated Liquidation return.**

2) **The JLMs consider the proposal to be viable.**

3) **A Pricing Committee (refer below) would be provided the opportunity to vote on the proposal with clear pricing parameters following the pre-marketing process.**

A high level indicative timeline of the proposed IPO process is illustrated below. This timeline is subject to change.



Future Float Process

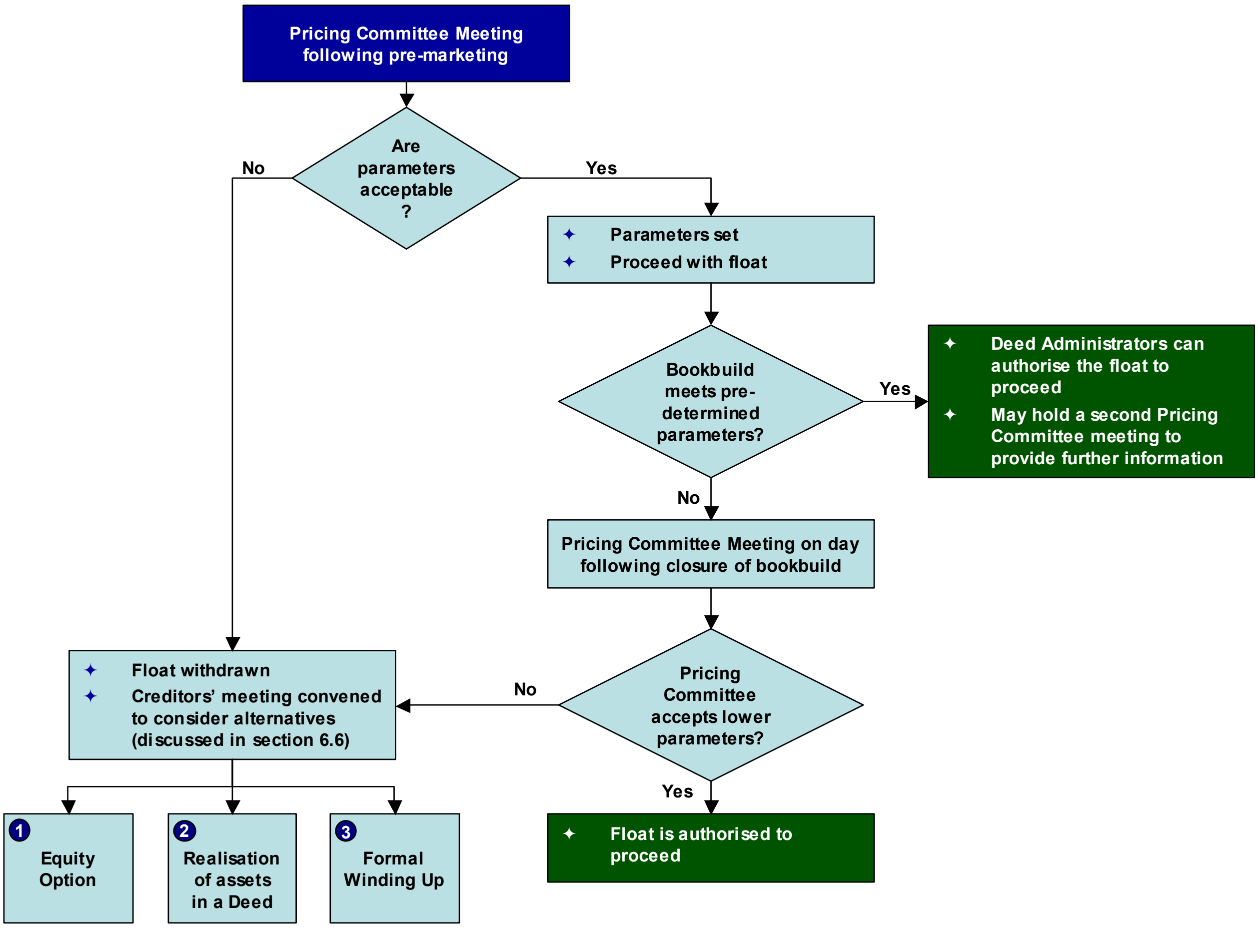
If creditors resolve at the second meeting of creditors that the Deeds be accepted, the Equity & Float Option will be pursued and the Administrators and JLMs will work toward a float outcome in conjunction with Management. This would include the pre-marketing process where the JLMs take initial soundings from major institutions with respect to pricing and demand for the offering.

Pricing Committee

Immediately following (or during) the pre-marketing process, the Administrators will convene a Pricing Committee Meeting in order to report the outcome of the pre-marketing process. This committee will include any creditors owed in excess of AUD5 million that wish to participate in the Pricing Committee. It is envisaged that at this meeting the Pricing Committee would set the pricing parameters for the float. This would include the minimum amount of capital raised for a given level of equity sold. If the parameters are not acceptable to the Pricing Committee, a meeting of all creditors would be held to consider the alternatives to the Equity & Float Option.

This meeting will be convened (most likely by email) by the Administrators giving at least two clear days notice of the meeting. The Administrators will also provide a report disclosing the broad feedback from the pre-marketing together with a recommendation with respect to the pricing parameters (ie. the price and volume parameters) and whether to proceed with the float. This recommendation will be developed in consultation with the JLMs.

The process for setting the pricing parameters and authorising the float to proceed is set out below:



6.4 Structural Issues

This section considers the structural issues associated with proceeding with the Equity & Float Option.

6.4.1 Entities to form Ongoing Group & Residual Group

The proposed float structures split the entities into two distinct groups:

1. Entities required for the ongoing operations ("the Ongoing Group")
2. Entities that are not required going forward ("the Residual Group")

The categorisation of the entities into either the Ongoing Group or Residual Group is to occur after the execution of the Deeds and will require further analysis including input from the JLMs. This issue is likely to have a bearing upon the float and proceeds raised.

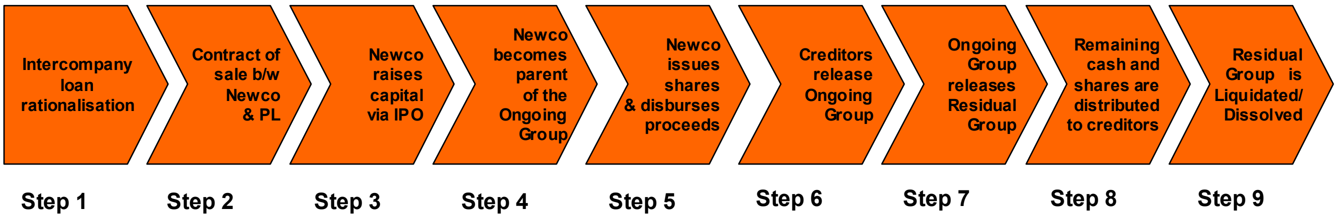
6.4.2 Newco Structure

We have analysed two alternative structures that may be used to implement the float of the restructured Pasminco:

1. Newco Structure
2. Pasminco Limited Structure

The Newco Structure is the most desirable from the perspective of floating the Ongoing Group. This option utilises a 'clean' entity ("Newco") as the vehicle to raise the float funds and to act as the future parent of the Ongoing Group.

The implementation of this structure has been separated into nine discrete steps that are set out below:



It should be noted that under this structure existing shareholders will not receive any equity interest in the restructured Pasminco. However, they may be offered a priority allocation in the float.

The pros and cons of this structure are set out below:

Newco Structure

Pros	Cons
▲ **More attractive float.** ▲ Newco is simply raising the funds to acquire the desirable assets of the Pasminco group.	▼ **Limited additional stamp duty costs, of around AUD500,000.**
▲ **Relatively easier to attract Directors to a clean structure.** ▲ If the float does not proceed the new Directors are not involved in the old Pasminco.	▼ **Existing shareholders are likely to react in a negative manner.** ▼ This may generate some negative publicity. ▼ However, disgruntled shareholders may surface no matter which structure is used.
▲ **Easier float mechanics.** ▲ The Newco Directors, rather than the Administrators, approve the prospectus. ▲ No need for special ASIC relief. ▲ No requirement for ASX waiver. ▲ Listing rules unlikely to be a practical barrier.	▼ **Need to generate shareholder spread. This is unlikely to be a practical problem post IPO.**
▲ **Clear separation between the Ongoing Group and the Residual Group.**	
▲ **Existing tax benefits substantially preserved.**	

Overall, we consider that this structure has far greater appeal than the Pasminco Limited Structure.

6.4.3 Pasminco Limited Structure

In the event that the float is withdrawn and the Equity Option (restructure without a float) was adopted, the Newco Structure would not be used. Instead the Pasminco Limited Structure would be used.

This structure also distinguishes between the entities required for the ongoing operations and the entities that are not required going forward ("the Residual Group"). However, this structure does not involve transferring the Ongoing Group out from the Residual Group (or divesting the Residual Group); instead all entities will remain within the original Pasminco Group. Preliminary accounting advice indicates that the Residual Group will not have to be consolidated for accounting and reporting purposes.

Under this option, the existing shareholders may retain a nominal interest (in the vicinity of 0.5%) in the restructured Pasminco.

6.5 Is the Equity & Float Option Viable?

We have discussed the Equity and Float Option with six equity capital markets investment banking specialists. They have been briefed on the broad facts of the option and were asked to comment on the viability of successfully executing the Equity & Float Option.

The common views of the various parties are set out below:

Common Views

Key success factors

- **High quality Board and management team**
- **Timing of the offering**
- **Strategy to effectively manage the creditors' ability to sell their shares**
- **Clear plan to deal with non-core assets**
- **Suitable head office structure**
- **Clean/transparent Balance Sheet**

Feasibility of proposal

- **Market is currently short of resource opportunities and large IPOs**
- **Very few pure metal plays**
- **Current market sentiment is positive**
- **ASX listing will be sufficient to attract demand, including offshore investors**

With appropriate management of the key issues and suitable timing the Equity & Float Option is viable

6.5.1 Satisfaction of Key Objectives

The Equity & Float Option is considered to be the best restructure option available because, inter alia, it satisfies the following key objectives:

Viable Capital Structure

The future capital structure should ensure that the restructured Pasminco is in a very solvent position and that it will not be returned to some form of insolvency regime following the restructure. This would also be a prerequisite to satisfying a number of regulatory authorities including ASIC and the ASX.

The proposed capital structure would likely be a key determinant for ASIC in forming its view.

The Equity & Float Option provides a compelling case regarding the viability of the restructured Pasminco's capital structure because the Balance Sheet will be in a strong positive net asset position after the float. Accordingly, the Balance Sheet test of solvency will be satisfied.

The cashflow position of the restructured Pasminco is expected to improve following the float and retirement of debt, particularly given the quality assets that will form the group going forward.

This option is expected to make it relatively straightforward to satisfy the relevant regulatory authorities including the Court, ASIC and the ASX in order to successfully restructure Pasminco.

Retain/Attract High Calibre Management and Directors

Any proposal should ensure that it can retain or attract a competent Board and executives to run the company in the future. This is critical from the perspective of operational and financial management.

For reasons closely related to capital structure and the fact that Pasminco would be a listed entity, we consider that it should be possible to attract high quality executives and Directors under the Equity & Float Option.

In this regard, we have engaged Egon Zehnder International to assist with the research and recruitment of Directors. In relation to the Equity & Float Option, it appears quite certain that we would be able to attract high calibre Directors under this option. Moreover, the potential Board members that we have held discussions with have expressed positive views regarding this restructure option. Conversely, a non-listed Pasminco with much higher debt levels would be a far less attractive proposition for potential Directors.

Capture Favourable Return for Creditors

The creditors, as key stakeholders are expected to be able to capture a favourable return including any upside in future cashflows and/or asset values.

We consider that this option delivers on this objective because it provides for an upfront return to creditors and also provides upside in the form of the creditors' residual shareholding. In addition, it provides flexibility because creditors will be able to elect to retain at least their pro rata amount of shares, thus retaining all future upside.

6.5.2 Positive Implications/Advantages

This option has a number of other important advantages over Liquidation and the other restructure options contemplated:

- If the float is successful, creditors could potentially receive an initial cash return in a short period of time whilst retaining potential for upside via their remaining equity holding.
- The restructure mechanism proposed provides flexibility for those creditors that choose to retain up to their full pro rata equity position.
- Reduces Liquidation risk.
- The creditors that finance the Summit Facility will have the majority or all of this new funding repaid shortly after the float (if successful).
- The restructured Pasminco has an ability to attract better personnel, including Directors and Management.
- A more viable capital structure would allow Pasminco to make more strategic decisions going forward rather than being weighed down or pre-occupied with the debt burden. It may also be able to take advantage of any growth opportunities.

- Provides a mechanism for creditors to value residual shareholding and carry equity at real value.
- This option is more likely to satisfy the regulatory authorities than the other options.
- The improved borrowing profile should lead to a lower cost of funds.
- As opposed to Liquidation, this option avoids crystallising employee and environmental liabilities.

6.5.3 Negative Implications/Disadvantages

There are also a number of potential disadvantages:

- Cost and uncertainty of equity raising.
- Whilst the advice received to date has been that the market would be receptive to this type of equity raising at the current time, there is no guarantee that market sentiment will not adversely change. Therefore, there is no certainty that the float will occur in the time frame contemplated.
- In the event that the float is withdrawn and Liquidation is contemplated, the future Liquidation return may not be as attractive as the current estimated return.

6.5.4 Equity & Float Option Risks

There are a number of major risks specifically associated with this option as set out below:

- Inability to satisfy conditions subsequent eg.
  - Recruitment of Board of Directors
  - Refinancing of VA Facilities and Standstill debt
  - Regulatory approval (FIRB, ASX, ASIC etc)
- Evaporation of interest in the equity market

The implications of one of these risks eventuating is that the Float may be withdrawn. If this eventuates, creditors will have a number of fall back options as set out in Section 6.6.

6.6 Consequences of Float Withdrawal

There is the possibility that the float will be withdrawn or the bookbuild process may not meet the pre-determined pricing parameters set by the Pricing Committee. If this eventuates the proposed Deeds require that the Deed Administrators will convene a meeting of creditors as soon as practicable.

The options available to creditors may include, but are not limited to, the following:

Creditors' Meeting

1 Equity Option

- Trade with a conservative gearing level
- Creditors obtain returns from cash distributions or sale of debt or shares
- IPO may be reconsidered in the future
- Similar structural considerations to the Equity & Float Option

2 Realisation of assets in a Deed

- Assets are realised and proceeds distributed within a Deed of Company Arrangement

3 Formal Winding Up

- Assets are realised and the proceeds are distributed in a formal Creditors' Voluntary Liquidation

6.6.1 Equity Option

If the float is withdrawn or the book build price is unacceptable then creditors might decide to continue with a restructure option and undertake to convert a certain level of debt to equity.

6.6.2 Realisation of assets in a Deed

If the creditors elected to adopt this scenario then all of the Companies would be administered pursuant to Deed provisions similar to the manner that the Residual Group is to be conducted under the Equity & Float option. This would involve the timely realisation of the assets of the entire Pasminco Group.

Under this scenario the Deed Administrators would seek to realise Pasminco's assets in an orderly manner. The Deed Administrators would be responsible for ongoing trading whilst the assets are sold, however, they would need to be satisfied that necessary funding was in place to enable trading to continue whilst the assets are sold.

6.6.3 Formal Creditors' Voluntary Liquidation

This option would involve all of the Companies in Voluntary Administration being placed into a Creditors' Voluntary Winding Up. The assets would be sold or shut down as soon as possible under this option.

7 Other Options Available to Creditors

7.1 Whether the Administration Should End

We consider that the Administrations of the Companies should not end as the Companies are insolvent given the existing claims against them.

7.2 Formal Liquidation

It is the Administrators' view that should a restructure of Pasminco not be achieved, it would not be possible to continue to trade Pasminco whilst in Liquidation for any length of time. Specifically, pursuant to Section 477 of the Act, a Liquidator is only able to carry on the business of the company for the beneficial disposal or winding up of the business. A Liquidation is therefore not able to be used as a mechanism to restructure a business.

In addition, due to the nature of the industry and environment in which Pasminco operates, any short/medium term trade on in Liquidation would be highly risky and potentially expose the Liquidators to significant personal liability.

Accordingly, it is the Administrators' view that should a restructure not be achieved, a quick sale/realisation scenario of Pasminco's assets would eventuate. In this respect, only limited trading of specific assets would be contemplated. In particular, serious consideration would be given to any ongoing trading of the smelters.

In such a scenario, the sale process for each of Pasminco's assets is likely to be less competitive and it is likely that significantly discounted sales values would be achieved due to the market knowing that the assets "had to be sold".

Further, we expect that any asset sales of sites that were shut down by the Liquidator would be further discounted given re-start costs that a purchaser would face.

In a formal Liquidation, the Liquidator would also face the following difficulties:

- Retaining Management and employees to operate Pasminco whilst it is in Liquidation with an uncertain future.
- The potential significant personal liability to which the Liquidators could be exposed.
- The ability of the Liquidators to secure the necessary ongoing funding to meet working capital requirements.

The estimated return to creditors in a Liquidation could vary significantly. This variability is largely driven by the values that could be obtained for Pasminco's assets, along with the potential to also assign various environmental and employee liabilities with such asset sales.

In addition, a Liquidation, as opposed to a restructure through the proposed Deeds may crystallise significant environmental and employee liabilities.

In this regard, we expect that a formal Liquidation of Pasminco may be conducted as follows:

- The Liquidator would assess which sites may need to be immediately shut down given ongoing trading risks.
- Employees of sites that are shut down would be made redundant.
- The Liquidator would seek to sell the other assets in a relatively short period of time.
- The Liquidator would be unlikely to have sufficient funds to repay all employee entitlements that crystallised **until** Pasminco's higher value assets (principally Century Mine) were sold.
- A formal Liquidation of the size and nature of Pasminco is likely to take a considerable period of time to complete. In this regard, it could take 3 to 5 years to finalise, thereby increasing the costs of the Liquidation and delaying the final return to creditors.

It is the Administrators' view that based on:

- the limited ability a Liquidator would have to continue to trade Pasminco's assets;
- the likely reduced asset sale values that could be achieved by a Liquidator; and
- the likely greater claims that would be made against Pasminco in a formal Liquidation;

then the return to creditors in a formal Liquidation is likely to be significantly less than that which could be achieved through the restructure under the Deeds.

7.3 Other Matters to be Decided at Second Meetings

In addition to deciding the future of the Companies, there are three (3) other resolutions to be voted on by creditors at the second meetings as follows:

i) Appointment of a Committee of Creditors (or Inspection if a Liquidator is appointed).

ii) Approval of the Voluntary Administrators' fees.

ii) Approval of the Deed Administrators' fees (if the Deeds are accepted).

7.3.1 Appointment of Committee of Creditors

The tenure of the current Committee of Creditors ceases at the end of the Voluntary Administration period. We recommend that a Committee of Creditors be appointed under the proposed Deeds or if any company was to be placed into Liquidation, to assist the ongoing Administrations of Pasminco.

Accordingly, it will be necessary at the meeting to pass a resolution appointing a new Committee of Creditors.

Members of the current Committee of Creditors are able to be on the new Committee.

Should any other creditor wish to have a representative on the new Committee, they will have the opportunity to be elected at the meeting, however, we note that the role on the committee is a non paying role and will require you to be available to attend Committee Meetings.

7.3.2 Approval of Voluntary Administrators' Fees

Fees Incurred to Date

As indicated in certain parts of this report, the Voluntary Administration of Pasminco has been a substantial and complex task. We have provided a summary of the fees incurred to 15 June 2002 below.

These fees reflect the large and complex nature of the Administration and the length of time over which it has been conducted since September 2001.

We have not been paid for any of the work performed by us as Administrators to date. We have the opportunity of having these unpaid fees approved by creditors at the creditors meeting or alternatively, set by the Court, as a cost of the Administration.

We have tabled particulars of our fees with the Committee of Creditors on a regular basis throughout the Administration.

The fees incurred by us to date can be summarised on a monthly basis as follows:

	AUD
19 September 2001 to 30 September 2001	503,063
October 2001	907,417
November 2001	837,660
December 2001	459,898
January 2002	508,643
February 2002	648,116
March 2002	698,685
April 2002	612,564
May 2002	661,143
1 June 2002 to 15 June 2002	277,011
Interstate and international offices (19/9/01 to 15/6/02 combined)	684,018
Total	**6,798,218**

Work Performed by Administrators

We have outlined in this report a number of the key tasks performed by us during the Administration. In particular, much of the time spent by us has been with respect to the development of the proposed restructure for Pasminco. The development of the restructure proposal has been an extremely complex matter, involving the consideration of numerous commercial, legal, practical, tax, accounting and structural issues.

In this regard, the restructure proposal has been developed over many months with the input of Pasminco Management and staff and certain other advisors.

We have attached at **Annexure 3** a summary of the key tasks performed by us during the Administration.

In conducting the Administration of Pasminco, the Administrators have had to commit up to 100 staff across Australia in the initial stages of our appointment. The Administrators presently have up to 20 staff committed to the affairs of Pasminco on a day to day basis.

In order to enable Pasminco to continue to trade following our appointment, we negotiated a finance facility of AUD300 million for which we are personally liable.

Further, the Voluntary Administration of Pasminco will have been in progress for ten (10) months by the time of the second meetings of creditors. An Administration continuing for this period of time is very rare but has been required in order to consider, develop and finalise the proposal to restructure Pasminco.

Approval of Administrators' Fees

Our fees have been calculated in accordance with Ferrier Hodgson's scale of rates, a schedule of which was also provided to creditors in our letter to creditors dated 20 September 2001 and is attached at **Annexure 4** of this report.

The Committee of Creditors does not have the power to set fees and accordingly, the Administrators propose a resolution in relation to their unpaid fees from 19 September 2001 to 15 June 2002 and estimated future fees for the period 16 June 2002 to the conclusion of the Voluntary Administration period (estimated to be 5 August 2002 being the prescribed 21 day period to execute the proposed Deeds of Company Arrangement) in the amount of up to AUD8,250,000.

In this regard, we will be seeking to have the following fees approved by creditors:

	AUD
19 September 2001 to 15 June 2002	6,798,220
16 June 2002 to conclusion of Voluntary Administration period	1,451,780
Total	**8,250,000**

If a lesser amount is incurred, only the amount actually incurred would be paid.

Alternatively, we are able to apply to the Court to set our fees as a cost of the Administration. We expect that such an application would be a substantial task.

7.3.3 Approval of Deed Administrators' Fees

If the proposal for Deeds of Company Arrangement are accepted by creditors at the meetings, we would also seek to have our future fees as Deed Administrators approved by creditors, subject to a cap.

We have budgeted that our fees from the estimated date of execution of the Deeds to 31 December 2002 would be approximately AUD3.4 million subject to the matters that evolve.

We expect that the key matters that would be required to be completed as Deed Administrators would include, among other matters, the following:

- Implementing the various restructure elements required prior to the float proceeding. In particular, this will include determining and splitting the relevant Pasminco entities into the Ongoing Group and Residual Group, liaising with the JLMs during the lead up to the proposed float, finalising the Group Office restructure, and generally preparing Pasminco for the float.
- Determining the capital raising parameters to be proposed to the Pricing Committee for the float.
- Selecting and appointing the new Board of Directors.
- Overseeing the float process and its outcome.
- Completion of the sale of the Elura Mine and transition of the business to the purchaser over a period of time.
- Dealing with claims of creditors. In this regard, many of these claims are complex given the nature of those claims.

Given the nature of the restructure, we expect these tasks will be complex and time intensive.

We have recommended above that a Committee of Creditors be appointed to assist with the Administration of the Deeds.

A Committee of Creditors under a Deed does not have the power to approve the Deed Administrators' fees and accordingly, we propose that a resolution for our future fees as Deed Administrators to 31 December 2002 be approved by creditors at the creditors meeting.

These fees will be capped and accordingly, we are unable to draw fees more than this amount. We will seek to have our fees that will be incurred after 31 December 2002 and any fees that exceed the capped amount to 31 December 2002 approved at future meetings of creditors.

We will also continue to inform the Committee of the level of our fees and provide an accounting of all future fees incurred and paid at future meetings of creditors.

Should Pasminco be placed into Liquidation at the second meetings and a Committee of Inspection is appointed, a Committee in a Liquidation has the power to approve the Liquidators' fees.

8 Statutory Information

The following information for each of the Companies has been obtained from searches of ASIC and Pasminco records.

8.1 Pasminco Limited

Pasminco Limited was incorporated on 26 November 1956 as EZ Industries Limited and subsequently changed its name to Pasminco Limited on 31 August 1988.

Pasminco Limited was listed on the Australian Stock Exchange ("ASX") in March 1989.

8.1.1 Directors at Date of Appointment

As at the date of our appointment, the Directors of Pasminco Limited and their appointment dates were as follows:

Name of Director	Date of Appointment
Geoffrey Allen	24 August 1994
Andrew Guy	24 August 1994
Ross Herron*	4 June 2001
David MacFarlane*	13 December 1988
Mark Rayner	28 June 1989

* Subsequently resigned (refer Section 9.2.3)

8.1.2 Former Directors

The former Directors of Pasminco Limited who resigned as Directors of the company subsequent to June 1999 are detailed below:

Former Directors	Date of Appointment	Date of Resignation
Robert Bryan Davis	24 May 1995	30 June 1999
Anthony Bowen Daniels	1 January 1996	4 June 2001
David John Brydon	13 December 1988	26 July 2001
David Murray Stewart	24 August 1994	31 July 2001

8.1.3 Equity Interests

As indicated above, Pasminco Limited is a publicly listed company on the ASX.

Upon the appointment of the Administrators on 19 September 2001, a statement was issued to the ASX that evening and trading in Pasminco shares ceased prior to the commencement of trading on 20 September 2001.

At the date of our appointment, Pasminco had issued in excess of 1.1 billion ordinary shares and Pasminco's last share trading price was AUD0.05. At this share price, Pasminco's market capitalisation was approximately AUD56 million.

Shareholders were subsequently advised on 15 November 2001 that the effect of Pasminco's current financial position would be to fully erode the capital of shareholders in Pasminco and that even if all of the available Pasminco assets were sold, the proceeds were unlikely to be sufficient to repay Pasminco's total debt.

Shareholders were also advised that there was no realistic prospect of any funds becoming available for shareholders and that it would be unlikely that Pasminco, as it existed at the date of our appointment (ie. without being restructured) would trade on the ASX again.

Detailed below is a schedule of Pasminco's 20 largest shareholders, the number of ordinary shares held and the percentage of total issued capital held by each party at the date of our appointment.

Company	Number of Ordinary Shares	Total Issued Capital %
National Nominees Limited	96,025,944	8.53
ANZ Nominees Limited	54,769,685	4.87
Westpac Custodian Nominees	40,407,730	3.59
Chase Manhattan Nominees	27,238,301	2.42
Citicorp Nominees Pty Limited	12,374,076	1.10
Athens Holdings Pty Ltd	11,280,000	1.00
OCBC Nominees (Australia) Pty Limited	8,620,000	0.77
Fortis Clearing Nominees	5,827,845	0.52
Helm Melbourne Limited	5,219,170	0.46
ANZ Securities Limited	3,497,859	0.31
Munichre of Australia Equity Investment Company Pty Ltd	3,450,000	0.31
MLAE Nominees Pty Limited	2,773,181	0.25
Dowa Mining Co Ltd	2,742,500	0.24
Whitloyd Nominees Pty Ltd	2,668,000	0.24
Chemco Pty Ltd	2,500,000	0.22
Damelian Automobile Ltd	2,500,000	0.22
Exchange Nominee Pty Ltd	2,272,910	0.20
Milino Pty Ltd	2,219,800	0.20
UBS Private Clients Nominees Pty Ltd	2,186,500	0.19
Peto Bros Pty Ltd	2,160,000	0.19
Total	**290,733,501**	**25.83**

8.2 Pasminco Group Structure

Enclosed at **Annexure 5** is Pasminco's Group Structure categorising Pasminco's key mine and smelting assets.

The key issues to be noted regarding the Group Structure are as follows:

- The ultimate holding company is Pasminco Limited. This entity's main purposes are as a holding company and as the vehicle listed on the ASX.
- The majority of the mining and smelting assets are contained in separate legal entities eg. Century Mine, Broken Hill Mine, Cockle Creek Smelter and Port Pirie Smelter.
- Similarly, the US and Dutch operations are contained across a number of distinct entities incorporated in those countries. The entities in the US and the Netherlands are not in any form of insolvency administration.
- Certain other sites such as Elura, Rosebery and Hobart are all contained within Pasminco Australia Limited ("PAL").
- Many of the other legal entities in the Group are shell companies, although certain of those companies retain tax losses, hedging contracts or nominal other assets or liabilities. Other entities are used for tax, marketing and insurance purposes.
- Pasminco Finance Limited ("PFL") was utilised for finance and treasury functions and holds the majority of financier debt and foreign exchange hedge contracts. Certain hedges which were acquired as a result of the acquisition of Savage are retained within Savage Resources Limited.
- The debtors securitisation financing in place at the date of our appointment was conducted through Pasminco Global Trading Pty Ltd.
- A number of the Australian entities are subject to ASIC Class Order 98/1418. The Class Order is discussed in further detail in Section 11.1.5.

8.2.1 Subsidiaries in Voluntary Administration

Overview

The date of incorporation and a brief background on each of the subsidiaries in Voluntary Administration are as follows:

Subsidiary	Date of Incorporation	Brief Background
Pasminco Port Pirie Smelter Pty Limited* A C N 008 046 428	1/08/1984	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as The Broken Hill Associated Smelters Pty Ltd. • Owns and operates Port Pirie Smelter. • Borrower of the Silver Loan. (Refer Section 11.1.2).
Pasminco International Pty Limited A C N 004 934 534	26/05/1972	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Australian Overseas Smelting Pty Ltd. • Dormant Company.
Pasminco Metals Pty Limited* A C N 005 565 284	22/06/1979	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Pacific Smelting Co Pty Ltd. • Conducts all marketing activities for the Group.
Pasminco Finance Limited* A C N 007 289 296	10/08/1989	• A wholly owned subsidiary of Pasminco Limited. • Provides financing facilities to the Group, guaranteed by Pasminco Limited.
Pasminco Cockle Creek Smelter Pty Limited* A C N 000 083 670	23/12/1949	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Sulphide Lead Concentrate Corp Pty Ltd. • Owns and operates Cockle Creek Smelter.
The Emu Bay Railway Company Limited* A C N 009 475 790	02/10/1897	• A wholly owned subsidiary of Pasminco Limited. • Now a shell company.

Subsidiary	Date of Incorporation	Brief Background
Pasminco Australia Limited* A C N 004 074 962	2/06/1916	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Electrolytic Zinc Company of Australia Pty Ltd. • Owns and operates: Hobart Smelter, Rosebery Mine, Elura Mine, Dugald River Deposit. • Owns North and Beltana Mines.
Pasminco International (Holdings) Pty Limited A C N 066 088 159	16/09/1994	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Hardyards Pty Ltd. • Holding Company of Pasminco (UK) Holdings Pty Ltd.
Pasminco Investments Holdings Pty Limited* A C N 082 291 736	13/05/1998	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Egipt Pty Limited. • Holding company of Pasminco Investments Ltd.
Pasminco Century Mine Limited* A C N 006 670 300	25/11/1986	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as Blair Athol Finance Ltd. • Owns and operates Century Mine. • The holding company of PCML SPC Pty Limited, which owns a 50% share in Lawn Hill & Riversleigh Pastoral Company Pty Ltd.
Pasminco Pacific Pty Limited* A C N 005 416 008	27/02/1978	• A wholly owned subsidiary of Pasminco Limited. • Incorporated as AM&S Pacific Pty Ltd. • Holding Company of American Zinc Company.
Pasminco Investments Pty Limited* A C N 082 291 674	13/05/1998	• A wholly owned subsidiary of Pasminco Investment Holdings Pty Ltd. • Incorporated as Telldale Pty Ltd. • Holding company of Savage Resources Limited.

Subsidiary	Date of Incorporation	Brief Background
PCML SPC Pty Ltd A C N 083 652 500	10/12/1998	• A wholly owned subsidiary of Pasminco Century Mine Ltd. • Incorporated as Pasminco Century Mine Limited Century Zinc Pty Ltd. • Owns a 50% share in Lawn Hill & Riversleigh Pastoral Pty Ltd.
Pasminco Broken Hill Mine Pty Limited* A C N 000 005 774	6/03/1913	• A wholly owned subsidiary of Pasminco Cockle Creek Smelter Pty Ltd. • Incorporated as Longworth's Pty Ltd. • Owned and operated Broken Hill Mine prior to its sale.
Pasminco Global Trading Pty Ltd A C N 082 932 116	15/06/1998	• A wholly owned subsidiary of Pasminco Metals Pty Ltd. • Incorporated as Tabel Pty Ltd. • Conducted the securitisation of the Group's receivables.
Savage Resources Limited* A C N 009 551 624	29/05/1985	• A wholly owned subsidiary of Pasminco Investments Pty Ltd. • Incorporated as Savage Resources N.L • Holding company of Pasminco's US Operations.
Ramala Holdings Pty Limited* A C N 056 689 117	2/07/1992	• A wholly owned subsidiary of Savage Resources Ltd. • Provided funding to Pasminco Resources (US).
Savage Australian Exploration Pty Ltd A C N 071 375 169	9/10/1995	• A wholly owned subsidiary of Savage Resources Limited. • Shell company.
Savox Pigments Pty Ltd A C N 003 035 694	13/12/1985	• A wholly owned subsidiary of Savage Resources Ltd. • Incorporated as Tihele Pty Ltd. • Shell company.
Savage EHM Pty Ltd* A C N 071 375 114	9/10/1995	• A wholly owned subsidiary of Savage Resources Limited. • Shell company.
Savage EHM Finance Pty Ltd* A C N 071 375 221	9/10/1995	• A wholly owned subsidiary of Savage EHM Pty Ltd. • Shell company, previously used for hedging prior to Pasminco's acquisition of Savage.

Denotes companies subject to ASIC Class Order 98/1418 (refer Section 11.1.5 of this report)

Directors of Subsidiaries

The current directors of each of the subsidiaries at the date of our appointment and their appointment dates are detailed in **Annexure 6.**

8.2.2 Other Pasminco Group Companies

The other Pasminco Group companies **not** in Voluntary Administration are as follows:

Subsidiary	Pasminco Ownership Interest	Brief Background
Pasminco Superannuation Pty Ltd	100%	• Trustee of Pasminco's staff superannuation fund.
Pasminco Insurance Pte Ltd	100%	• Conducts Pasminco's self insurance captive arrangements. • Singapore based company.
Pasminco Zinc Limited	100%	• Used to facilitate the liquidation of numerous UK based entities following the sale of UK based assets. • Cayman Islands based company.
Pasminco Hong Kong Limited	100%	• Used for marketing purposes. • Hong Kong based company.
SPC (Nominees) Pty Ltd	5%	• Party to the PPT financing transactions.
American Zinc Company	100%	• Formerly operated zinc smelting assets in USA. • USA based company. • Holding company of Pasminco Incorporated.
Australian Refined Alloys (Sales) Pty Ltd, Australian Refined Alloys Pty Ltd	50%	• Joint venture operation with Simsmetal Ltd in Sydney and Melbourne. • Recycler of lead car batteries.
Pasminco UK (Holdings) Pty Ltd	100%	• Ultimate foreign based holding company of the Budel operations. • Has a 100% interest in Pasminco UK Ltd, which owns 38% of Pasminco Netherlands (Holdings) BV, the holding company of the Budel Group. • UK based company.
Lawn Hill & Riversleigh Pastoral Company Pty Ltd	50%	• Owns pastoral leases connected to the Century Mine operations.
Pasminco Resources (US) Inc	100%	• Ultimate US based holding company of the USA Group of companies. • The USA Group conducts Pasminco's US operations.

We have not detailed the other subsidiaries that comprise the Budel Group and the USA Group of companies above.

8.3 Committee of Creditors

At the first meeting of creditors held on 26 September 2001, a Committee of Creditors was formed comprising representatives of the following creditors:

- Transferable Loans Certificate Financiers
- Pasminco Staff
- Australia and New Zealand Banking Group Limited
- Deutsche Bank
- Silver Note Holders
- Westpac Banking Corporation
- BankWest
- Citibank Limited
- UBS Warburg
- Societe Generale
- National Australia Bank Limited
- Commonwealth Bank of Australia
- AMWU
- CFMEU
- AWU

All Committee members, their alternates and advisors were required to execute Confidentiality Deeds.

We have formally met with the Committee of Creditors on nine occasions since it was formed.

During these meetings we have discussed with the Committee of Creditors the status of the Administration, including details of the sale of Pasminco businesses, Pasminco's trading performance during the Administration, details of our investigations into the affairs of Pasminco and the conduct of certain parties and the proposed restructure.

The Committee of Creditors has been of enormous assistance to the Administrators, particularly with respect to the formulation of the restructure proposal.

The tenure of the Committee of Creditors will cease when the Voluntary Administration period ends. In this regard, it will be necessary to elect a new Committee at the second meetings of creditors.

9 Business Activities and Historical Financial Performance

We have provided below a summary of Pasminco's business activities at the date of our appointment.

9.1 Pasminco's History

A brief summary of the history of Pasminco is provided below:

- The Pasminco Group had its beginnings in July 1988 through the merger of the zinc-lead-silver mining, smelting and international marketing activities of CRA Limited and North Broken Hill Peko Limited. A public share issue raised AUD203 million with subsequent listing on the ASX in March 1989.
- Pasminco's original operations included three primary smelters in Australia - the Cockle Creek ISF zinc and lead smelter, the Hobart electrolytic zinc smelter and the Port Pirie lead and zinc smelter and the Avonmouth ISF zinc and lead smelter in the United Kingdom.
- Pasminco also had two secondary smelters in Australia and a 50% share in a smelter in Budel, Netherlands (it subsequently acquired 100% of this smelter in 1995).
- Pasminco's initial mining activities included underground operations at Broken Hill, Elura and Rosebery in Australia.
- Pasminco reported profits of AUD156 million and AUD153 million for the 1989 and 1990 financial years on gross sales of AUD1.8 billion and AUD1.9 billion at an average zinc price of USD1,609 per tonne.
- Pasminco suffered from a decline in demand and a subsequent fall in zinc price in the economic downturn of the early 1990's. Pasminco reported total losses of AUD289 million for the financial years 1991 through to 1994 with a decline in gross sales to AUD1.19 billion on an average zinc price of USD938 for the 1994 financial year.
- Pasminco returned to profitability in 1995 through to 1998 with improved global economic conditions and a zinc price improving to an average price of USD1,192 per tonne for the 1998 financial year.
- On 24 September 1997, Pasminco announced that it had completed the acquisition of an undeveloped world class zinc deposit at Century and the Dugald River zinc deposit from Rio Tinto Ltd for AUD340 million. Following two years of construction at a cost of AUD788 million, Century was commissioned in March 2000. These costs exclude financed or leased assets such as the PPT assets.
- Pasminco purchased a publicly listed Australian company, Savage, in February 1999 for AUD457 million. Savage owned a modern, medium sized zinc smelter in Clarksville, Tennessee (USA), two zinc mines in Gordonsville and Clinch Valley (USA) and, in addition, a 49% interest in Ernest Henry Mine, a large copper/gold joint venture in Queensland. Savage was also a NSW coal producer.
- At the time of acquisition Savage held a substantial contingent hedge book exposure. The performance of Savage assets has to date fallen short of the performance anticipated at the time of acquisition.

- Pasminco currently employs approximately 3,500 people throughout its Australian and overseas operations with headquarters based in Melbourne.
- Pasminco is currently the world's largest integrated zinc and lead producer, supplying approximately 8% and 4% respectively of global demand for finished zinc and lead metal and is the third largest silver producer. Other products include gold, copper, copper sulphate, cadmium and sulphuric acid.

9.2 Pasminco's Operating Activities

9.2.1 Australian Operations

Below is a summary of Pasminco's Australian operations as at the date of our appointment:

Asset (Smelter/Mine) Location	Year of Commencement of Operations	Production FY2000/2001	Production Forecast FY2001/2002
Broken Hill Mine (Now sold) Western New South Wales	1885	2.79 million tonnes of ore	2.80 million tonnes of ore
Century Mine North West Queensland	1999	4.78 million tonnes of ore	4.94 million tonnes of ore
Elura Mine (Sale process currently being undertaken) Western Plains of New South Wales	1983	1.06 million tonnes of ore	1.24 million tonnes of ore
Rosebery Mine North West coast of Tasmania	1936	730,000 tonnes of ore	730,000 tonnes of ore
Cockle Creek Smelter Near Newcastle, New South Wales	1897	73,000 tonnes of zinc and 32,000 tonnes of lead bullion	80,000-88,000 tonnes of zinc and 32,800 – 41,000 tonnes of lead bullion
Hobart Smelter Risdon, Tasmania	1917	201,700 tonnes of zinc	201,700-244,400 tonnes of zinc
Port Pirie Smelter Eastern Shore of Spencer Gulf, 200km North West of Adelaide, South Australia	1889	182,500 tonnes of refined lead, 28,661 tonnes of zinc and 355,000kg of silver	237,800-261,000 tonnes of lead and 37,100-39,500 tonnes of zinc
Australian Refined Alloys ("ARA") Secondary smelters in Sydney and Melbourne	1984	16,600 tonnes of lead	17,950 tonnes of lead

We note the following regarding each of the above operating sites:

Broken Hill Mine (now sold)

- Owned by Pasminco Broken Hill Mine Pty Ltd prior to the sale of the Mine.
- The Broken Hill Mine is an underground zinc-lead-silver mine located in western New South Wales. Forecast reserves as at June 2000 were 16.6 million tonnes.
- Broken Hill Mine had approximately 650 employees and contractors.
- A contract for the sale of the Broken Hill Mine assets to Perilya was signed on 8 March 2002 and settlement occurred on 31 May 2002. Details of the sale are discussed at Section 11.5.3 below.

Century Mine

- Owned by PCML.
- Century Mine is an open-cut zinc-lead mine located in north west Queensland, 250km N-NW of Mt Isa and 120km south of the Gulf of Carpentaria. It is the world's second largest zinc and lead mine. It is modern, low cost and is still in the process of ramping up to its operating design parameters.
- Century was purchased undeveloped from Rio Tinto in 1997 for AUD340 million. The purchase price also included the Dugald River zinc deposit that is yet to be developed.
- Pasminco embarked on a two year construction period that was completed ahead of schedule at a cost of AUD788 million. This cost excludes the cost of the financed or leased assets.
- Century has approximately 550 employees and contractors.
- At full production, the concentrator will process approximately 15,000 tonnes of ore per day and produce 880,000 tonnes per annum of zinc concentrate containing 57.5% zinc.
- Once fully operational, the mine is forecast to produce 5.15 million tonnes of ore per annum.
- Century Mine was offered for sale prior to our appointment. We continued the sale process following our appointment, however no offers acceptable to us and the Committee of Creditors were received. Further details of this sale process are discussed at Section 11.5.2 below.

Elura Mine

- Owned by PAL.
- The Elura underground zinc, lead and silver mine is located 50 kilometres from the town of Cobar on the western plains of New South Wales.
- The mine commenced operations in 1983 and is forecast to produce 1.2 million tonnes of ore in 2001/2002.
- Elura has approximately 200 employees and contractors.
- Elura is currently on the market for sale (refer Section 11.5.5 below).

Rosebery Mine

- Owned by PAL.
- Rosebery is an old, small to medium sized, underground lead, silver, zinc and copper mine currently processing 790,000 tonnes of ore per annum, located in North West Tasmania.
- Rosebery has approximately 320 employees and contractors.

Cockle Creek Smelter

- Owned by Pasminco Cockle Creek Smelter Pty Ltd ("PCCS").
- The Cockle Creek lead and zinc smelter is located near Newcastle, New South Wales.
- The smelter currently employs approximately 360 staff and contractors.
- Cockle Creek runs an Imperial Smelting Furnace ("ISF") smelter and is currently producing between 80,000 tonnes and 88,000 tonnes per annum of zinc (of which 85% is prime western grade), between 32,800 tonnes and 41,000 tonnes per annum of lead and 180,000 tonnes per annum of sulphuric acid.
- There are also critical linkages with the Elura mine, whereby Cockle Creek is dependent upon zinc concentrate from Elura. Furthermore, Elura currently acts as a dump for Cockle Creek slag. These linkages will need to be preserved if Elura is sold.

Hobart Smelter

- Owned by PAL.
- The Hobart electrolytic zinc smelter is located at Risdon, Tasmania.
- The smelter was commissioned in 1917 and is forecast to produce between 201,700 tonnes and 244,400 tonnes of zinc for 2001/2002.
- Hobart has approximately 600 employees.

Port Pirie Smelter

- Owned by Pasminco Port Pirie Smelter Pty Ltd ("PPPS").
- The Port Pirie lead and zinc smelter is located on the eastern shore of Spencer Gulf, 200km north west of Adelaide, South Australia.
- As the closest seaport to Broken Hill, Port Pirie became a key smelting and refining centre in 1889, six years after the mining fields of Broken Hill were discovered.
- The workforce on site comprises approximately 700 employees and 150 contractors.
- Port Pirie is an integral part of Hobart's environmental solution for treating paragoethite residues.

ARA

- ARA is a 50/50 joint venture with Simsmetal Limited.
- ARA operates secondary smelters in Melbourne and Sydney conducting lead recycling, primarily from car batteries.

9.2.2 International Operations

Below is a summary of Pasminco's international operations in the Netherlands and USA.

Asset (Smelter/Mine) Location	Year of Commencement of Operations	Production FY2000/2001	Production Forecast FY2001/2002
Budel Smelter South-Eastern part of the Netherlands	1973	219,000 tonnes of zinc per annum	207,000 tonnes of zinc for 2001/02
Gordonsville Mine 80km East of Nashville, Tennessee, USA	1982	1.76 million tonnes of ore per annum (from 3 mines: Gordonsville, Elmwood and Cumberland)	1.71 million tonnes of ore per annum
Clinch Valley Mine 28km North of Knoxville, Tennessee, USA	1968	348,000 tonnes of ore per annum	420,000 tonnes of ore per annum
Clarksville Smelter 80km from Nashville, Tennessee, USA	1978	119,300 tonnes of zinc metal per annum	123,000 tonnes of zinc metal per annum

We note the following regarding each of the above operating sites:

Budel Smelter, the Netherlands

- The Budel electrolytic zinc smelter is situated in the south-eastern region of the Netherlands, about 2 kilometres from the Belgian border.
- Budel is a relatively old smelting business with a history dating back to 1892. The current hydrometallurgical plant commenced operating in 1973.
- The smelter has approximately 600 employees and contractors.
- Budel is forecast to produce 197,000 tonnes of zinc in FY 2001/2002, plus has re-melted 8,000 tonnes of purchased zinc.
- Budel is now totally reliant on Century concentrate supply. Century currently has an estimated mine life of 20 years. The plant was recently converted to process low iron zinc concentrates from Century Mine, avoiding the production of waste products requiring permanent storage.

Gordonsville Mine, Tennessee, USA

- The Gordonsville mine was commissioned in 1982 and is a medium sized mine with a forecast production of 1.71 million tones of ore in 2001/2002 from three mines (Gordonsville, Elmwood and Cumberland).
- Gordonsville employs approximately 265 staff.

Clinch Valley Mine, Tennessee, USA

- The Clinch Valley mine is a small underground zinc mine which was acquired as part of the Savage acquisition in February 1999.
- Clinch Valley employs approximately 65 staff and contractors.

Clarksville Smelter, Tennessee, USA

- The Clarksville electrolytic zinc plant was acquired as part of the Savage acquisition in February 1999.
- Clarksville is a relatively modern, efficient, electrolytic zinc refinery, although small by international standards.
- Clarksville employs approximately 230 staff and contractors.
- The mine is forecast to produce 123,000 tonnes of zinc metal in 2001/2002.

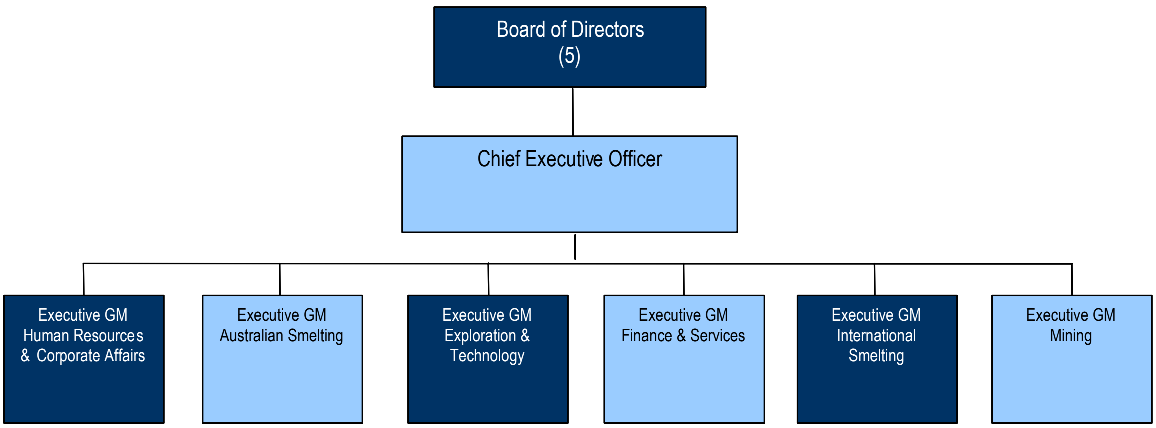
Sale of US Assets

- The sale process for the US assets is discussed at Section 11.5.4 below.

9.2.3 Management Structure and Board of Directors at Date of Appointment

Management Structure

Detailed below is Pasminco's Management structure as at the date of the appointment of the Administrators.



Since our appointment, a new Management structure has been implemented within Pasminco.

Board of Directors

As at the date of our appointment, the Board of Directors comprised 5 Directors being Mr Mark Rayner (Chairman of the Board), Mr Geoffrey Allen, Mr David MacFarlane, Mr Ross Herron and Mr Andrew Guy.

Mr MacFarlane retired from the Board of Directors on 25 October 2001. Mr MacFarlane had previously announced in July 2001 of his intention to retire at the end of October 2001.

Mr Herron also retired from the Board of Directors on 25 October 2001. Mr Herron initially accepted an invitation to join the Board as a non-executive Director on 4 June 2001, however, his appointment required shareholder confirmation at an Annual General Meeting.

As Pasminco is in Administration, the Annual General Meeting that was due to be held on 31 October 2001, was deferred. In these circumstances, Mr Herron believed it was appropriate to step down from the Board.

The former Managing Director and Chief Executive Officer, Mr David Stewart, resigned from Pasminco effective 31 July 2001 and was replaced by Mr Greig Gailey. Mr Gailey was not appointed as a Director

9.3 Historical Financial Performance

9.3.1 Historical Consolidated Profit and Loss Statements

Below is an abridged summary of the last 3 year's profit and loss statements:

	1999 AUD million	2000 AUD million	2001 AUD million Draft
Revenue from Operating Activities	1,596.1	1,878.3	2,128.4
Other Revenue	204.0	135.9	190.9
Total Revenue	1,800.1	2,014.2	2,319.3
Operating Profit/(Loss) before Income Tax	(8.5)	31.0	(1,973.5)
Income Tax (Charge)/Credit	0.2	(7.6)	(150.6)
Operating Profit/(Loss) after Income Tax attributable to the Members of Pasminco Limited	(8.3)	23.4	(2,124.1)
Retained Profit/(Accumulated Losses) at the beginning of the Financial Year	(87.2)	(90.9)	(56.0)
Total Available for Appropriation	(95.5)	(67.5)	(2,180.1)
Transfer from Reserves	4.6	11.5	41.5
Retained Profits/(Accumulated Losses) at the end of the Financial Year	**(90.9)**	**(56.0)**	**(2,138.6)**

We note the following regarding the above:

- The operating loss for 2001 is distorted compared to prior years due to significant non trading expenses including the write down of asset values and the write off of foreign exchange losses. Furthermore, it is important to note that the audit of the 2001 financial statements is yet to be finalised, which may result in the revision of the above draft results.
- Consolidated Group revenue increased by approximately AUD305 million for the year ended 30 June 2001 and despite declining zinc prices, the mining division revenue increased by approximately AUD215 million. The increase in revenue was mainly attributable to the first full year of production from Century Mine.
- Pasminco was unable to take advantage of the lower Australian dollar due to its fixed hedge position. The Group incurred revenue hedging losses of AUD130 million compared to revenue hedging losses of AUD21.9 million for the previous financial year.

It should be noted that in an ASX release on 13 September 2001, Pasminco reported a consolidated loss of AUD715.7million.

The latest draft results for the year ended 30 June 2001 disclose a consolidated loss of AUD2,124.1 million. These results may be reconciled as follows:

	AUD Million
Consolidated loss per ASX release on 13 September 2001	(715.7)
Asset writedowns	(608.0)
Additional loss on hedge positions	(626.2)
Additional deferred tax asset writedown	(66.1)
Loss on forward silver sale and silver swap contracts	(77.1)
Additional writedown of inventories	(31.0)
Revised draft operating loss after Income Tax attributable to the members of Pasminco Limited	**(2,124.1)**

The latest draft results for the year ended 30 June 2001 reflect an adjustment to the loss released on 13 September 2001 given:

- The appointment of Voluntary Administrators to Pasminco.
- Movements in the zinc price which impact on:
  - Asset valuations.
  - Future revenue levels and hence the effectiveness of hedging strategies.
  - Movements in foreign exchange rates, and the impact on losses on foreign currency hedging strategies, and other foreign currency denominated transactions.
  - Other adjustments to the carrying value of various assets.
- The revised consolidated loss stated above is still a draft result pending completion of the 2001 audit.

9.3.2 Historical Balance Sheet

Pasminco's consolidated Balance Sheets for 30 June 1999 to 2001 may be summarised as follows:

	1999 AUD million	2000 AUD million	2001 AUD million Draft
Current Assets			
Cash	24.6	88.5	18.1
Receivables	542.7	276.8	149.8
Inventories	366.1	436.9	359.6
Investments in Associates	70.7	57.7	-
Assets held for Resale	-	-	46.6
Other	107.5	36.9	15.5
Total Current Assets	**1,111.6**	**896.8**	**589.6**
Non Current Assets			
Receivables	0.4	2.4	32.5
Property, Plant and Equipment	2,525.0	2,702.0	1,837.1
Intangible Assets	27.1	40.6	-
Other	224.8	247.8	34.5
Total Non Current Assets	**2,777.3**	**2,992.8**	**1,904.1**
Total Assets	**3,888.9**	**3,889.6**	**2,493.7**
Current Liabilities			
Accounts Payable	292.5	240.3	509.9
Interest Bearing Liabilities	189.3	119.8	236.9
Provisions	235.1	147.8	875.0
Other	49.1	61.8	-
Total Current Liabilities	**766.0**	**569.7**	**1,621.8**
Non Current Liabilities			
Accounts Payable	0.6	0.6	1.7
Interest Bearing Liabilities	1,091.6	1,291.1	1,201.4
Provisions	183.2	253.2	196.1
Deferred Tax Liabilities	79.5	65.1	35.1
Other	304.1	199.0	-
Total Non Current Liabilities	**1,659.0**	**1,809.0**	**1,434.3**
Total Liabilities	**2,425.0**	**2,378.7**	**3,056.1**
Net Assets	**1,463.9**	**1,510.9**	**(562.4)**
Shareholders' Equity			
Share Capital	1,543.1	1,543.9	1,543.9
Reserves	11.7	23.0	32.3
Retained Profits/(Accumulated Losses)	(90.9)	(56.0)	(2,138.6)
Total Shareholders' Equity/(Deficiency)	**1,463.9**	**1,510.9**	**(562.4)**

It is again important to note that the 2001 financial statements are in draft. The audit of the 2001 financial statements is still underway and may result in further audit adjustments to the draft 2001 financial statements.

10 Current Financial Position

10.1 Report as to Affairs ("RATA")

It is a requirement of the Act that the directors of a company under Administration provide the Administrators with a RATA. This document sets out the company's assets and liabilities as at the commencement of the Administration. In normal circumstances, this document is to be provided to the Administrators within seven (7) days of the commencement of the Administration.

Given the large number of Companies under Administration, and the considerable amount of information required to complete each RATA, the Directors requested an extension of time for their completion. This extension of time was granted and the RATA for each of the Companies was received in early December 2001.

We have elected not to enclose each RATA of the Companies in this report for the following reasons:

- Each RATA was prepared as at either 31 August 2001 or 30 November 2001 given that Pasminco's computer system was able to provide meaningful figures at the end of a month only and not as at our appointment date. Given that Pasminco has continued to trade and has disposed of certain assets since these dates, it is our opinion that the information contained in each RATA will be of little benefit in assisting creditors in determining the best course of action for Pasminco going forward.
- There are 22 Companies in Administration and each RATA is at least 3 pages in length and up to 100 pages. On this basis, we consider that it is impractical to enclose each of them within this report given the printing time and cost that would be involved.
- Information which we consider relevant to creditors to determine the future of Pasminco is provided in other parts of this report and parts 4 to 6 in particular.

Notwithstanding the above, a copy of the RATA for any of the Companies can be made available to creditors upon written request.

10.2 Current Trading Performance

10.2.1 Group Profit & Loss

Set out below is the draft profit and loss statement for the 11 months to 31 May 2002 as per Pasminco's Management accounts:

	11 Months to May 2002 AUD '000
TOTAL GROSS SALES AND OTHER REVENUE	**1,936,977**
Realisation Expenses/Treatment charges	(331,645)
Raw Material costs	(339,576)
NET REVENUE	1,265,756
OPERATING COSTS	
People	(339,709)
Energy	(225,386)
Stores	(215,668)
External Services	(199,497)
Other Operating Costs	(80,288)
Amortisation	(128,081)
Amortisation PBS	4
Depreciation	(135,361)
TOTAL OPERATING COSTS	**(1,323,986)**
OTHER COSTS	
Royalties	(15,149)
Profit/(Loss) on Asset Disposal	(100)
Currency Options Rev /(Loss)	(180,726)
Revenue Hedging Gain / (Loss)	(32,211)
Other Net Income/(Expenses)	(17,128)
TOTAL OTHER COSTS	**(245,314)**
STOCK MOVEMENTS OPERATING COSTS	20,418
Earnings Before Interest and Tax	**(283,126)**
Debtors Securitisation Costs	(1,177)
Finance Charges	(12,489)
Silver Costs	(15,378)
Interest	(129,458)
Exchange Fluctuations (Corp)	(66,550)
PROFIT/(LOSS) BEFORE TAX	**(508,178)**
Income Tax (Expense)/Benefit	148,066
PROFIT/(LOSS) AFTER TAX	**(360,112)**
Abnormal Items	(12)
PAT after Abnormals & Extraordinary Items	**(360,124)**

As discussed in further detail below, the profit and loss statement continues to be significantly impacted by debt levels and hedging strategies that existed prior to the commencement of the Voluntary Administration.

In particular, the following items relate to movements in foreign currency and financing costs that are included in the trading result to May 2002:

	AUD million
Loss on currency options	180.7
Revenue hedging loss	32.2
Debtor securitisation costs	1.2
Finance charges	12.5[1]
Silver costs	15.4
Interest	129.5[1]
Exchange fluctuations	66.6
Total	**438.1**

1 Within the total interest and finance charges of AUD142 million, approximately AUD10 million relates to the interest cost and charges of the facilities procured by the Voluntary Administrators during the Voluntary Administration.

If the above items are adjusted for in the loss before tax shown above of AUD508.2 million, a revised loss for the 11 months to May 2002 may be calculated of AUD80.1 million (after also adjusting for the AUD10 million of interest and finance charges applicable to the Voluntary Administration).

Specific issues to be noted from the profit and loss statement to May 2002 are as follows:

- Gross revenue for the 11 months amounted to AUD1,937 million, with Pasminco achieving an average zinc price of USD794 per tonne in the 11 months. Net revenue after the payment of realisation expenses and treatment charges amounted to AUD1,605 million.
- As detailed above, the Group has enjoyed positive variances across most categories of operating costs, with actual total direct costs being AUD27.3 million lower than forecast.
- The Group has reported an earnings before interest and tax ("EBIT") for the 11 months of AUD(283.1) million, compared to a forecast EBIT of AUD(310.9) million. Again, however, Group EBIT is significantly impacted by the losses on pre-existing currency options and foreign currency denominated debt.

10.2.2 Group Cashflow

A reconciliation between Group Earnings before Interest and Tax to the Group's cashflow for the eleven months ended 31 May 2002 may be summarised as follows:

	Year to Date AUD million
Group EBIT	(283.1)
Add back:	
Amortisation	128.2
Depreciation	135.6
Currency Option Loss	180.7
Revenue Hedging Loss	32.2
Stock Movements	(20.5)
	173.1
Less:	
Capital Expenditure - Mine Development	131.3
Capital Expenditure - Other	94.1
Interest and Financing Charges Paid	7.2
Tax Paid	20.7
Increase / (decrease) in Operating W.C. and Net Assets	100.5
Other	(37.6)
Net Cashflow for 11 months to 31 May 2002	**(143.1)**

As with the profit and loss statement, the cashflow incorporates a number of items that are not indicative of the ongoing trading of the Group in the ordinary course. Specifically, the following "abnormal" items are included in the cashflow statement:

- Following the appointment of the Voluntary Administrators, approximately AUD100 million was incurred in repayment of the debtor securitisation facility.
- An insurance premium was paid in May 2002 for the year April 2002 to March 2003. This was paid in addition to earlier insurance premiums that were also paid during the year.
- Of the total insurance payment in May 2002 of approximately AUD23 million, approximately AUD19 million represents a pre-payment of insurance costs from June 2002 onwards.
- The cashflow statement incorporates the payment of employee entitlements in relation to the sale of Broken Hill, in excess of the sale proceeds received to date, of approximately AUD8 million.
- Pasminco has also incurred various legal and other costs in relation to the Voluntary Administration, together with various other consulting costs that were previously being incurred by Pasminco in relation to the trading of the business, but which have now ceased to be incurred.

After adjusting for the above items, it can be seen that the Pasminco Group would have achieved very close to a breakeven cashflow position, despite the adverse conditions that are being experienced in relation to zinc prices (accepting however that the cashflow statement does not incorporate significant interest and finance charges that would ordinarily have been paid).

In support of the funding requirements of the Administrators during the Voluntary Administration period, facilities of AUD300 million were procured for the period to 30 June 2002. Agreement of the three funding banks has now been approved for the extension of those facilities to the end of the Voluntary Administration period.

At the time of issuing this report, we are also in the process of seeking to procure funding of a "Summit Facility", which will be used in part to repay the Voluntary Administration facilities of AUD300 million.

11 Key Administration Issues

As creditors would be aware, the Administration of Pasminco is a large and complex matter. As Administrators of Pasminco, we have been required to deal with a substantial number of tasks during the period since our appointment whilst we have traded its businesses and developed the proposal to restructure Pasminco.

We comment below on some of the key matters attended to by us.

11.1 Creditor Claims

11.1.1 Summary of Claims

An estimate of total creditor claims owing as at 19 September 2001 is summarised as follows:

Creditor Category	Debt Amount AUD	%
Financier Creditors	2,741,602,898	97.5
Unsecured Trade Creditors	5,600,329	0.2
Employee Entitlements	37,700,000	1.3
Contingent Creditors	27,582,000	1.0
Total Creditors	**2,812,485,227**	**100.0**

In respect of the claims against Pasminco we make the following comments:

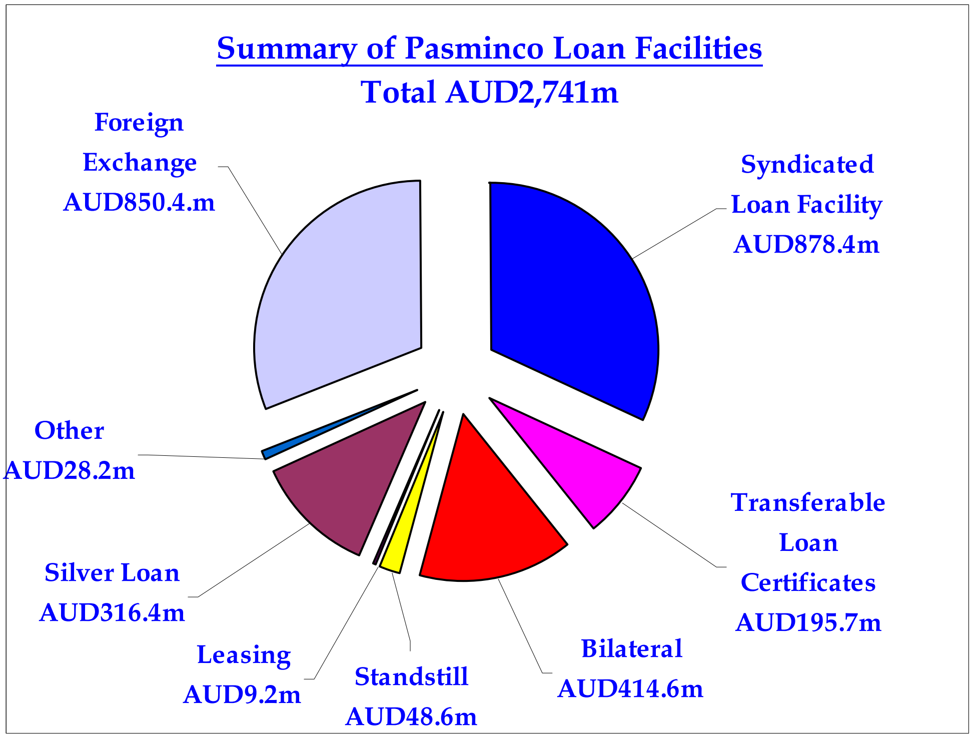
- Over 97% of Pasminco's creditor claims relate to various unsecured loans and facilities held with 39 Australian and international financiers.
- Employee claims as at 19 September 2001 comprise 1.3% of total creditor claims. These claims represent accrued annual leave, long service leave and sick leave as at 19 September 2001 but exclude amounts paid to employees who have left Pasminco since our appointment. These employees have been paid their entitlements as required.
- Employee claims also excludes redundancy and workers' compensation entitlements which are contingent in nature. These claims are estimated at a gross amount of about AUD175 million.
- At the outset of the Administration, we considered that key operating trade creditors required to enable the continuation of production at sites should be paid in the ordinary course of business to avoid considerable disruption to the operations which may have given rise to a substantial deterioration in asset values. The amount shown above for general unsecured creditors (AUD5.6 million) represents those creditors not paid.
- There are a number of contingent claims that have been made against Pasminco. These claims represent certain public liability, contractual or other disputes arising prior to our appointment.

- It is not possible to quantify these contingent claims, however we have estimated that total gross contingent claims against Pasminco may be about AUD30 million. We have not included any amount with respect to:
  - A potential claim from Aquila Resources Limited ("Aquila") (refer Section 11.1.4 below).
  - Possible claims for damages or compensation where no claim has been made to date or where we are unaware of any basis for claims to exist.

  Contingent creditors will be required to prove their debts to our satisfaction before being entitled to receive any dividends or shares under the proposed Deeds or in a winding up.

11.1.2 Financier Claims

Pasminco's funding arrangements at the date of our appointment may be summarised as follows using an USD/AUD exchange rate of USD0.5038:



We are performing ongoing work to verify all amounts claimed.

A brief description of each of the major facilities is outlined below:

Syndicated Loan Facility - AUD878.4m

The Syndicated Loan Facility Agreement, which was provided by a consortium of five (5) financiers, was entered into on 3 September 1997 and was principally established to fund the acquisition and development of Century Mine.

Transferable Loan Certificate Facility ("TLC") - AUD195.7m

The TLC was established on 17 December 1999 to enable the issue of Transferable Loan Certificates.

The TLC program is a three-year facility originally funded by twelve (12) financiers that replaced a previous TLC facility that expired in February 2000.

Bilateral Facilities - AUD414.6m

Bilateral facility agreements are general purpose corporate facilities established to fund Pasminco's working capital requirements.

The amounts funded by a number of financiers under separate agreements were drawn down to approximately AUD415 million at the date of our appointment.

Standstill Funding – AUD48.6m

In the period from July 2001 to the date of our appointment, Pasminco's financiers were negotiating the terms of a Standstill Agreement to enable Pasminco to be restructured.

During this period, Westpac Banking Corporation ("Westpac") advanced total funds to Pasminco of AUD48.6 million. Westpac obtained an indemnity from five (5) other major financiers in relation to this facility and it was agreed amongst the substantial majority of financiers that these funds would be repaid as a priority to other facilities.

Leasing - AUD9.2 million

Whilst the majority of Pasminco leases have been paid in the ordinary course of business, principal payments were deferred on two of Pasminco's major operating leases, the PPT lease and the Newcastle Shiploader lease, totalling AUD9.2 million.

The amount owing of AUD9.2million does not include any amount for the payout or termination values of Pasminco's major leases and merely reflects a shortfall in lease payments made shortly prior to the commencement of the Administration. These leases are classified in Pasminco's accounts as operating leases and accordingly, the payout values are not recorded as an "on Balance Sheet" liability.

Forward Sale of Silver Transaction ("the Silver Loan") - AUD316.4 million

The Silver Loan transaction involved the forward sale of silver by PPPS and a silver swap agreement with Credit Suisse Financial Products.

Foreign Exchange ("FX") - AUD850.4 million

At the date of our appointment, Pasminco had various outstanding FX contracts. Following our appointment, all but one counterparty proceeded to close out the FX contracts, thereby crystallising the contingent loss position on the contracts.

Whilst there are some USD/AUD forwards that were showing losses for Pasminco, the majority of the FX exposure results from options which were in the money to FX counterparties. We have had an ongoing role in reviewing the close out of the FX contracts.

The estimated total FX claims is AUD850.4 million including an estimate of the claim for the one counterparty that is yet to close out.

Other - AUD28.2 million

Other claims represent the liability from FX contracts that were closed out or fell due prior to our appointment.

11.1.3 Employee Entitlements

Pursuant to Section 556 of the Act, employee claims receive priority over ordinary unsecured claims in a winding up.

The estimated accrued entitlements as at 19 September 2001 for each site, adjusted for employees who have left subsequent to our appointment, including the estimated redundancy entitlements and workers' compensation claims, are shown below.

Site	Annual Leave/Long Service Leave AUD million	Workers Compensation AUD million	Redundancy AUD million	Total AUD million
Century Mine	1.2	Nil	5.2	6.4
Elura	4.2	1.3	4.9	10.4
Rosebery	4.9	2.8	13.2	20.9
Cockle Creek	5.5	2.0	18.0	25.5
Hobart	6.8	2.6	21.0	30.4
Port Pirie	10.5	1.4	36.4	48.3
ARA	0.5	Nil	0.8	1.3
Melbourne Group Office	4.1	Nil	15.4	19.5
Broken Hill	0.1	50.0	0.3	50.4
Total	**37.8**	**60.1**	**115.2**	**213.1**

The following should be noted regarding employee entitlements:

- The amount shown for workers' compensation at Broken Hill is an estimate only given uncertainty regarding the actuarial assessment conducted prior to our appointment (refer 11.4.2 below). Proceeds from the sale of the Broken Hill Mine will be used to meet these claims. Other amounts shown for workers' compensation represent provisions for the relevant sites.
- Redundancy entitlements are only payable where employees are actually made redundant. Accordingly, the amount shown above represents a contingent claim against Pasminco.
- Employees are employed by various Pasminco companies.
- All entitlements that have become payable during the Administration have been paid as required.

- Employee entitlements, including contingent entitlements, as at 31 May 2002 are summarised as follows:

	AUD million
Annual, long service and sick leave	39.9
Workers' Compensation (estimate/provision)	59.8
Redundancy	123.8
Total	**223.5**

Of the above amount, about AUD10 million represents entitlements that have accrued since our appointment.

11.1.4 Contingent Creditors

The contingent claims against Pasminco represent a number of public liability claims and certain commercial disputes.

With respect to these matters, we note the following:

- There are various public liability claims brought against Pasminco for injuries caused to third parties at Pasminco work places. Some of these matters appear to be frivolous and we are dealing with each matter on a case by case basis.
- The commercial disputes relate to contractual disputes and a potential damages claim by Aquila.

  In this regard, as creditors may be aware, Aquila initiated proceedings in the Supreme Court of Western Australia against Pasminco for pre action discovery in respect of the sale by Pasminco of its 49% interest in Ernest Henry Mining Pty Ltd. The remaining 51% of the shares in EHM were held by MIM Holdings Limited.

  Aquila has advised us that it does not know whether it has a claim against Pasminco. We do not consider there is any merit in a claim along the possible grounds indicated in the pre action discovery proceeding.

In addition to the above matters, a class action was previously brought against Pasminco.

The class action relates to a proceeding that commenced on 18 February 2000 with respect to claims for personal injury caused by toxic emissions at Cockle Creek. Pasminco defended the class action and it was struck out on technical grounds. A subsequent appeal was also dismissed with costs awarded in Pasminco's favour. The matter was then subject to a further appeal subsequent to our appointment, however the matter was struck out by the Court with a contribution to Pasminco's costs.

Pasminco does not concede that it has any liability to these parties, but if Pasminco becomes obliged to pay any amount, it would become an unsecured claim.

There are also a number of other matters where claims may be brought against Pasminco by third parties for injuries caused at Pasminco work places. These matters will be dealt with as and when required, subject to the relative merits of each claim.

Except for certain contingent claims that are to remain with the Ongoing Group under the proposed Deeds and may not be compromised, it is intended that all other contingent creditors will be bound by the Deeds and the releases they contain.

11.1.5 ASIC Class Order

The majority of financial information within this report has been detailed on a consolidated basis. We have provided consolidated financial information given that 15 of the 22 Pasminco Companies to which we have been appointed are subject to ASIC Class Order 98/1418 (known as "the Closed Group").

The Class Order was conditional upon each of the Closed Group companies entering into a Deed of Cross Guarantee ("the Cross Deed") whereby each of these companies have guaranteed the liabilities of each company in the Closed Group in the event of a winding up.

Accordingly, the effect of this Cross Deed is that each primary creditor of a Closed Group company is also a contingent creditor of each of the other Closed Group companies.

Of the remaining 7 companies not subject to the Class Order, only Pasminco International Holdings Pty Ltd ("PIH") has any significant assets. PIH's major asset is the shareholding in Budel. Practically, if Budel was sold, the surplus net funds would be distributed either through repayment of inter-company loan accounts or distributed to the holding company of PIH (which is Pasminco Limited) and would therefore be available to the Cross Deed creditors in any event.

The existence of the Cross Deed will allow all creditors of any one of the Closed Group companies to vote for resolutions proposed in relation to all of the Closed Group companies at the meetings of creditors.

11.2 Trading Issues

Our role as Administrators has required our involvement in the trading and operational issues of the Group. Some of the key issues have been as follows:

Purchase Order System

- Pasminco has payment runs on most business days, although the major payment runs are processed on the 15th and 30th of each month.
- Following our appointment, we instigated various changes to the purchase order system, with the objective of placing further control over the incurring of expenses and ensuring that incurring of any ongoing liability is authorised through Pasminco's approval system.
- In conjunction with Management, we are continuing to work on enhanced measures to better control the incurring of expenditure. This will also provide improved information for cashflow forecasting purposes.

Capital Expenditure

- We are reviewing all material capital expenditure projects to ensure that such expenditure is justified on economic, environmental or health and safety grounds.

Contracts

- Procedures have been put in place to ensure that all new contracts entered into by Pasminco incorporate sufficient provisions to take account of the interests of the Administrators (and hence creditors).
- Furthermore, we review all proposed contracts with a value of AUD100,000 or greater.
- All continuing contracts entered into by the Administrators during the Voluntary Administration period are to be assigned or novated to the relevant Pasminco entity going forward under the proposed Deeds.
- In conjunction with Management, we have reviewed pre-existing contracts to determine their suitability and, in certain circumstances, have sought to renegotiate uncommercial contracts. This has provided some significant cost savings.

Site Issues

- Our staff attended all sites immediately following our appointment.
- Whilst we do not continue to have staff present on a full time basis at each of the sites, there are various site issues that are dealt with on a day to day basis by our staff.

Foreign Exchange and Metals Contracts

- We have had an ongoing role in reviewing the close out of the foreign exchange and various metals contracts.
- In addition, we have negotiated facilities to allow ongoing cover in relation to metals prices.
- Furthermore, we have spent a significant amount of time working with Management and various financiers in formulating a short term hedging strategy for Pasminco.

Employees

- Our main focus for all employees has been to maintain a "business as usual" environment in what has obviously been a difficult and uncertain trading period. Such an approach was critical to preserving Pasminco's business operations until a restructure proposal was formulated and put to creditors.
- We have met on numerous occasions with staff and union representatives of Pasminco's workforce to discuss the progress of the Administration and issues affecting all employees.
- We have been pleased with the support and effort of the employees and unions during the Administration to date and thank them for their ongoing commitment to Pasminco.

Systems and Processes

- We have undertaken a number of reviews, at a high level, of Pasminco's systems and processes, including its SAP system.
- A number of areas have been identified to be addressed by Pasminco in both the short and longer term.

Insurance

- Insurance cover for the year ending 31 March 2003 for Pasminco has been a major issue which saw annual premiums rise from approximately AUD8 million last year to AUD23 million for the current year, primarily as a result of premium rises in the insurance market generally and specifically recent losses in the mining sector.
- Significant work was undertaken in reviewing the insurance cover for the current year and Willis Limited was engaged as independent advisors to the Administrators to work with Pasminco's brokers, Marsh.
- Ultimately, the Administrators were satisfied that Pasminco had secured the best available cover and premiums given the current market conditions.

Other Projects and Reviews

- In an effort to increase efficiencies and to identify other performance improvement opportunities at Pasminco, we have worked with Management on a number of other reviews and projects, including:
    - Review of working capital.
    - Review of the Business Improvement Program ("BIP") including the BOOM Project (BOOM was the acronym given to the Australian Smelting component of BIP).
    - Risk Management review.
- BIP was commenced in January 2001 with the aim of achieving business improvements of AUD100 million.
- It was estimated that as at 31 December 2001, benefits achieved by BIP were running at an annualised rate of AUD135 million of which BOOM had contributed annualised production and cost benefits of AUD45 million.
- Benefits from BIP and BOOM are expected to be ongoing.

Treasury

- We have worked closely with Pasminco's Treasury department in managing Treasury issues, including day to day cashflow and cashflow forecasting.
- In particular, we negotiated AUD300 million of facilities to be made available during the Voluntary Administration.

Reporting

- The Administrators have been provided with an extensive range of reports from Pasminco, including month end trading results and executive reports.
- The Administrators have in turn provided the Committee of Creditors with a monthly overview of the trading performance of Pasminco, including an analysis of variances in performance from forecast.

Management

- We have established an effective and co-operative working environment with Management.

11.3 Financing Arrangements with International Operations

Subsequent to our appointment, we assessed the financial position of Pasminco's US operations and Budel. It was determined that in the short term both operations would require some funding from Pasminco.

A total of €5 million was forwarded to Budel Zink BV by PFL to assist it with its cashflow requirements. These funds have now been repaid.

In this regard, the Budel Directors expressed a strong preference for arranging external funding with their existing bank, ABN AMRO, to which we agreed.

Approximately AUD40 million has been advanced to Pasminco's US operations since our appointment on 19 September 2001.

Security was taken by Pasminco for post-Administration loans to the US operations.

11.4 Employee Issues

At the date of our appointment, Pasminco had about 3,500 employees. Given the uncertainty that Administration can cause for employees, dealing with issues affecting the employees has been an important and substantial task.

We have commented on some of the key employee issues dealt with by us below:

11.4.1 Sale of Broken Hill

The terms of the Contract of Sale for the Broken Hill Mine had the following effect on employees:

- It provided for the termination of all Broken Hill Mine employees. The proceeds of the sale of the Mine were applied to meet accrued leave and redundancy entitlements of the terminated employees and will be used to meet outstanding workers' compensation claims.
- The termination of the employees also gave rise to the crystallisation of certain employees' defined benefit superannuation entitlements which required Pasminco to fund a shortfall in assets set aside for this purpose.

- The amounts disbursed as a result of the sale of the Broken Hill Mine in relation to employees can be summarised as follows:

Entitlement	AUD million
Annual / Long Service Leave	8.8
Redundancy / Retention	29.1
Superannuation – Defined benefit shortfall	4.5
Total	**42.4**

- The sale did not provide for the assumption of liabilities by the purchaser in respect of workers' compensation for former employees of the Mine. These liabilities will continue to be managed by Pasminco from the Group Office in Melbourne. This has required us to establish a claims administration function at Group Office and the transfer of relevant records from Broken Hill to Melbourne. The transfer was effected on 21 May 2002.

11.4.2 Workers' Compensation

Given the nature of Pasminco's businesses, the management of Occupational Health and Safety issues has been critical. In particular, we have been required to deal with a number of workers' compensation issues as follows:

- Prior to the appointment of the Administrators, PCCS held the workers' compensation self insurance licence for the Broken Hill site. The licence also covered employees at the Elura Mine and Cockle Creek Smelter that were employed by PCCS. The majority of the self insured liability covered current and former workers employed at the Broken Hill Mine.

- An actuarial assessment of workers' compensation claims conducted as at 30 June 2001, estimated liabilities for the site as follows:

Entity	Period	Provision AUD million
Pasminco Australia Ltd	31/3/84 to 31/12/92	16.5
Pasminco Cockle Creek Smelter Pty Ltd	1/1/93 to 19/9/01	15.4
Total		**31.9**

- Soon after our appointment we engaged Richard Oliver International, consultants, to assist us review Pasminco's workers' compensation liabilities and procedures focusing on the liability at the Broken Hill Mine. Together we have identified a number of matters which cast doubt on of the reliability of the actuarial estimate.

- Steps were taken to address all of the above issues and determine a comprehensive future strategy for the management of workers' compensation claims and the outstanding liabilities.

- To assist with the sale of the Broken Hill Mine and to quarantine any workers' compensation liability for the period of the Administration, a decision was made to take traditional workers' compensation insurance effective 19 September 2001 under the NSW State Scheme.

- Both the Rosebery Mine and the Hobart Smelter self insure their respective workers' compensation liabilities under the one self insurance licence in Tasmania.
- Workplace Standards Tasmania ("WST") is currently reviewing self insurance arrangements in Tasmania focusing on new performance and prudential guidelines. Both Tasmanian sites have been lobbying WST to ensure continuation of their self insurance licences and to ensure the new guidelines continue to be financially conducive to each site's operations.
- The Administrators were able to ensure an extension of Port Pirie's self insurance licence.
- We have continued to manage and settle a number of workers' compensation claims brought against Pasminco. Amounts paid in this regard are approximately AUD5 million, and mostly settled at amounts below the original provision.

11.4.3 Other Employee Issues

There are a large number of other employee issues that we have dealt with in addition to those referred to above and in other parts of this report. We have commented on some of them below.

- The Enterprise Bargaining Agreement ("EBA") for Rosebery has expired. Management is currently negotiating with its employees for an EBA to replace the one that has expired. To date this has led to limited industrial action.
- The EBA for Port Pirie which has expired is currently being renegotiated and is expected to be finalised shortly.
- A restructure of Group Office is currently being conducted. Once complete, the restructure will see reduced numbers at Group Office and a redesign of reporting lines and management responsibility. The new structure may require recruitment of appropriate staff to fill redesigned management positions.
- During the period of Administration, Pasminco's normal remuneration review process fell due. Management was of the opinion that it was prudent and sensible to proceed with a remuneration review during the period of Administration as an important tool to assure the workforce that a restructure of Pasminco's operations was to occur and to ensure Pasminco retained its skilled workforce.
- The Administrators agreed and a salary review was conducted in line with market moves in salary and wage rates effective 1 March 2002, in a standardised manner across the sites where reviews were due.
- We have regularly liaised with representatives of unions with members employed by Pasminco and representatives of Pasminco's non-unionised workforce during the Administration. In this regard, we have held regular meetings with these representatives to assist us in dealing with the concerns of employees and keep them informed of developments as the proposed restructure of Pasminco progressed.

11.5 Sale of Assets

11.5.1 Overview

At the date of our appointment as Administrators, Century Mine and the Broken Hill Mine were on the market for sale. UBS had been engaged by Pasminco to act as sale advisors.

Following our appointment, we decided to continue with both sale processes given the progress made with respect to both sales and given that any successful sale of the Century Mine at an acceptable price would be an important element in the ultimate return to creditors.

Subsequent to our appointment, we also commenced formal sale processes for Pasminco's US assets and for the Elura Mine. **Whilst we consider it to be the preferred option to sell the US assets and Elura Mine, Pasminco is able to retain the assets under the proposed restructure if acceptable offers cannot be obtained for the assets.**

We have commented on these sale processes further below.

11.5.2 Century Mine

At the date of our appointment, UBS was liaising with interested purchasers regarding the sale of the Mine.

Indicative offers were made by interested parties shortly after our appointment and a shortlist was selected to conduct due diligence.

Due diligence was completed in early December 2001 by the interested parties and offers were received.

A period of negotiation was then conducted by UBS, with respect to a number of key issues affecting the possible sale including the price offered, the supply of concentrates to other Pasminco sites, a possible Deed of Company Arrangement for PCML in the context of a share sale and a number of key terms.

After extensive negotiations, and after liaising with the Committee of Creditors with respect to the offers made, we terminated the sale process for Century Mine on 17 January 2002 given that none of the offers received were acceptable to us.

Further revised offers were subsequently received, however after consultation with the Committee of Creditors, they were also rejected on the basis that they were not acceptable. In this regard, whilst a sale of Century Mine was not achieved, we and the Committee of Creditors did not consider that the offers made reflected the longer term value of the Mine.

We advise that the price and terms of all offers received are confidential and cannot be disclosed by us to creditors.

11.5.3 Broken Hill Mine

The Broken Hill Mine was initially placed on the market for sale in early 2001 following interest which had been expressed for the Mine previously. UBS was engaged by Pasminco to conduct the sale.

The Broken Hill Mine sale process was complicated given the limited lifespan of the Mine, its linkages to other Pasminco assets and certain liabilities attaching to the Mine.

Following an extended period of discussions between UBS and interested bidders, including a due diligence period, and after consultation with the Committee of Creditors, we elected to negotiate a sale of the Broken Hill Mine with Perilya.

A contract for the sale of the Broken Hill Mine to Perilya was signed on 8 March 2002. As reported publicly previously, the key terms of the sale are as follows:

- A total consideration of AUD90 million payable as follows:
  - AUD35 million payable in instalments in the first six months after completion (these instalments were paid in full on completion);
  - AUD55 million paid in the form of deferred volume and price link payments commencing within six months from completion and payable for up to seven years.
- Supply contracts were entered into for ongoing delivery of Broken Hill concentrates to Pasminco's Hobart zinc smelter and Port Pirie lead smelter at normal commercial terms.
- Payment to all current employees at the Mine of their full leave and redundancy entitlements upon completion of the sale.

All conditions precedent were satisfied and completion occurred on 31 May 2002.

We consider the sale of the Broken Hill Mine to be a good result for Pasminco given the terms of the sale and the strategy that we and Pasminco Management have adopted to restructure Pasminco's asset portfolio.

11.5.4 US Assets

In consultation with the Committee of Creditors, we decided after our appointment that Pasminco's US assets should be placed on the market for sale.

The US assets available for sale consist of the following:

- Gordonsville underground zinc mine;
- Clinch Valley underground zinc mine; and
- Clarksville smelter.

The US assets have no linkages with Pasminco's Australian operations and have generally underperformed since their acquisition by Pasminco in February 1999.

It was also considered that the decision to sell the US assets was consistent with the restructure strategy being considered for Pasminco at the time, which has become the basis for the proposed Deeds of Company Arrangement with creditors.

We engaged Rothschild to act as sale advisor given its expertise and past involvement in selling the US assets.

Rothschild has been holding ongoing discussions with parties interested in the US assets, however, despite extensive negotiations, there are currently no offers that are capable of acceptance.

At this stage, we are uncertain when any sale of the US assets may be achieved.

11.5.5 Elura Mine

Whilst the Elura Mine has been a good asset for Pasminco, it is considered that the asset would be more efficiently operated by a specialist miner. In this regard, the Administration process has provided the opportunity to optimise Pasminco's asset portfolio prior to the formal restructure process being implemented if accepted by creditors.

We recognise however, that the Elura Mine is still a valuable asset and if we are unable to obtain an acceptable price for the Mine, it can be retained and form part of the restructured Pasminco going forward should the proposed Deeds of Company Arrangement be accepted by creditors.

An Information Memorandum has been prepared and distributed to interested parties. UBS has been liaising with interested parties regarding the sale of the Mine, Newcastle shiploader and exploration assets.

Due diligence is currently being conducted by interested parties with binding bids expected during July 2002, after which preferred bidders will be shortlisted to negotiate a Contract of Sale.

11.6 Other Administration Issues

There have been a large number of issues that we have been required to deal with as Administrators of Pasminco in addition to the matters referred to in other parts of this report given the size and complexity of the Administration.

By way of a brief overview, we note the following other issues for creditors' information:

- It was noted that during 2001 there was an increase in inventory levels within Pasminco. Accordingly, a review of inventory levels across the organisation as a whole was undertaken to ensure that working capital was not tied up in inventories unnecessarily. This review established that inventory levels were satisfactory with the exception of finished goods. As a result, the sales and marketing department is currently reducing the levels of finished goods.
- A review has also been conducted to identify areas where benefits for Pasminco may be achieved through improved usage of business systems. A number of initiatives have been identified from this review that if implemented, would result in significant cost and production benefits for Pasminco. This report has been delivered to Pasminco Management for their review and comments.

- At Pasminco's suggestion, a project has been undertaken to prepare a two year action plan to ensure that Pasminco has a long term stable future. This project involved Corporate Value Associates ("CVA"), a firm of external consultants, Ferrier Hodgson staff and Pasminco staff. The report from this project has been provided to Pasminco Management.
- In our capacity as Administrators, there are various statutory and administrative matters that we are required to attend to under the Act including the following:

    - Reviewing and calculating claims of creditors, as required.
    - Meeting, reporting and liaising with the Committee of Creditors and creditors generally during the Administration.
    - Assisting our solicitors with various applications to Court, including the extensions of the convening period.
    - Investigation as to the reasons for failure of Pasminco and the conduct of its directors and advisors. Our findings are discussed at Section 12 below.
    - Convening and holding the first meetings of creditors.
    - Preparation of this report to creditors and convening the second meetings of creditors.

A considerable amount of time has been spent on the development of the proposed restructure of Pasminco.

The work involved for the proposed restructure has been extremely complex and time intensive. Details of the proposal and work performed by us and our advisors are discussed at Parts 4 to 6 of this report.

12 Investigations

12.1 Introduction

An Administrator is obliged to investigate a company's business, property, affairs and financial circumstances. Whilst these investigations are not as detailed as those performed by a Liquidator, they are necessary to assist the Administrator in forming an opinion about the future of a company.

Certain causes of action for breaches of the Law, such as a claim for insolvent trading and voidable transactions are only available to a Liquidator.

There are other breaches of the Law, such as breaches of duty by directors or professional advisors, that can be available under a Deed of Company Arrangement unless excluded under the terms of the Deed.

An Administrator has an obligation to each company to which he is appointed and must consider the conduct of directors and other parties with respect to each company of which they were a director or to which they advised.

12.1.1 Areas of Investigation

The key areas of our investigations have included the following:

- The reasons for the failure of Pasminco.
- Consideration of insolvent trading by the Directors of Pasminco companies to which we have been appointed.
- A review of whether any Pasminco companies to which we have been appointed entered into any voidable transactions.
- Consideration of any breaches of duty by the Directors of Pasminco companies to which we have been appointed.
- Consideration of breaches of duty by professional advisors of Pasminco Group companies to which we have been appointed.

The various matters investigated by us fall into two main categories, as follows:

i) Claims that may be available to Pasminco companies for breaches of duty by the Directors or professional advisors.

ii) Issues to be considered in the context of a Liquidation of Pasminco, including the grounds (if any) for a Liquidator to pursue insolvent trading claims against the Directors of Pasminco companies to which we have been appointed and to recover any voidable transactions.

<u>Important</u>

Please note that potential recoveries by a Liquidator for insolvent trading or in respect of any voidable transactions <u>would not be available</u> under the proposed Deeds of Company Arrangement.

Potential recoveries for any breaches of duty by Pasminco's Directors or professional advisors would be available under the proposed Deeds of Company Arrangement.

12.1.2 Summary of Work Performed

Following our appointment, we commenced an investigation into the affairs of Pasminco. Our investigations have included, inter alia, the following:

- Conducting searches of ASIC records with respect to companies in the Pasminco Group.
- Various meetings and discussions with the Directors and other key employees of Pasminco.
- A detailed review and analysis of Pasminco's financial records, including an analysis of each company to which we have been appointed and an analysis of the Pasminco Group as a whole.
- Review of a questionnaire provided to the Directors of Pasminco with respect to the events leading up to the appointment of the Administrators and the conduct of the Group's affairs.
- Consideration of responses provided to letters forwarded to certain advisors of Pasminco, however on the whole, these advisors chose to provide very limited responses only.
- We have taken preliminary legal advice regarding certain aspects of our investigations.

Creditors need to recognise that the nature of investigations carried out by, or on behalf of the Administrators, cannot be as thorough as the investigations which might occur in a Liquidation of any Pasminco company.

In this regard, an Administrator does not have powers as extensive as that of a Liquidator to conduct his investigations.

We comment later with respect to the further investigations to be conducted.

12.2 Reasons for Failure of Pasminco

During the course of our investigations, we have considered the factors leading to the appointment of the Administrators and we requested that the Directors advise us, in their opinion, as to the reasons for the failure of Pasminco.

It is apparent from our investigations that a combination of the following key factors have contributed to the failure of Pasminco:

i) The decline in the world zinc price;

ii) Pasminco's excessive debt burden;

iii) The acquisition of Savage;

iv) Pasminco's hedge book; and

v) Inadequate management information systems.

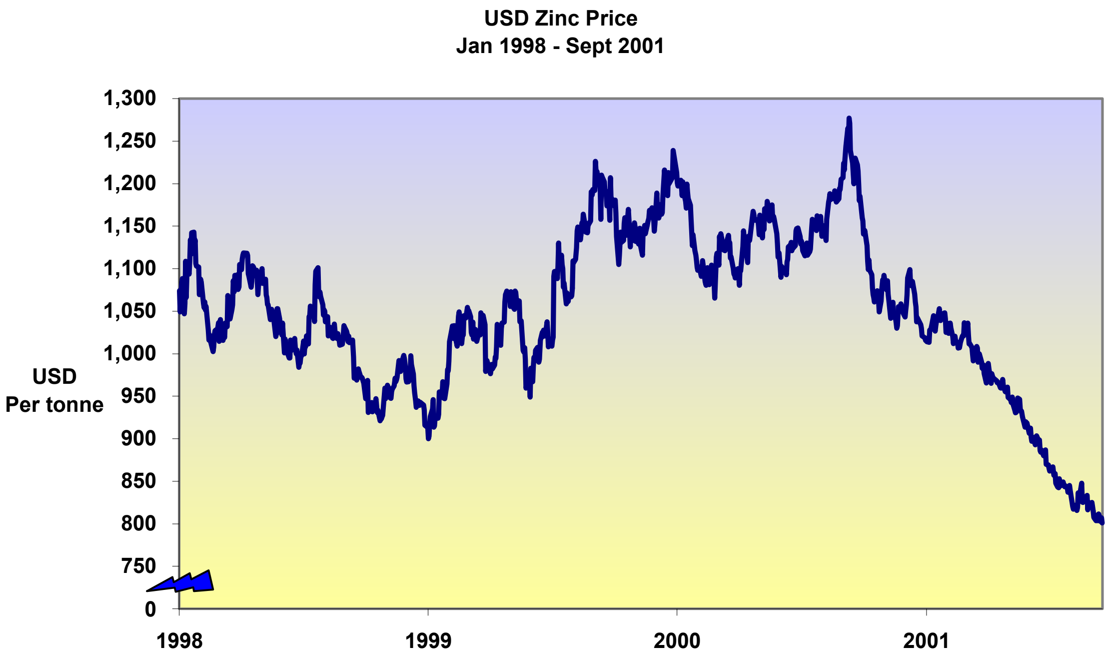
We have commented on each of these matters below.

12.2.1 Decline in World Zinc Price

In our opinion, the decline in the world zinc price has been a substantial factor affecting Pasminco's profitability, having had a marked impact on commodity sales values, cashflow and asset values.

In this regard, Pasminco's primary business is the production of zinc and it has a substantial leverage to the world zinc price ie. whilst Pasminco has some exposure to lead and silver prices, it is effectively a one commodity company.

We have depicted below a graph of the zinc spot price from January 1998 to September 2001.



Creditors will note from the above that the zinc price declined from USD1,074 per tonne in January 1998 to USD801 per tonne on 19 September 2001 when we were appointed as Administrators.

Further, in the 12 months preceding our appointment, the zinc price decreased from USD1,206 per tonne to USD801 per tonne on our appointment (ie. A decline of 33% in 12 months).

A decline in the zinc price by USD100 per tonne is broadly approximate to a decline in Pasminco's gross revenue by AUD150 million.

12.2.2 Excessive Debt

At the date of our appointment, Pasminco was a relatively highly geared company.

The two key factors contributing to the increase in Pasminco's debt over time were as follows:

i) The acquisition of Savage for AUD457 million in early 1999. Certain non-core assets were subsequently sold and the proceeds used to repay debt, resulting in a net acquisition cost of AUD336 million.

ii) The cost of the acquisition of Century Mine from Rio Tinto undeveloped in 1997 for AUD340 million and the subsequent two year construction at a further cost of AUD788 million, excluding financed or leased assets which approximated to a further AUD250 million.

We have commented at Section 11.1.2 of this report with respect to Pasminco's outstanding financier facilities at the date of our appointment. In this regard, Pasminco had total debt outstanding of AUD1,891 million excluding its hedge exposure which is estimated to amount to approximately AUD850 million.

Given the effect of the falling zinc price on Pasminco's revenue and cashflow, and given its contingent hedge exposure which affected its ability to refinance or access further debt, by mid 2001 Pasminco faced difficulty in repaying certain amounts due to financiers and required the support of its financiers at that stage.

In particular, Pasminco breached certain debt covenants as at June 2001, which required it to notify its financiers of the breach.

12.2.3 Acquisition of Savage

Background

Pasminco acquired Savage via a hostile takeover in February 1999 for AUD457 million.

The principal objectives in acquiring Savage were as follows:

- To assist Pasminco achieve a growth strategy of AUD5 billion market capitalisation and production of 1 million tonnes of zinc per annum.
- To provide a greater balance of mining and smelting activities.
- To add shareholder value, whilst strengthening Pasminco's global market position.
- To allow a lower break even zinc price to be sustained.

In hindsight, these objectives were not achieved and the acquisition of Savage was not successful. The key factors contributing to the lack of success of the acquisition are discussed below.

Reasons for Lack of Success

Over-Valuation of Savage

During the course of our investigations, we have reviewed information available to us with respect to advice provided by CSFB to Pasminco, Pasminco's (and CSFB's) valuation of Savage, its expected acquisition price for Savage and the actual cost of the acquisition.

Pasminco's bid for Savage was made based on its intention to retain Savage's zinc assets and sell its coal, copper and gold assets which were considered non-core to Pasminco's business.

Approval of the bid by Pasminco's Board appears to have been on the basis of CSFB's valuation of Savage's net zinc assets at AUD340.9 million and an expected net acquisition cost of AUD342.1 million.

In summary, the expected and actual valuation and acquisition cost of the net zinc assets can be shown as follows:

	AUD million
Pre Acquisition Valuation	340.9
Post Acquisition Valuation	312.9
Valuation Differential	28.0
Anticipated Net Zinc Asset Acquisition Cost	342.1
Effective Net Zinc Asset Acquisition Cost	336.3
Acquisition Cost Differential	5.8

Given the above, prior to the acquisition, Pasminco expected to pay a net amount of AUD342.1 million for assets valued at AUD340.9 million but actually paid AUD336.3 million for assets it subsequently valued at AUD312.9 million.

Accordingly, on this basis, Pasminco paid AUD23.4 million more than it subsequently valued the zinc assets as being worth before considering the position of the hedge book at lower exchange rates.

The reasons why the net zinc assets were valued at a lower amount post acquisition are as follows:

- An expected tax benefit of AUD14 million was not achieved;
- Changes to the valuation methodology. It is unclear at this stage why this occurred.

In addition, the post acquisition value of AUD312.9 million assumed various cost reduction and profit improvement initiatives that, if they were not achieved, would have reduced the valuation by a further AUD50 million.

Following our appointment, we wrote to CSFB and requested various information regarding the advice provided by CSFB to Pasminco. CSFB has declined to respond to our queries, other than to provide a copy of their engagement letter and certain limited other information.

Savage's Hedge Book

It appears that when the takeover commenced, Pasminco was aware of USD510 million of hedge contracts held by Savage whereas Savage's full hedge book at acquisition was about USD800 million.

Pasminco's acquisition models valued the hedge book as negative AUD6.5 million based on the known hedge contracts.

If Pasminco's acquisition model had valued the full Savage hedge book, then the NPV would have been positive AUD13.5 million rather than negative AUD6.5 million, apparently making the acquisition appear more attractive.

The subsequent devaluation of the Australian dollar (contrary to consensus forecasts) resulted in Savage's hedge book being substantially out of the money.

Net Debt

Pasminco expected that Savage would have a net debt of about AUD61.9 million which it would assume.

Subsequent to the acquisition, Pasminco determined that the net debt being assumed was about AUD101 million.

The reasons for the increased debt appears to have been due to negative cashflows from operations, exchange rate movements and capital expenditure which needed to be financed.

We understand that Pasminco and CSFB did not know of the true net debt position at acquisition due to a lack of publicly available information given the takeover was conducted as a hostile takeover.

Profit and Loss Performance

In the first and second years after acquisition, Savage's profit and loss performance was AUD26.6 million and AUD28.8 million below expectations respectively.

The below expected performance was due to greater costs than expected and a decrease in the world zinc price.

12.2.4 Pasminco's Hedge Book

Background

Pasminco's hedging program was based on a policy of seeking to remove the volatility of the exchange rate.

In this regard, the majority of Pasminco's income was earned in US dollars and as a result, Pasminco borrowed the majority of its loans in US dollars. Pasminco entered into a hedging program to provide additional protection to this natural hedge.

At the date of our appointment, Pasminco's options, including those assumed from Savage and restructured, had a weighted average of USD0.6599, however the exchange rate had devalued to around USD0.50 causing a substantial loss position to Pasminco.

Pasminco has advised that when the hedge contracts were entered into, they were based upon consensus forecasts that the Australian dollar would appreciate.

Brief Hedging Chronology

The following is a brief chronology of hedge contracts entered into by Pasminco and the basis for these contracts being entered into:

Pasminco's Early Hedge Book (1992 - 1997)

- Pasminco's first hedging contracts were entered into in 1992 in order to provide additional cover for US dollar revenues that exceeded US dollar borrowings.
- Given a rising Australian dollar in late 1993 and early 1994, Pasminco's Board approved the implementation of a "collar" program in February 1994 which involved selling Australian dollar put options to finance the purchase of Australian dollar call options denominated in US dollars.
- By early November 1994, the Australian dollar had appreciated to in excess of USD0.75. Pasminco was under-hedged given rising revenue and falling US dollar debt, however it was considered that further hedging would provide limited protection in light of anticipated further strengthening of the Australian dollar and would also require further funds to enter into.
- Accordingly, at this stage Pasminco's hedging program was suspended with existing monthly options being allowed to mature with the last expiring in May 1997.

Re-implementation of Hedging Program (1997 - 1999)

- In early 1997, the Australian dollar peaked at USD0.7988, however it proceeded to decline rapidly, particularly in the latter half of the year, falling to USD0.6803 by the end of November 1997.
- Given the (then) low exchange rate, the Board approved the re-implementation of a hedging program. In this regard, consensus forecasts were that the Australian dollar would appreciate to historically normal levels (ie.USD0.7000 or above).
- By 31 December 1998, Pasminco had purchased and sold Australian dollar call and put options totalling USD1.2 billion at average strike prices of USD0.6575 and USD0.5850 respectively, covering the period to 31 December 2002.
- It was Pasminco's policy that hedging contracts be entered into only after considering consensus or other forecast exchange rates from financial institutions. In this regard, consensus forecasts of 42 banks in January 1998 (then spot rate USD0.6410) was that the Australian dollar would appreciate to USD0.6900 by January 1999 (actual spot rate was USD0.6693).

Acquisition of Savage (1999 - 2000)

- In February 1999, the acquisition of Savage was completed by Pasminco by way of a hostile takeover.
- Savage had a substantial hedge book comprised largely of foreign exchange hedging of US dollar revenue with a total of USD800 million hedged out as far as 2009 at an average strike price of USD0.7100.

- The extent of the foreign currency hedge book that Pasminco was aware of prior to the acquisition is unclear, however, it appears from modelling performed in analysing the acquisition that Pasminco had identified USD510 million in hedges at an average strike price of USD0.7110. This is despite the release of the Savage financial statements for the year ended 30 June 1998 which contained substantial disclosure of losses in the hedge book.
- Modelling of the Savage hedge book for the acquisition was based on a forecast exchange rate improving up to USD0.7300 and accordingly, it was considered that the Savage hedge book was only nominally out of the money.
- Savage's hedging program was inconsistent with that of Pasminco (given the type and nature of hedges entered into) and Pasminco proceeded to restructure Savage's hedge book so that it was more consistent with Pasminco's strategy and time to maturity of a number of hedge contracts.
- Following the restructure, Savage hedges represented USD970 million (approximately 44% of Pasminco's total options) in options maturing over 5 years at an average strike of USD0.6963.
- In order to restructure the Savage hedge book so that it was consistent with Pasminco's collar option program, Pasminco was required to contribute a greater level of face value resulting in Savage's hedges representing USD970 million.

Devaluation of the Australian Dollar (2000 - 2001)

- By January 2000, the Australian dollar was at USD0.6358. It was considered that further hedges should be entered into given the (then) historically low exchange rate, so as to top up existing cover, particularly with the Century Mine production coming on-line.
- Forecast exchange rates obtained by Pasminco in January 2000 are shown below:

Consensus USD/AUD Forecasts					
Average forecasts	2000/01	2001/02	2002/03	2003/04	2004/05
	.7050	.7410	.7456	.7113	.7075

- Pasminco's Treasury recommendation to enter into a number of collars with a 3 cent band was agreed during January 2000 resulting in Pasminco having a hedge book comprising of USD2.3 billion in options over 5 years with an average cap of USD0.6800 and a floor of USD0.6500.
- Contrary to consensus forecasts, the Australian dollar proceeded to devalue against the US dollar to around USD0.5000 during 2001.

Pasminco's Loss Position

We have reconstructed the estimated in-the-money to counterparties or loss positions on a quarterly basis for contracts entered into from June 1998 which had not expired as at May 2001.

Quarter	Exchange Rate at end of Quarter	Pre Savage Hedgebook AUD	Post Savage Hedgebook AUD	Total In-the-Money (Loss position) AUD
June 1998	0.6135	227,553	-	227,553
September 1998	0.5945	(96,883)	-	(96,883)
December 1998	0.6139	14,025,695	-	14,025,695
March 1999	0.6293	22,400,392	-	22,400,392
June 1999	0.6596	36,649,137	-	36,649,137
September 1999	0.6536	32,800,035	(31,035,921)	1,764,114
December 1999	0.6583	33,538,493	(62,919,246)	(29,380,752)
March 2000	0.6055	(16,950,020)	(182,558,599)	(199,508,620)
June 2000	0.5986	(21,898,266)	(194,169,284)	(216,067,550)
September 2000	0.5433	(109,912,081)	(370,872,148)	(480,784,229)
December 2000	0.5540	(93,301,931)	(349,540,339)	(442,842,270)
March 2001	0.4890	(226,602,108)	(598,167,720)	(824,769,828)
June 2001	0.5075	(191,119,846)	(552,793,656)	(743,913,501)
September 2001	0.4905	(214,218,401)	(662,064,668)	(876,283,069)

* Note: The variables used in reconstructing the above are only estimates of actual variable that would have existed in any of the quarters considered. As such, the above table is only an illustration of the estimate positions of the Group's hedge book through time. The exchange rates used have been obtained from the Reserve Bank of Australia.

Clearly, the devaluation of the Australian dollar has caused a significant loss position on Pasminco's hedge book. In particular, the above table indicates that the Savage hedgebook acquired by Pasminco has contributed substantially to the total loss position.

Given foreign exchange contracts which have been closed out since our appointment and an estimate of the position with respect to remaining contracts that are yet to be closed out, we estimate that the total loss from Pasminco's hedge contracts will be about AUD850 million.

12.2.5 Management Information Systems

In our opinion, Pasminco's management information systems that were in place prior to our appointment also contributed to the Group's failure given that Management was unable to adequately prepare forecasts on a timely basis, particularly of cashflow performance.

We consider that Pasminco's forecasting systems and the financial information produced by them were inadequate for an organisation of the size and nature of Pasminco. In particular, Pasminco had substantial difficulties preparing cashflow forecasts and providing certain financial information that could be relied upon with confidence.

We have commented on our review of Pasminco's records and certain accounting issues at Section 12.3 below.

12.2.6 Comments by Directors

As noted above, we requested the directors of Pasminco to provide reasons for the failure of Pasminco.

Generally, the Directors indicated that the failure of Pasminco was caused by a convergence of the company's high debt levels, its short maturity debt profile, the historically low and rapidly falling zinc price, the negative world economic outlook and the impact of the persisting very low Australian dollar on the hedge book.

12.2.7 Summary of Reasons for Failure

In our opinion, a number of factors contributed to the failure of Pasminco. It is doubtful that one factor alone led to our appointment as Administrators, however the company's leverage to the zinc price is likely to have been the most significant factor.

Given the substantial decline in the zinc price combined with the devaluation of the Australian dollar (given Pasminco's hedge book position), its excessive debt and poor management information systems at the time, meant Pasminco was unable to continue to operate in the same fashion.

12.3 Review of Accounting Records

12.3.1 Introduction

During the course of our investigations, we have reviewed work performed by the company's internal and external auditors, and reviewed various aspects of Pasminco's financial records.

These matters are discussed further below.

12.3.2 Work Performed

Pasminco engaged Ernst & Young ("E & Y") as its external auditors and outsourced its internal audit function to PricewaterhouseCoopers ("PWC").

Following our appointment, we wrote to E & Y and PWC and requested that they provide various information and documents to us and detail key audit issues reviewed by them.

Both E & Y and PWC chose not to comment on any audit issues reviewed by them or to provide us with any working papers or documents that were not the property of Pasminco.

During the course of our review, we have identified two (2) main accounting issues that require further consideration.

i) Carrying values of assets

ii) Accounting treatment of the PPT Lease Transaction

We have discussed each of these below.

12.3.3 Carrying Values of Assets

One of the main issues raised by both E & Y and PWC during their audits was whether the carrying value of assets, particularly the Broken Hill Mine, were appropriately recorded in Pasminco's accounts at 31 December 2000.

E & Y notified Pasminco that the write down of certain assets was potentially significant enough to prevent Pasminco satisfying certain debt covenant ratios.

Ultimately, the value of the Broken Hill Mine was not written down as at 31 December 2000 given the existence of an indicative offer to purchase the Mine consistent with its carrying value at that time.

The carrying value of the Broken Hill Mine was subsequently written down by AUD100 million as at 30 June 2001 at which time the Broken Hill Mine was subject to an ongoing sale process.

12.3.4 Accounting Treatment of the PPT Lease Transaction

Background

The PPT Lease Transaction relates to the financing of part of the operations of Century Mine consisting of a 300 kilometre underground pipeline, port facilities and a transfer vessel used to transfer lead and zinc concentrates from the mine area to the port facility at Karumba on the Gulf of Carpentaria and to ship by a purpose built transfer vessel. The assets financed by the PPT transaction are known as the PPT assets.

The financing of the PPT assets is a complicated structure with which many of the financiers of Pasminco will be at least broadly familiar.

The key aspects of the financing of the PPT assets are as follows:

- The PPT assets are legally owned by a partnership called the SIA Leasing Partnership. The partners are Investment Co Pty Ltd ("Investment Co") (95% holding) and PFL (5% holding). The shares in Investment Co are held by SPC 1 Pty Ltd and SPC 2 Pty Ltd who in turn are owned and controlled by Citibank Limited ("Citibank") and the Commonwealth Bank of Australia Limited ("CBA").
- In August 1999, the SIA Leasing Partnership leased the PPT assets to a special purpose vehicle, PPTV Pty Ltd ("PPTV"), via a number of leases.
- Each of these leases were characterised as a finance lease for the purpose of the PPT Lease Transaction.
- PPTV is owned by Citibank and the CBA.
- PPTV sub-leased the PPT assets to PCML. Each of these leases was characterised as an operating lease.
- As part of the PPT Lease Transaction, PCML unconditionally and irrevocably indemnified PPTV ("the PCML indemnity") against indemnities which were in turn given by PPTV to certain finance parties and other parties involved in the PPT Lease Transaction.

We have reviewed the following two (2) issues:

iii) The treatment of the PCML indemnity.

iv) The classification of the PPT leases.

These are considered further below.

Treatment of the PCML Indemnity

The PCML indemnity referred to above was not disclosed in Pasminco's half year report for the half year ending 31 December 1999 and Pasminco's annual report for the financial year ending 30 June 2000.

AASB1034 "Information to be Disclosed in Financial Reports" requires the disclosure of all contingent liabilities if they are material.

If it is argued that the PCML indemnity is an indemnity to the PPT financiers and the PCML indemnity was material, it is likely that it would have been required to be disclosed in Pasminco's financial statements.

Based on the work performed by us, and subject to further work that needs to be performed, there are two views on how the scope of the PCML indemnity is interpreted.

In accordance with the first interpretation, the PCML indemnity would be interpreted relatively narrowly and would cover certain third party costs incurred by finance parties involved in the PPT Lease Transaction, such as legal fees and certain funding costs. Based on this interpretation, it would seem unlikely that the PCML indemnity could be considered material and there would not be a question as to the appropriateness of Pasminco's financial reporting in this respect. This narrow view is consistent with our understanding of the intention of Pasminco and the PPT financiers.

In accordance with the second interpretation, the PCML indemnity would be interpreted widely and could be considered an obligation to underwrite repayment of all of the financial accommodation made available in connection with the PPT Lease Transaction. Based on this interpretation it would seem that the PCML indemnity would be considered material and should have been disclosed in Pasminco's financial reports.

Classification of PPT Leases

We have considered whether certain leases relating to the PPT Lease Transaction were properly characterised as operating leases rather than finance leases.

The classification of leases as operating leases allowed the PPT Lease Transaction to be treated as an off Balance Sheet transaction.

The relevant accounting standard, AASB1008, indicates that the classification of leases depends on its economic substance and whether the risks and benefits of ownership of the leased assets remain with the lessor or effectively pass to the lessee.

In this regard, it appears that one of the key assumptions on which the classification was based was whether there was significant potential for the leased assets to be sold to a party other than Pasminco at the end of the lease.

We consider that whilst the substance of the PPT Lease Transaction may have complied with certain guidelines concerning the classification of leases, there is nevertheless a question to be answered as to whether substantially all the risks and benefits incidental to ownership of the PPT assets remain with PPTV, as lessor, or pass to PCML as lessee.

Given the nature of the PPT assets, of crucial importance in this regard is whether PCML was, in effect, commercially constrained to lease the PPT assets for the economic life of the mine even though PCML had no legal obligation to do so.

12.4 Consideration of Breaches of Duty

12.4.1 Nature of Duties Owed

The Directors of Pasminco and its professional advisors owe duties to Pasminco. We have commented on the nature of these duties below.

Directors' Statutory and Common Law Duties

Pasminco Directors owe duties to the Companies under statute and at Common Law. The most significant duty for the purpose of our investigation is the duty to act with sufficient care or diligence in relation to the affairs of the Companies.

The statutory duty is found in Section 180 of the Act, and its predecessor sections.

Under the statutory provisions, directors must exercise their powers and discharge their duties in relation to the company with the degree of care and diligence that a reasonable person would exercise if they:

- Were a director or officer of a company in the company's circumstances; and
- Occupied the office held by, and had the same responsibilities within the company as, the director or officer.

The duties of directors will differ with the position they hold, the board committees they were on and the actual knowledge and experience of the director.

In addition to the statutory duty, directors owe what are known as General Law duties which arise both at Common Law and in equity.

A person who accepts the office of a director of a particular company undertakes the responsibility of ensuring he or she understands the nature of the duty a director is called upon to perform. That duty will vary according to the size and business of the particular company and the experience or skills that the director held himself or herself out to have in support of appointment to the office. The duty includes that of acting collectively to manage the company. Breach of the duty will found an action for negligence to the benefit of the company.

The Standard to be Applied

To test whether the director's conduct is in breach of duty, their conduct will be measured firstly against the standard of care being the objective standard - that is such care as an ordinary person might be expected to take on his or her own behalf.

Secondly, the director's conduct is measured against a standard of skill being what an ordinary person with the knowledge and experience of the director concerned might be expected to have done in the circumstances if acting on his or her own behalf.

In determining whether a breach of duty of care and diligence has occurred, a Court will also consider:

1. The balance between the benefit to the company of a particular decision weighed against the risk of harm;
2. The size of the corporation - the larger the corporation, the less detailed knowledge is required by the directors.

In considering whether these duties have been breached, the Law requires us to consider the specific circumstances of each director on a case by case basis.

Defences

In relation to the duty of care and diligence, directors have available a defence referred to as the "business judgment rule", which is set out in sub-sections 180(2) and 180(3) of the Act.

The business judgment rule provides a defence to a director where a decision is made in respect of the business operations of the company, the decision is made in good faith and for a proper purpose, the decision is made in the circumstances where a director does not have a material personal interest in the decision, the director is informed concerning the subject matter of the judgment and believes it reasonably to be appropriate and rationally believes that the judgment is in the best interest of the corporation.

Section 189 of the Act provides a "safe harbour" for reliance by a director on information or professional or expert advice given or prepared by:

a) an employee of the corporation whom the director believes on reasonable grounds to be reliable and competent in relation to the matters concerned; or

b) a professional advisor or expert in relation to matters which the director believes on reasonable grounds to be within the person's professional or expert competence; or

c) another director or officer in relation to matters within the director's or officer's authority; or

d) a committee of directors on which the director did not serve in relation to matters within the committee's authority;

provided that reliance was made in good faith and after making an independent assessment of the information or advice having regard to the director's knowledge of the corporation and the complexity of its structure and operations.

If those requirements are satisfied, the reasonableness of the director's reliance on the information or advice arises in proceedings brought to determine whether a director has performed his or her duty Section 180(1) or an equivalent General Law duty, then the director's reliance on the information or advice will be taken to be reasonable unless the contrary is proved.

Other Duties

- Under Section 286 of the Act, a company must keep written financial records that correctly record and explain its transactions and financial position and performance and would enable true and fair financial statements to be prepared and audited. Each of the Companies in the Pasminco Group is under that obligation.

  A director who fails to take all reasonable steps to secure compliance with Section 286 may be ordered by the Court to compensate a corporation for loss and damage suffered by the corporation if the damage resulted from the contravention.

- Under the contract between the auditor and Pasminco, the auditor has a general duty to use reasonable care and skill in the conduct of the audit and making the audit report. Auditors also have statutory duties under the Act.

  At Common Law, the auditor owes Pasminco a duty of care to use reasonable care and skill. In this respect, the auditor is not required to detect every fraud or error. However, the auditor is required to bring to his task a high capacity to perceive financial irregularities and therefore recognise opportunities for fraud and error and make appropriate inquiries. If negligence on behalf of Pasminco or the directors has contributed to any auditing errors, this will be taken into account in assessing any liability of the auditor.

12.4.2 Matters Investigated

We have commented at Parts 12.2 and 12.3 above regarding the reasons for failure of Pasminco and of our review of certain accounting issues.

Whilst we have performed a considerable amount of work to date in reviewing these matters, we and our legal advisors are not yet in a position to express a concluded view as to whether any of these matters may constitute a breach of duty by Pasminco's directors or professional advisors.

We have commented below on the further work that we consider is required to be performed before being able to express a concluded view on these matters.

Creditors should be aware that should any breaches of duty exist in relation to these matters, an action can be brought under a Deed unless the terms of the Deed provide otherwise.

The terms of the proposal for Deeds for Pasminco does not exclude such causes of action being brought ie. Pasminco does not need to be placed into Liquidation to enable any causes of action for breach of duty to be pursued, nor will these actions be lost if the Companies were wound up.

12.4.3 Further Work Required

Additional work must be performed before we are able to express a concluded view on the matters investigated and whether viable causes of action exist. This work includes:

- We require expert advice to assist us in arriving at a concluded view regarding certain matters under investigation.
- Answers to a further questionnaire for Directors and certain officers regarding the matters investigated, must be received and considered.
- It is necessary to calculate the loss (if any) which might be claimed as a consequence of any legal actions that might be available against Directors or advisors. In the event that no loss was suffered by the relevant company in the Group, there is unlikely to be any benefit in pursuing an action.
- In respect of some matters under investigation, further documents must be considered before giving a concluded view on them.
- In respect of some matters under investigation, further enquiries of current and former Pasminco officers and employees are required.

In addition to considering the above matters, we need to consider any defences that the Directors or the Companies' professional advisors may have in response to the causes of action arising out of the matters we have investigated. Such defences could include:

- The Directors exercised their business judgment in making decisions concerning the matters investigated, and so are protected by the statutory or Common Law rules providing safe harbour to Directors in those circumstances.
- Any one Director or group of Directors relied on advice from another Director or group of Directors (such as a committee), professional advisors or an employee or officer of the company and did so reasonably, with independent assessment by the director relying on the advice and in good faith.

Please note that any of the matters under investigation would only be pursued if there were commercial and legal grounds to justify the cost of pursuing that claim.

We will continue to perform the further work required and obtain legal advice regarding relevant matters. Our further findings will be reported to the Committee of Creditors and in future reports to creditors.

Finally, as stated above, any claims for breach of duty will be available under the proposed Deeds or in Liquidation.

12.5 Consideration of Insolvent Trading

12.5.1 Overview

We have considered whether a Liquidator could establish if any of the Companies was allowed to trade whilst it was insolvent.

Under the Act and its predecessors, should a Liquidator be appointed to any of the Companies, then the Liquidator has the power to bring an insolvent trading claim against directors. A Liquidator would need to be satisfied that grounds exist for a claim and it is commercial to pursue that claim.

The power to commence proceedings against directors for insolvent trading is <u>not</u> available to a Deed Administrator.

Having concluded our investigations on whether there is any basis to contend that any of the Companies traded whilst insolvent, we are of the view that there are poor prospects of any Liquidator succeeding on claims for insolvent trading against the Directors.

In this regard, based on the information reviewed by us, the critical factors in assessing the solvency of the Companies were whether Pasminco had the support of its financiers and the arrangements regarding intercompany financial support.

We have considered the insolvent trading issue in respect of each of the Companies. However the key focus of any insolvent trading claim would be PFL as the majority of unpaid debt incurred prior to our appointment was incurred by PFL.

Without the support of its financiers and the ability to draw on the cash and assets of the Group, we consider that PFL was likely to have been insolvent in about early July 2001. We consider however, that Pasminco did have the support of its financiers during this period and on this basis, there are poor prospects of success of establishing the elements of an insolvent trading claim and Directors of PFL are likely to have a defence to any such claim.

Based on the information reviewed by us, there is no reason to conclude that the outcome of an insolvent trading claim against the Directors of any of the other Companies will be different. In that regard a consideration of the intercompany arrangements is vital.

Should a Liquidator be appointed to any of the Companies, further investigations would be conducted as to whether any of those Companies traded whilst insolvent.

We expect that the additional work that would be undertaken would include examinations of various parties and would be a timely and costly exercise with no certainty that a Liquidator would conclude that grounds existed for an insolvent trading claim.

12.5.2 Corporations Act Requirements

Insolvent trading was governed by the Corporations Law and from 15 July 2001 is governed by the Act. For Pasminco's purposes, the relevant provisions of these enactments are the same. The Act imposes on directors individually a statutory duty to prevent insolvent trading by their company.

Section 588G of the Act provides that a director who fails to prevent a company from incurring a debt at a time when there are reasonable grounds for suspecting that the company is insolvent, or will become insolvent by incurring that debt or debts including that debt, is guilty of an offence, and can be subject to a fine and ordered to pay compensation to the company.

A director will be guilty of insolvent trading where the director is aware at the time a debt is incurred that there are reasonable grounds for suspecting the company is or would become insolvent by incurring the debt, or where a reasonable person in a like position in the company's circumstances would be so aware.

There are a number of defences available to a director for a breach of Section 588G of the Act which are discussed below.

Pursuant to the Act, a holding company can also be liable for insolvent trading by a subsidiary. In the case of Pasminco however, holding companies of the Group are also in Administration.

12.5.3 Directors of Pasminco

The Directors who could be considered to be liable for insolvent trading are those Directors of the Companies in Administration where:

a) the relevant company is found to be insolvent; and

b) debts remain unpaid which were incurred after the relevant company became insolvent; and

c) current or former Directors were Directors when the unpaid debts were incurred.

In limited circumstances someone who is not formally appointed as a director may still be regarded as a director of a company and liable for insolvent trading (ie "de facto directors" and "shadow directors". We are not aware of anyone who meets that description.

12.5.4 Definition of Insolvency

Under Section 95A of the Act, a company is solvent if it is able to pay all its debts as and when they become due and payable. This section goes on to state that a company which is not solvent within the meaning of that test is insolvent.

A company's financial position must be examined in its entirety at a particular point in time to determine its insolvency.

The test is not necessarily a Balance Sheet test. Generally a cash flow approach rather than a Balance Sheet test is adopted.

A company with a significant level of long term liabilities may not be considered insolvent on the basis that those liabilities are not currently due.

What will constitute a company's ability to pay is determined in a commercially realistic way by reference to the company's assets and liabilities, their nature, the circumstances of the company's activities and funds available to meet its ongoing obligations.

The cash expected to be generated from trading or asset sales at a particular point in time will be relevant depending on how quickly the cash can be generated.

It is relevant, for example, to consider whether a company has the continuing financial support of its parent or related companies as well as the support of its financiers. All these factors are relevant for Pasminco.

12.5.5 Consideration of Pasminco's Solvency

Overview

We have considered a wide range of factors relevant to whether the Companies were insolvent at any time prior to our appointment.

In this regard, we have conducted a detailed financial analysis of each of the Companies, an analysis of Pasminco as a whole and a range of other factors affecting Pasminco in the period prior to our appointment.

In this report we do not comment on all of the analysis that we have performed on all of the matters considered by us. We have sought to identify the key issues reviewed by us and provide an outline of the key factors affecting the Companies' solvency for creditors' consideration.

Individual Company Solvency

As Administrators, we have an obligation to consider the affairs of each individual company to which we have been appointed and to consider the solvency of each company.

Below we consider those companies subject to the Cross Deed (refer Section 11.1.5 for explanation) separately from those companies that are not subject to the Cross Deed.

Analysis of Cross Deed Companies

We have reviewed various financial information and conducted an analysis of certain aspects of this information for the Cross Deed companies.

We make the following comments regarding our analysis of the Cross Deed companies:

- The majority of Cross Deed companies (11 of 15) have incurred losses in the 12 month period ended 30 June 2001 and 2 months to 31 August 2001.
- Of the 11 loss making companies, 5 companies had intercompany borrowings approximately equal to or exceeding losses incurred (ie. funds were advanced to meet losses incurred).

- With respect to the other 6 loss making companies, we note that these losses were typically due to asset write downs (ie. the losses were not from trading), exchange rate revaluations and in the case of Pasminco Finance Limited, it was provided with a greater level of external lending from the Group's bankers than the losses incurred by it.

Analysis of Non Cross Deed Companies

We have also conducted an analysis of financial information for the non Cross Deed companies.

We note the following with respect to our analysis of the non Cross Deed companies:

- 4 of the 7 non Cross Deed companies had no profit or loss after July 2000 (ie. they were dormant).
- All of these companies were dormant from July 2000 except Pasminco Global Trading which received a greater level of funding than the losses incurred.
- These companies have no external creditors.

Concluding Remarks - Individual Company Solvency

Based on our review of the Companies, we note the following:

- More than half of the Companies incurred losses after July 2000.
- Many of the Companies that incurred losses received intercompany funding exceeding these losses.
- Certain of the Companies that incurred losses in excess of intercompany borrowings had a significant portion of these losses due to asset write downs or transfers and not from trading activities.
- It appears that Pasminco directed funds to entities as required for their trading activities, primarily financed through PFL as the Group's "banker", or surplus cashflow from other Companies.
- No loan agreements were entered into by the Companies requiring repayment of intercompany loans.
- There is no evidence of trade creditors being concerned regarding the late or non payment of their debts.

It is relevant to consider the position of the Group as a whole in determining whether individual companies traded whilst insolvent.

We have considered the position of the Group as a whole below.

Profit and Loss and Cashflow Performance

We have conducted a detailed analysis of the performance of Pasminco on a monthly basis from July 2000 to September 2001.

Key information for the period July 2000 to June 2001 (on a consolidated basis) from Pasminco's Management Accounts presented to Board meetings can be shown as follows:

	Forecast AUD million	Actual AUD million
Gross Sales	2,238	2,250
Operational EBIT Contribution	322	226
Group Costs	(81)	(179)
NPAT & Abnormals	**60**	**(63)**

The same information for July and August 2001 can be shown as follows:

	Forecast AUD million	Actual AUD million
Gross Sales	370	294
Operational EBIT Contribution	27	(6)
Group Costs	(13)	(23)
NPAT & Abnormals	**(5)**	**(35)**

We note the following with respect to the above tables:

- Pasminco appears to have typically performed substantially below forecast. In this regard, a review of actual to forecast performance prepared by Pasminco showed that in the previous 3 years, Pasminco did not achieve its profit and loss forecast with respect to controllable items (eg. sales volume, production volume, costs and premiums) with an average annual shortfall of about AUD73 million.
- Pasminco's smelting division's sales and cost of sales generally met forecast, however the poor performance of Pasminco's mining division primarily accounted for the discrepancy between actual and forecast results.
- With respect to Pasminco's cashflow, our analysis has indicated that Pasminco maintained a reasonable (but not significant) level of unused facilities up until June 2001 when Pasminco breached its debt covenants and was unable to use undrawn facilities. The cash then available to Pasminco from July 2001 was dependant upon the support of its financiers.

The ability to readily realise assets must be considered in any assessment of solvency.

In this regard, in the period prior to our appointment, Pasminco was actively seeking to sell the Broken Hill and Century Mines. It is evident however, that given the nature of its assets, Pasminco was unable to realise assets quickly to repay debt.

Review of Board Minutes/Actions of Directors

Our review of the minutes of Board and executive meetings maintained by Pasminco indicated the following key issues with respect to Pasminco's solvency:

- The Directors were concerned about the need to reduce debt levels and maximise cash generation from 28 June 2000.
- Pasminco considered its ability to secure funding options was becoming limited by 30 August 2000, given its poor operating performance, high level of gearing and existing loan covenant packages.
- In the latter part of 2000, Pasminco was able to renegotiate the maturity period of certain facilities.
- During April 2001 it was stated that, based on current forecasts, Pasminco would be able to meet all cash commitments including scheduled loan repayments by 30 June 2001, but may breach certain loan covenants prior to that time. There was concern expressed about Pasminco's ability to meet loan repayments during the 2002 financial year.
- By 30 May 2001, the Board was concerned with Pasminco's high level of debt, short maturity of its loan book, a Standard and Poor's downgrade, the negative price outlook and the impact of Pasminco's hedge book and were considering various alternatives to improve the Group's position.
- The Board sought advice towards the end of June 2001 on the duty of directors.
- The advice was general in nature and only discussed the requirements of the Act and did not provide specific advice regarding Pasminco's financial position. The Board was concerned regarding a number of factors affecting Pasminco and noted that the support of the Group's financiers was an essential pre-requisite to enable a restructuring of the Group.
- After this time, discussions generally revolved around the support of Pasminco's financiers whilst a proposed Standstill Agreement was to be put in place.
- The Directors regularly considered the solvency of Pasminco, particularly in relation to indications of support from its financiers, including additional facilities and debt waivers (that is, waivers for breaches of facility agreements such as breach of the debt covenant ratios and extensions on dates for repayment) that were provided and the continuing negotiation of a Standstill Agreement.
- By 9 September 2001, the Directors were satisfied with the support being provided by the financiers, however were concerned that it would be necessary to have an executed Standstill Agreement by 28 September 2001 on which date, the Directors would be required to sign Pasminco's annual accounts.
- On 19 September 2001, on the basis of advice that it did not appear that a Standstill Agreement would be able to be finalised by all lenders prior to 28 September 2001, the Directors considered that there was no longer a reasonable basis for expecting financier support and, as a result, the Directors resolved that the Companies were insolvent or were likely to become insolvent at some future time and appointed Administrators.

Support of Financiers

Given Pasminco's declining financial performance, its short term maturity debt profile, the time required to implement a restructure of the Group and its ongoing cash commitments, by June 2001, its ability to continue to trade at that stage was very much dependant on the support of its financiers.

As outlined above, the Directors appeared to have been satisfied that they had the support of the financiers up until 19 September 2001.

We consider some of the key issues pertaining to the support of Pasminco's financiers from June 2001 to September 2001 are as follows:

- Certain financiers agreed to provided priority funding in early July 2001 to enable Pasminco to meet its commitments. Financiers representing over 90% of the Group's financier debt acknowledged in writing that the principal part of their debt was to be subordinated to the priority funding.
- Various meetings and discussions were held from July to September 2001 regarding the terms of a Standstill Agreement that was proposed be put in place to enable the restructure of Pasminco to continue.
- Pasminco Management repeatedly advised financiers of their concerns regarding delays in the negotiation of the proposed Standstill Agreement and their requirement for comfort in the interim period. This concern led to debt waivers agreed to by financiers and various letters of support from Pasminco's financiers.
- The Directors were ultimately concerned that the Standstill Agreement needed to be signed by 21 September 2001 to enable Pasminco's accounts to be signed on 28 September 2001.
- When it became clear on 19 September 2001 that the proposed Standstill Agreement could not be signed within a satisfactory time period, the Directors resolved to appoint us as Administrators.

Consideration has also been given to the effect on the insolvency issue of the carrying value of non-current assets in the financial statements as at 30 June 2000 and 31 December 2000, in particular their effect on debt covenant ratios and available facilities.

Defences Available

The defences available for a breach of Section 588G of the Act, in accordance with Section 588H, are as follows:

i) The director had reasonable grounds to expect, and did expect, that the company was solvent at the time that the debt was incurred; or

ii) The director had reasonable grounds to believe, and did believe, that a competent and reliable person was responsible for providing financial information to them as to whether the company was solvent and, on the basis of that information, the director expected that the company was solvent if it incurred a debt; or

iii) The director did not take part in the management of the company due to illness or for some other good reason; or

iv) The director took all reasonable steps to prevent the company from incurring a debt.

Section 1317S of the Act provides an additional defence to a contravention of Section 588G. It provides a Court with a discretion to relieve, wholly or partly, a person from a contravention of Section 588G if that person has acted honestly and having regard to all the circumstances of the case, ought fairly to be excused. The Court must also consider any action that person took with a view to appointing an Administrator, when that action was taken and the results of that action.

Pasminco Limited's Directors maintain that throughout the period prior to our appointment, the Group had the support of the Group's financiers as evidenced by, inter alia, the provision of additional finance, debt waivers and indications of support from Pasminco's financiers.

Further, Directors of all the Companies would argue that they are able to rely upon the ongoing provision of support of other Companies in the Group (in particular the holding company, Pasminco Limited and the Group's "banker", PFL) in order allow the Companies to pay their debts as and when they fall due.

Based on the information reviewed by us it is likely that the Directors of the Companies would have a good defence to any claim against them for insolvent trading.

Damages

Directors who are found to have contravened the insolvent trading provisions face personal liability on a number of bases.

Most importantly for creditors, under Section 588M(2) of the Act, a company's Liquidator may recover from the director, as a debt due to the company, an amount equal to the amount of the loss or damage suffered by the creditor in relation to the relevant debt.

Any claim for insolvent trading relates to debts incurred after the company became insolvent that remain unpaid. Consideration needs to be given to when a debt is incurred. Generally a debt is incurred when the contract giving rise to the debt is entered into. Most of the Group's debt was incurred prior to July 2001.

In addition, the majority of Pasminco's trade creditors at the date of our appointment were subsequently paid by us.

Accordingly, if it was to be established that any of the Companies traded whilst insolvent from early July 2001, the single most significant debt incurred was the priority funding of AUD48.6 million. This was incurred by PFL. Other debts incurred by the Companies in July to September 2001 which remain unpaid are not expected to exceed AUD15 million.

Case Law indicates that the loss or damage recoverable in respect of unpaid debts is the amount of the debts plus interest.

12.5.6 Summary of Insolvent Trading Review

A key element of our review is the financial support of Pasminco's financiers. Another key element is the intercompany arrangements which permitted individual Companies to pay their debts as and when they fell due.

Without the support of Pasminco's financiers and the continuation of intercompany support, we are of the view that the Companies would likely have been insolvent from early July 2001.

<u>The Directors of Pasminco Limited maintain that the Group had the support of its financiers at all times prior to the appointment of the Administrators. If this is the case, and we believe it is, and there was a reasonable expectation that the intercompany support would continue, it is likely that the Directors would have a good defence to any insolvent trading action.</u>

Creditors should also be aware, that should a Liquidator be appointed to Pasminco, the Liquidator would be required to conduct further investigation as to whether Pasminco traded whilst insolvent.

The additional work that would be required to be undertaken by a Liquidator is likely to include an examination of all Directors and relevant representatives of Pasminco's financiers.

In our opinion, the additional work required would be both costly and take a considerable period of time. Further, it is difficult to predict the way in which such investigations or any litigation would develop.

If a claim against a Director exists for breach of duty to prevent insolvent trading, then that is a claim that is only available to a Liquidator.

In summary, given the matters considered by us, it is our view that the Companies did not trade whilst insolvent given the ongoing support of their financiers and intercompany arrangements. However should a Liquidator be appointed to any of the Companies, further investigation would be required which is likely to be costly and time consuming with no certainty that a Liquidator may consider that grounds would exist for insolvent trading claims.

12.6 Voidable Transactions

During the course of our investigations, we have considered whether Pasminco has entered into any transactions which appear to be voidable and may result in money or other property of any Pasminco company to which we have been appointed being recovered. Voidable transactions may only be recovered if Pasminco's creditors resolve to place a particular Pasminco company into Liquidation.

12.6.1 Unfair Preferences

A Liquidator is able to recover from a creditor, payments made to it where:

- It results in the creditor receiving more than it would in a winding up;
- The company is insolvent or becomes insolvent because of the payments;
- The transaction occurred within 6 months of the appointment of the Administrators; or
- The creditor or a reasonable person in the creditor's position had reasonable grounds to suspect that the company was insolvent.

We are not aware of any creditor that has received an unfair preference.

12.6.2 Uncommercial Transactions

A Liquidator is able to recover money or property associated with transactions entered into by a company where:

- A reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefit and detriment of the transaction;
- The company is insolvent or becomes insolvent because of the transaction;
- The transaction occurred within 2 years of the appointment of the Administrators, or 4 years if the transaction was with a related party, or 10 years if the transaction was made to defeat creditors.

Our investigations have not disclosed any transactions, which in our view, may be uncommercial and therefore voidable by a Liquidator of Pasminco.

12.6.3 Unfair Loans

A Liquidator is able to recover money if the company entered into an unfair loan. A loan is unfair to a company if:

- The interest on the loan was or is extortionate; or
- The charges associated with the loan were or are extortionate.

Our investigations have not disclosed any loans which, in our view, may be unfair and therefore voidable by a Liquidator of Pasminco.

13 Options Available to Creditors

Pursuant to Section 439C of the Act, at the second meetings of creditors, creditors may resolve that:

1. Each of the Companies execute Deeds of Company Arrangement.
2. Each of the Administrations of the Companies should end.
3. Each of the Companies should be wound up.

Pursuant to Section 439B(2) of the Act, the second meetings of creditors can be adjourned for up to sixty (60) days.

If a majority in number, and a majority in value, of those creditors voting at the meetings approve the proposal, the Deeds upon execution by the Companies and the Deed Administrators, will become binding on all creditors and shareholders affected by their terms.

Attached with this report are Informal Proof of Debt and Proxy Forms (please also refer to the Instructions For Completing Proxy Forms, **Annexure 7**) which creditors are required to complete to enable them to vote at the meetings.

14 Recommendations of Administrators

14.1 Proposal for Deeds of Company Arrangement

Deeds of Company Arrangement have been proposed for the Companies by the Administrators. The Deeds provide a mechanism for a restructure of Pasminco to occur through two distinct stages:

a) The splitting of the Pasminco Group companies into Ongoing Group and Residual Group.

b) The public float of (say) 50% of equity to the public.

The proposal provides for a return to creditors from:

a) An initial cash distribution from the float proceeds after deduction of certain liabilities under a priority structure.

b) The potential upside in the value of the issued shares in the restructured Pasminco.

c) Surplus funds (if any) from the realisation of the assets of the Residual Group.

The proposal has been formulated by us in consultation with certain advisors, the Committee of Creditors and Pasminco Management, after considering a range of alternatives to restructure Pasminco. The proposed Equity and Float Option has been selected as the preferred manner to achieve the restructure given the distinct advantages it offers over other alternatives.

It is a pre-condition of the proposal that a Summit Facility, which is required to refinance the Administration liabilities and provide a working capital facility, be agreed to by Pasminco's financiers prior to the execution of the Deeds (ie. no later than 21 days after the resolution is passed by creditors unless the Court allows an extension).

14.2 Advantages of the Proposal

In our opinion the proposal offers a number of compelling advantages to creditors:

- **Initial return from the float**

  The proposal offers the opportunity to receive an initial cash distribution from the float proceeds in a relatively short period of time.

- **Equity interest**

  Creditors will receive an equity interest in the restructured Pasminco allowing them to receive the benefit of forecast improved market conditions and an improved operating structure of Pasminco. In particular, the restructured Pasminco will have minimal debt and consist of a world class asset base.

- **A more viable capital structure**

  This will allow the new entity to make more strategic decisions and possibly take advantage of growth opportunities.

- **Flexibility for Creditors**

  Creditors owed in excess of AUD5 million will have the ability to vote on the float pricing parameters that govern whether the float is to proceed. If the float does not proceed, all creditors will have the opportunity to vote on the alternatives available for such a scenario as provided for in the proposed Deeds.

- **Protection for Employees**

  Security will be granted to assist in the protection of employee entitlements and substantially all employees will retain their jobs.

- **Ability to attract better Board/Management**

  The proposal provides the restructured Pasminco with the best prospects of attracting a strong Board and Management team to operate the restructured Pasminco.

We have received advice from four equity markets professionals that the proposal is achievable (particularly in light of current market sentiment).

14.3 Risks of Proposal

Creditors should be aware that there are a number of key risks that may adversely impact upon the success of the restructure. Many of these risks are outside of the control of Pasminco, including commodity prices, movements in the Australian dollar and the reaction of the market to the proposed float.

An appealing element of the proposal however, is that it incorporates certain fallback options if the float does not proceed.

- Firstly, creditors will be able to accept or reject the pricing parameters of the float which will determine whether it proceeds.
- Secondly, if the float does not proceed, creditors can vote for other options provided for under the proposed Deeds, being creditors taking an equity interest in the restructured Pasminco without a float, a controlled liquidation of Pasminco's assets under the Deeds or a formal winding up.

In our opinion a formal winding up of Pasminco does not offer creditors the opportunity to maximise the return to them. In particular, a formal winding up is more likely to result in reduced asset sale values, greater claims against Pasminco and would take a considerable period of time to complete (and hence delay providing any return to creditors).

14.4 Views of the Committee of Creditors

The Committee of Creditors has been closely involved with the development of the proposal to restructure Pasminco. We have met with the Committee formally on 9 occasions and held numerous other discussions with them.

The Committee has had access to a substantial amount of information additional to that presented in this report during the Administration provided to them subject to Confidentiality Agreements, including certain commercially sensitive information.

The Committee has been satisfied with the information provided to them and has expressed support for the proposed Deeds.

The Committee, which consists of representatives of Pasminco's financiers and staff, represents about 99% of all creditors in number and about 80% in value.

14.5 Administrators' Opinion

The Administrators are of the view that the proposed Deeds of Company Arrangement are in the best interests of creditors and should be accepted.

In our opinion, the proposal offers the greatest opportunity to maximise the return to creditors and is likely to exceed the return that would be available in a formal winding up.

Accordingly, we recommend that creditors accept the proposal for each of the Companies to execute Deeds of Company Arrangement on the terms outlined in the Summary Statement.

In our opinion, it is not in the creditors' interests for each of the Companies to be wound up or for the Administrations to end.

DATED this 1st day of July 2002

J M SPARK	P D McCLUSKEY
ADMINISTRATOR	ADMINISTRATOR

Encl