



ENFORCEABLE UNDERTAKING

AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION

*Australian Securities and Investments Commission Act
("ASC Law") Section 93AA*

The commitments in this undertaking are offered to the Australian Securities & Investments Commission ("ASIC") by:

Charles Timothy Pratten ("Mr Pratten")

2/144 Boundary Street
PADDINGTON NSW 2021
Date of birth: 26 March 1960
and

Rural & General Insurance Limited ACN 000 007 492 ("R&G")
130 Bourke Street
WOOLLOOMOOLOO NSW 2011

1. BACKGROUND

- 1.1 ASIC is conducting an investigation in relation to suspected contraventions of sub-sections 232(2), (4), (6) and sections 205, 243H and 243K of the Corporations Law in relation to the management and affairs of R&G in the period from 1 December 1995 to 12 August 1999 inclusive (the "Investigation").
- 1.2 R&G is an unlisted public company registered in New South Wales which is authorised to carry on insurance business pursuant to the Insurance Act 1973 (Cth).
- 1.3 Griffith Narrandera Primary Property Developments Pty Limited ACN 003 213 849 ("GNPPD") is a proprietary company registered in New South Wales which holds shares in R&G. Mr Pratten controlled GNPPD in the period from 1 December 1995 to 31 December 1998 (the "Relevant Period").
- 1.4 Mr Pratten was during the Relevant Period the managing director of R&G and resigned as a director of R&G on 31 December 1999. Until 26 June 1996, all of the issued capital of R&G was owned by GNPPD. From 26 June 1996 to at least 30 June 1998, GNPPD owned approximately 70% of the issued capital of R&G.
- 1.5 As a result of the Investigation, ASIC has concerns about possible contraventions during the Relevant Period by Mr Pratten of:
 - (a) sub-sections 232(2), (6), 243ZE(3) and 318(1) of the Corporations Law, by reason of the fact that Mr Pratten caused payments totalling \$1,940,382.76 to be made by R&G which ASIC contends were to Mr Pratten's benefit and these payments were not properly recorded in the books and records of R&G; and

- (b) sub-section 205(1) of the Corporations Law by reason of the facts set out in clauses 1.6(a)(i) and (ii) below.
- 1.6 As a result of the Investigation, ASIC has concerns that during the Relevant Period R&G has contravened:
- (a) sub-section 205(1) of the Corporations Law by reason of the fact that payments totalling \$357,005 were made by R&G to GNPPD. Shortly after the payments were made, GNPPD applied for and was allotted a total of 3,570,000 ordinary shares in R&G for a total consideration of \$357,000;
 - (b) sub-section 243H(1) of the Corporations Law by reason of the fact that Mr Pratten caused payments referred to in paragraph 1.5(a), totalling \$1,940,382.76, to be made; and
 - (c) sub-section 289(1) of the Corporations Law by reason of the fact that the books and records of R&G did not properly record the amounts referred to in clauses 1.5(a) and 1.6(a) above.
- 1.7 ASIC has the power to make an application to the Court pursuant to:
- (a) section 230 of the Corporations Law for an order prohibiting a person from managing a corporation in certain circumstances;
 - (b) section 1317EA of the Corporations Law for a declaration that a person has contravened a civil penalty provision; and
 - (c) section 1317HA of the Corporations Law for an order that a person pay compensation to the corporation which has suffered loss or damage as a result of the contravention of a civil penalty provision.
- 1.8 Mr Pratten contends that the amounts referred to in paragraph 1.5(a) above have been repaid to or utilised by R&G. Following a review of these transactions by R&G's auditor, Mr Pratten has agreed to repay to R&G any sum that the auditor may ascertain to be outstanding.
- 1.9 In agreeing to accept the commitments in this Undertaking as an alternative to the exercise of the power referred to in clause 1.7 above, ASIC has taken into consideration:
- (a) that Mr Pratten resigned as director of R&G on 31 December 1999;
 - (b) Mr Pratten's contention that the amounts referred to in paragraph 1.5(a) above have been received or utilised by R&G, which is to be reviewed by the auditor, and his agreement to repay any outstanding amount;
 - (c) that until 26 June 1996 GNPPD owned all of the issued capital of R&G;
 - (d) that from 26 June 1996 to at least 30 June 1998 GNPPD owned approximately 70% of the issued capital of R&G; and

(e) R&G agreeing to an enhanced audit program.

1.10 While Mr Pratten does not agree with the concerns of ASIC set out in this undertaking, he acknowledges those concerns in so far as they apply to him.

1.11 While R&G does not agree with the concerns of ASIC set out in this undertaking, it acknowledges those concerns in so far as they apply to it.

2. UNDERTAKINGS

2.1 Pursuant to section 93AA of the Australian Securities and Investments Commission Act ("ASIC Act"), Mr Pratten undertakes that:

(a) for a period of four (4) years from the date ASIC accepts and signs this undertaking (the "Date of the Undertaking")

(i) he will not be an officer of a corporation (as defined in s9 of the Corporations Law) (other than a small proprietary corporation whose only activities are the holding of shares);

(ii) he will not apply to ASIC to be a director or company secretary of any corporation, (other than a small proprietary corporation whose only activities are the holding of shares); and

(iii) he will not be a sole signatory to any bank accounts maintained by R&G;

(b) he will for a period of 18 months from the Date of the Undertaking allow access to ASIC to books and records and personnel of any entity in which he or his interests hold a majority shareholding, for ASIC to monitor compliance with the terms of this Undertaking; and

(c) in the event that the auditor ascertains that not all of the amounts referred to in paragraph 1.5(a) have been repaid to or utilised by R&G, to repay the outstanding sum within 28 days of being advised in writing by the auditor of the balance to be repaid.

2.2 Pursuant to section 93AA of the ASIC Act, R&G undertakes:

(a) to put in place to the satisfaction of the auditor of R&G, a debtors and creditors ledger system to enable a reconciliation of all receipts and payments to occur, in particular, reinsurance receipts and payments;

(b) to engage the auditor to review Mr Pratten's contention that the amounts referred to in paragraph 1.5(a) have been received or utilised by R&G and to report to Mr Pratten and ASIC accordingly;

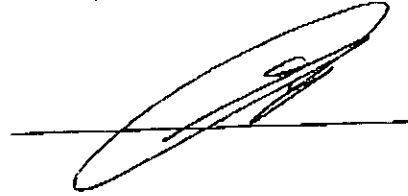
(c) for a period of 18 months from the Date of the Undertaking to:

- (i) prepare financial statements of R&G in accordance with the requirements of APRA and the provisions of the Insurance Act 1973 (Cth) as exist from time to time on a quarterly basis (the "Financial Statements");
- (ii) provide to the New South Wales Director of Enforcement, copies of the Financial Statements within 3 months from the end of the quarter;
- (iii) engage auditors of R&G to prepare the Financial Statements based on the receipts and payments of R&G on a quarterly basis;
- (iv) engage auditors of R&G to report on a quarterly basis on compliance with the terms of this Undertaking so far as it applies to R&G; and
- (v) allow access by ASIC to books and records of R&G and R&G personnel to monitor compliance with this Undertaking.

3. ACKNOWLEDGMENTS

- 3.1 Mr Pratten and R&G acknowledge that they have obtained legal advice in relation to the content and effect of this undertaking.
- 3.2 Mr Pratten, R&G and GNPPD acknowledge that ASIC:
 - (a) may issue a media release referring to the terms of this undertaking and the concerns of ASIC as expressed in this undertaking which led to its execution;
 - (b) may from time to time publicly refer to this undertaking; and
 - (c) will make this undertaking available for public inspection.
- 3.3 Mr Pratten and R&G acknowledge that this undertaking in no way derogates from the rights and remedies available to ASIC or any other person or entity arising from any conduct described in this undertaking.
- 3.4 Mr Pratten and R&G acknowledge that ASIC's acceptance of an enforceable undertaking does not affect ASIC's power to investigate a contravention arising from future conduct, or pursue a criminal prosecution, or its power to lay charges.
- 3.5 Mr Pratten and R&G acknowledge that this undertaking has no operative force until accepted by ASIC.

Signed by Timothy Charles Pratten)
in the presence of:)



A. Steph
Signature

AARON STEPHENSON
Name (printed)

248 ELSWICK ST
Address LEICHHARDT NSW 2040

The Common Seal of
Rural and General Insurance Ltd ACN 000 007 492)
was affixed to this undertaking)
in the presence of:)

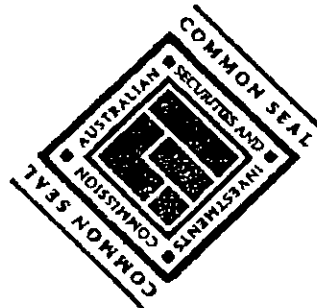
[Signature]
Signature of Director
Name:



A. Steph
Signature of Director/Secretary
Name: AARON STEPHENSON

**ACCEPTED BY THE AUSTRALIAN SECURITIES & INVESTMENTS
COMMISSION PURSUANT TO ASIC ACT S93AA BY ITS DULY
AUTHORISED DELEGATE:**

[Signature]
Jan Redfern
General Counsel
NSW Operations



This 30th day of March 2001