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23 October 2002

ADMINISTRATORS' FIFTH REPORT TO CREDITORS

Dear Creditor/Credit Manager

OPEN TELECOMMUNICATIONS LIMITED
(ADMINISTRATORS APPOINTED)
ACN 056 010 121

We refer to our report dated 31 July 2002 pursuant to Section 439A of the Corporations Act 2001 ("the Act") in relation to the business, property, affairs and financial circumstances of Open Telecommunications Limited ("Open Tel").

1. PURPOSE OF THIS ADMINISTRATORS' REPORT

This report has been prepared primarily from information received from the Australian Securities and Investments Commission ("the ASIC"), the company books and records and discussions with directors and staff of the company. We note that this report should be read in conjunction with the previous report to creditors issued by our office on 31 July 2002. Should any creditor require further copies of that report they should contact our office.

We have conducted investigations into the affairs of the company pursuant to Section 438A of the Act. However, there may be certain matters of which we are not aware of as a consequence of not having been advised, or having not uncovered the matter during our investigations. Whilst we have no reason to doubt any information contained in this report, we reserve the right to alter our conclusions reached should the basis of the information change.

Notices and other relevant Forms, to reconvene the adjourned second meeting of creditors were issued to creditors on Friday, 18 October 2002. Should you have not received these documents, please contact our office.

2. SUMMARY OF ADMINISTRATORS REPORT

The second meeting of creditors has been reconvened for Monday, 28 October 2002 at the offices of Deloitte Touche Tohmatsu, Level 10, 190 George Street, Sydney NSW 2000 at 10.30 a.m. Please note that this is a change of venue.

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At the reconvened meeting, creditors will be asked to resolve that either:

- The company execute a Deed of Company Arrangement ("Deed"); or
- The company be wound up; or
- The administration end.

It is our recommendation that creditors resolve for the company to execute a Deed.

Our reasons for this recommendation are detailed later in this report.

3. SUMMARY OF ADMINISTRATION TO DATE

Creditors will be aware that on 31 July 2002, we issued our second report to creditors detailing our investigations into the company's affairs and the conduct of the administration to that date. It was our recommendation in that report for the creditors to adjourn the meeting so that the sale of businesses operated by the company could reach a more conclusive stage and to allow where necessary for further investigations to be made into the company's affairs.

As a consequence of our recommendation, and after the discussion had at the second meeting of creditors, creditors resolved that the meeting be adjourned for a period of no greater than sixty (60) days after the date of that meeting.

On 6 September 2002 we held a meeting of the Committee of Creditors. At this meeting, we discussed the current financial position of the company, the sale process, the preliminary Deed proposal by the directors and a possible application to the Supreme Court ("the Court") for an extension of the adjournment of the second meeting past the 60 days approved by creditors. The Committee approved of such application if deemed necessary.

Given the nature of the sale, the purchaser's due diligence procedures incorporated liaisons with international customers. These liaisons took longer to complete than was anticipated. Final bids were received from prospective purchasers on 20 September 2002. The bids in their submitted form could not be considered binding and in order for negotiations to continue it was necessary for our office to make an application to the Court for an extension of time of 21 days.

On Friday 27 September 2002, the Court granted an extension for the reconvening of the Second Meeting of Creditors until on or before 28 October 2002 with notice of same to be issued to creditors on or before 18 October 2002 with this report sent subsequently.

4. SALE OF BUSINESS

As has been noted in this and prior reports issued to creditors, we took steps upon being appointed to sell part or all of the businesses operated by Open Tel.

After initial advertisements were published in national newspapers, we received 39 expressions of interest for the purchase of the Open Call Agent or OSS business run from the Melbourne offices of

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Open Tel. We had also received some expressions of interest in the switching business operated by the company.

By 13 August 2002 we had taken 16 interested parties through the data room that was set up in the Sydney premises. These parties conducted their preliminary due diligence into the business and were required to submit their non-binding, indicative bids for the business(s) of Open Tel.

The timetable set for interested parties in the sale of the business was as follows:

Interested parties review due diligence information	9 August 202
Additional information requests	16 August 2002
Review bids / parties short listed	23 August 2002
Additional due diligence and final bids submitted	6 September 2002

Due to the level of information requests from interested parties it was necessary to extend the date for indicative offers to 23 August 2002.

We had received 4 indicative offers by 23 August 2002 and had other firm indications that parties would submit a binding offer only on 6 September 2002.

A summary of indicative offers appears below:

#	Purchase Price Assets etc	Other	Liabilities Employees	Total Purchase Price	Other Conditions/Comments
1	1.8mln	5% revenue share for years 2 and 3 (capped $2.2m) DTT est. 1.4mln	appox 40	3.545mln	continuation of contracts up to 3 years completion October Note: Total Price prior to DCF
2	3.1mln		49	3.345mln	90 days due diligence & contracting Management Participation
3	2.5 mln to 4mln		approx 49	2.745 to 4.245mln	
4	2mln to 5mln		No	1.755mln to 4.755mln	Incl. Payments to 3rd parties

After review of these bids, we invited the parties to conduct further due diligence and provided assistance in liasing with current customers in order to facilitate final binding bids. It was necessary to allow potential purchasers this level of access to the company customers and suppliers as all major contracts of the company would require the customers and or third party software vendors consent for contracts' novation or assignment.

Due to the nature of these discussions and in order to accommodate the requests of all parties the deadline for the submission of final bids was extended to 20 September 2002.

On 20 September 2002 we received two final bids from potential purchasers. Given the offers put forward, we were only in a position to further pursue one bidder's offer, the conditions of which required further work by this office, particularly in relation to continued contractual arrangements after the sale. A summary of the final bids received appears below:

#	Purchase Price Assets etc	Other	Liabilities Employees	Total Purchase Price	Other Conditions/Comments
1	3.0mln		approx 49	3.2mln	Renegotiation of contracts with employees, customers & 3rd party Software vendors
2	N/A	25% equity stake in acquirer or new vehicle		Unknown	No cash in transaction

On 16 October 2002, after exhaustive efforts, the final bid for the purchase of the OSS business in Melbourne was withdrawn as it became apparent that the final bidder would be unable to obtain agreement from all the customers and/or third party software vendors for the assignment of contracts on their commercial terms.

We note that in the event that a sale at the above mentioned price was able to be transacted, it is likely that all funds from the transaction would be payable to the secured creditor under its fixed and floating charge.

Whilst at the early stage some interest had been expressed in the switching business such interest did not result in any offer to purchase.

Notwithstanding the above, there are still a number of parties interested in pursuing discussions with the company regarding future transactions or business dealings with the company in regard to both the switching and OSS business should a Deed of Company Arrangement be approved at the meeting of creditors.

5. TRADING DURING THE VOLUNTARY ADMINISTRATION

Set out below is a trading statement for the period of the voluntary administration from 12 July 2002 to 31 October 2002. We estimate that during the course of the administration, the Administrators will have made a profit of approximately $133,000 after our proposed remuneration of approximately $890,000.

As noted above, there are a number of issues in relation to customers and third party software vendors' contracts that require resolution.

Significant effort during the administration has centred around securing commitments from these parties (including the company's six major customers) and protecting the company's intellectual property (source code materials in escrow). While these negotiations have been quite lengthy, customers have generally been very supportive of the company and its product offerings. These negotiations and recommitments from customers and others are nearing completion. It is anticipated that the majority of contracts with parties will be finalised prior to the company executing a Deed of Company Arrangement, should a Deed of Company Arrangement be approved by creditors.

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The directors of the company have used these in principal agreements as the basis for formulating forecast revenues for the ensuing year. The directors' draft forecasts are detailed later in our report.

We note the following in relation to the trading result:

- Results have been prepared from the records of the Voluntary Administrators and may differ from the reported results of the company due to write offs and other adjustments, which may be required in the company's accounts.
- The trading results are not consolidated and only net income repatriated from the North and South American operations have been included in the results.
- The results contain an estimate for trading for the two weeks ending 3 November 2002.

Trading Statement

Detail	$000's			Est	JUL to
	JUL	AUG	SEP	OCT	OCT
Income					
Switching	440	691	691	864	2,687
OSS AUS	22	263	249	242	776
OSS NA	0	274	151	47	472
OSS SA	0	0	726	57	783
Other	3	18	65	12	98
Total Income	465	1,247	1,883	1,221	4,816
Expenditure					
Contractors	0	29	46	66	140
Rent	0	79	124	25	228
Salary & Wages	339	850	846	842	2,877
Administrators Remuneration	0	440	250	200	890
Legal Fees	0	15	70	63	148
Other Trading	21	83	160	136	400
Total Expenditure	360	1,496	1,496	1,331	4,683
Net Income/(Loss)	105	(249)	387	(110)	133

Set out below is a summary of estimated and actual cash receipts and payments for the period of the administration from 12 July 2002 to 3 November 2002. It is estimated that the Administrators' cash at bank will be approximately $3.1 million by the end of the October 2002 trading month.

Overall, as a result of our negotiations and continued trading, we have produced during the administration, substantial cash flows that the company was unable to produce or collect prior to our appointment.

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Cash Receipts/Payments					
Detail		**$000's**		**Est**	**JUL to**
	JUL	**AUG**	**SEP**	**OCT**	**OCT**
Receipts					
Switching	21	2,349	0	0	2,371
OSS AUS	155	328	237	449	1,168
OSS NA	0	274	151	11	436
OSS SA	0	0	726	0	726
Other	3	19	71	12	105
Total Receipts	179	2,969	1,186	472	4,806
Payments					
Contractors	0	32	50	39	121
Rent	0	87	137	0	224
Salary & Wages	192	474	471	232	1,369
Administrators Remuneration	0	396	0	0	396
Legal Fees	0	16	77	36	129
Other Trading	3	67	148	75	294
Total Payments	195	1,073	883	382	2,534
Net Inflow/Outflow	(17)	1,896	303	89	2,272
Opening Balance	836	820	2,716	3,019	836
Add: Net Inflow Outflow	(17)	1,896	303	89	2,272
Closing Balance	820	2,716	3,019	3,108	3,108

We estimate that net assets available to the company should a Deed of Company Arrangement be executed at month end October 2002 will be approximately $2 million, as detailed below in the table setting out the net asset position during the course of the voluntary administration.

Summary Balance Sheet						
Detail			**$000's**		**Est**	**YTD**
	Opening	**JUL**	**AUG**	**SEP**	**OCT**	**OCT**
Cash at Bank	836	820	2,716	3,019	3,108	3,108
Debtors	2,493	2,323	553	1,095	1,764	1,764
Net work in progress	(1,466)	(975)	(831)	(599)	(425)	(425)
Administrators creditors		(199)	(720)	(1,403)	(2,451)	(2,451)
Net Assets	1,863	1,968	1,719	2,106	1,996	1,996
Net Income/(Loss)		105	(250)	387	(110)	133

6. REPORT AS TO AFFAIRS

As was noted in our second report to creditors, the directors are required to provide us with a Report as to Affairs ("RATA") as at the date of our appointment. The draft of this report was detailed in the second report to creditors issued on 31 July 2002.

As we have exhausted efforts to divest the OSS business, we are now in a position to report to creditors on our determination of the company's asset position using the RATA format. This report is detailed below. We note that to date, we have not received a signed RATA from the company directors.

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The report uses two perspectives as follows:

- ***Book Value at 12 July 2002 -*** This summarises the value of the assets and liabilities as at the date of our appointment. Information has been derived from the company records.

- ***Estimated Realisable Value ("ERV") at 12 July 2002 -*** Details the balance sheet using our estimates had the company ceased to trade on the date of our appointment being 12 July 2002.

DETAILS	NOTE	BOOK VALUE $'000	ERV $'000
Assets			
Cash and Cash equivalents			
Cash at Bank		837	837
Cash Securing Bank Guarantees	1	649	0
Work in Progress	2	(4,096)	88
Plant and Equipment	3	8,418	787
Other Assets	4	Nil	Unknown
Debtors			
External Debtors	5	4,288	735
Inter company debtors	6	5,559	0
Total Assets		15,655	2,447
Liabilities			
Secured Creditor		2,800	2,800
Priority Unsecured Creditors			
Wages & Superannuation		1,878	1,878
Annual & Long Service Leave		1,370	1,370
Notice & Severance	7	0	3,557
Total Priority Unsecured Creditors		3,248	6,805
Unsecured Creditors			
Trade Creditors		2,484	2,484
Taxation Liabilities		2,432	2,432
Related Party Claims		177	277
Total Unsecured Creditors		5,093	5,194
Contingent Claims	8	0	1,224
Total Liabilities		11,141	16,023
Surplus/ (Deficiency)		**4,514**	**(13,575)**

Note 1 – Cash securing bank guarantees

The company has three bank guarantees held over premises the company is leasing or has leased. A liquidation scenario we would assume that the terms of each lease would be unfulfilled by the company and there would therefore be a call made on same. Accordingly we estimated the realisable value as "nil" under a liquidation.

We note that a guarantee of $281,240 has been called upon.

Note 2 – Work in progress

As at our appointment date the company's WIP ledger detailed a negative balance of approximately $4.1 million. This balance incorporated many customers' pre-payments and or amounts invoiced in advance but not yet collected for support services, which therefore resulted in a negative balance.

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We note there were two customers with a positive balance in the ledger and in our opinion, $88,263 could be considered as recoverable had the company been liquidated at 12 July 2002.

Furthermore, we note that the prepayment balance in the ledger potentially could result in a contingent claim against the company. We discuss this below at Note 8 of this section.

Note 3 – Plant and equipment

Upon appointment we instructed an independent auctioneer and valuer to value the property, plant and equipment of the company under a going concern, high auction, low auction basis. The results of this valuation are as follows:

	$
Going concern	1,726,389
High auction	946,252
Low auction	614,127

For the purposes of analysis later in this report, estimated realisable value of property, plant and equipment in a liquidation will be considered as an average of high and low auction values.

Note 4 – Other assets

Other assets include the company's intellectual property in software products and investments in unlisted shares such as MagNet Point Inc that either have no book value or have been written off in the company's books.

We have not formed a view as to what value may be realised from these assets in liquidation. However given the sale process conducted to date the value of intellectual property in a close down scenario may well be minimal. Further, we have received a negligible offer for the MagNet Point shares.

We also believe that there is little or no value in the company's shareholdings in its overseas subsidiaries.

Note 5 – External Debtors

The company's debtors ledger at appointment incorporated many debtors that we would consider as being irrecoverable had the company been liquidated at 12 July 2002. This was a result of the fact that the company, in most instances, was attempting to bill customers in advance for work in order to increase current cash flows.

Note 6 – Internal debtors

The company's debtors ledger also contains a balance due from intercompany debtors being:

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	$
OT North America	3,964,207
OT New Zealand	1,305,869
OT South America	494,834

However, these debts are not recoverable as they relate to internal trading between the company and its wholly owned subsidiaries, which involved transfer pricing arrangements. It is noted that these transactions would not be reflected in the published consolidated accounts of OT.

Note 7 – Notice and severance

In Section 7 of this report there is discussion with respect to the current position on whether severance is payable to employees or not. Additionally employees will find a breakdown of this entitlement between current and terminated employees in Section 10 of this report.

Note 8 – Contingent Claims

As was noted at Note 2 of this section, there may be potential claims made against the company if the company was liquidated on 12 July 2002 for pre-payments. However we do note that this category of creditor may increase if the company is liquidated as a result of breached contracts, consequential loss or any other such claim.

7. TERMINATED EMPLOYEE AND CONTRACTOR CLAIMS

7.1 Employees

As many terminated employees are aware, we have sought legal advice particularly in relation to the applicability of a severance component upon termination of employment.

Initially, we have provided terminated employees with a calculation for their outstanding entitlements based upon records derived from the company payroll system. These records were reviewed and then forwarded to employees in order for claims to be made with the Department of Workplace Relations ("the Department"). We note that at the time of issuing these statements information that was available to this office indicated that the company was not legally bound by the Information Industry (Professional Employees) Award 2001.

Legal advice obtained indicates that recalculation of certain employees entitlements may be required upon the receipt of further evidence. Employees who are affected by this new information will be notified in due course of what is required from them. For the purposes of this report and the calculations herein, we have assumed that employees would be entitled to claim notice and severance periods in accordance with the Award.

In addition to the above, we note that employees who were terminated or resigned prior to our appointment (and who still have outstanding entitlements) may also wish to make a claim against the General Employee Entitlement Support Scheme. Given this, we are in the process of notifying those people in writing of their outstanding entitlements so that they can pursue such a claim. However, we wish to note that the Department will assess these cases on an individual basis and payment from the Scheme may not be guaranteed, such situation is controlled by the Department and not the Administrators.

On a further matter, employees would be aware that there are superannuation payments that remain unpaid. We confirm that if this is your sole entitlement due to you, we will not issue you with a statement of personal entitlement. All employees outstanding superannuation details will be, as required by the legislation forwarded to the Australian Taxation Office ("ATO") who will then claim on behalf of all employees. Should we be in a position to make a distribution in respect of this entitlement, monies will be forwarded directly to the ATO that will then contact you acknowledging receipt of such monies.

7.2 Contractors

Creditors will recall that we had sought legal advice in relation to the priority of claims by contractors affected by the company's insolvency. After a review of the majority of sub-contractors' contracts, that advice indicated that as a consequence of the terms of the contracts, contractors should be considered as ordinary unsecured creditors of the company.

8. POTENTIAL ASSET RECOVERIES AVAILABLE TO A LIQUIDATOR

8.1 Insolvent Trading

8.1.1 Indicators of Insolvency

Detailed below is a summary of those factors that we would consider as being useful in assisting a Liquidator to prove insolvency:

- *Statutory Demands* – We are aware of 5 statutory demands received by the company. The earliest of these demands expired unsatisfied on 12 June 2002 and accordingly pursuant to Section 459C(2) the company is deemed insolvent from that point.

  In addition to the above, we are also aware of thirteen other creditors that had issued other letters of demand that we construe as being a precursor to the commencement of legal action.

- *Board meetings* – As you will note in our previous report to creditors, there were several occasions where the board raised issues about the solvency of the company and/or made decisions based on the solvency and cashflow problems.

- *Arrangements with creditors for repayment of outstanding liabilities* – We are aware of at least three arrangements that took place to repay outstanding liabilities as a result of the company being unable to pay its debts as and when they fell due and payable.

- *Outstanding unsecured creditors* – A review of the aging of trade creditors indicates that many of the accounts were past the trading terms and therefore amounts were not being paid as and when they became due and payable.

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Consideration needs to be given to the normal graces granted to the company in payment of its' accounts payable. Whilst there may be some creditors that did grant such graces, there are examples of creditors that were not being paid in accordance with their terms.

- *Review of Balance Sheet solvency* – Our review of the company's balance sheet for the trading prior to our appointment indicates that the company was deteriorating significantly during the six months leading up to our appointment. To indicate this deterioration, we have summarised the balance sheet for the company over this period.

  Creditors will note that we have inserted values that we have determined as being the current asset position and net asset position of the company at each month end. The discrepancy is reconciled to the write off we have notionally booked on those debts that we believe could no longer be considered as having a future economic benefit to the company.

  Using a current ratio as an indicator of company liquidity we can see:

  a) That the company was deteriorating significantly in the month of May – largely attributable to the writing off of $8 million of work in progress in relation to work being performed for COMindico.

  b) That the company further deteriorated in the month of June – largely attributable to the writing off of $3.164 million of work in progress in relation to work being performed for LG.

DETAILS	Feb-02 $	Mar-02 $	Apr-02 $	May-02 $	Jun-02 $	Jul-02 $
Current Assets						
Cash	8,964	8,111	3,245	3,717	1,602	1,481
Receivables and Unbilled Contract	22,997	16,167	15,700	12,740	(383)	(866)
Receivables - Inter entity	3,233	4,983	4,816	4,955	5,305	5,760
Other	536	495	469	442	379	385
Total Current Assets No.1	35,730	29,756	24,230	21,855	6,903	6,759
Total Current Assets No.2	35,730	29,756	24,230	13,855	6,903	6,759
Total Current Assets No.3	32,496	24,773	19,414	8,900	1,598	1,000
Non Current Assets	9,672	9,369	9,052	8,739	8,769	8,447
Total Assets No.1	45,402	39,125	33,282	30,594	15,672	15,207
Total Assets No.2	45,402	39,125	33,282	22,594	15,672	15,207
Total Assets No.3	42,168	34,142	28,465	17,639	10,367	9,447
Current Liabilities	20,373	16,859	14,558	15,195	11,555	12,053
Non Current Liabilities	135	137	139	139	138	140
Total Liabilities	20,508	16,996	14,697	15,334	11,694	12,194
Net Assets No.1	**24,893**	**22,129**	**18,585**	**15,260**	**3,978**	**3,013**
Net Assets No.2	**24,893**	**22,129**	**18,585**	**7,260**	**3,978**	**3,013**
Net Assets No.3	**21,660**	**17,146**	**13,769**	**2,305**	**(1,327)**	**(2,747)**
Current Ratio No.1	175%	177%	166%	144%	60%	56%
Current Ratio No.2	175%	177%	166%	91%	60%	56%
Current Ratio No.3	160%	147%	133%	59%	14%	8%

No.1 - Details the book value derived from the company records
No.2 - Details the position having written off the COMindico debt in the correct period
No.3 - Details the position if the company was not considered to be a going concern

8.1.2 Dates of Insolvency

As mentioned the earliest definitive date for the insolvency of the company we have been able to identify is 12 June 2002 as a result of the expiration of a statutory demand. However the company may have become insolvent during May 2002. We note the following events occurred during May 2002:

- *Wednesday 15 May 2002*

  Colin Chandler and Shane Hodson, the CEO and CFO of the company respectively resigned their positions citing the reason that they were of the opinion the company was insolvent.

- *Tuesday 21 May 2002*

  The company entered into a Deed of Settlement and Variation with COMindico following a dispute regarding cost over runs on a project that eventually required the company to write off approximately $8 million of unbilled revenue or work in progress.

8.1.3 Directors Liable for Insolvent Trading at each date

As directors are only liable for the debts incurred during their period of appointment, we have listed below a summary of the directors whom may be liable for the debts incurred after the presumed dates of insolvency detailed above.

Date	Directors
May 2002	Passlow Cuthbertson
12 June 2002	Passlow Cuthbertson Powell (from 14 June 2002)

8.1.4 Assumed Liability at Dates of Insolvency

By virtue of Section 588M(2) of the Act, a Liquidator can recover from the directors, jointly and severally, as a debt due to the company, an amount equal to the amount of the loss or damage suffered by the unsecured or partly unsecured creditors, if the directors are found to have traded whilst insolvent.

Using the above dates, and the presumption that the company is insolvent, we have calculated the maximum liability of the directors for such a debt below:

Date	$
May 2002	2,361,414
12 June 2002	1,194,226

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8.1.5 Defences

The Act, pursuant to Section 588H, grants a number of defences to a director if proceedings of this kind are bought.

The directors have advised that they believe they can rely on the statutory defences to insolvent trading on the basis, in part, that they had signed a Heads of Agreement to sell the OSS business at a price that would enable the company to satisfy its current debts. Ultimately it was the failure of this sale to proceed on 12 July 2002 that led to the appointment of the Voluntary Administrators.

8.1.6 Summary of Insolvent Trading Investigations

Given the above, and the information currently available to us it is uncertain what amount (if any) would be recoverable from the directors by a Liquidator in the event of a successful insolvent trading action.

For the purpose of this report we have assumed the following to be a best case scenario in the event of liquidation.

- The company was insolvent on 12 June 2002 and accordingly there is a liability for debts incurred after that date of approximately $1.194 million.
- The directors are only able to meet 60% of the claim out of their personal assets.
- There is a 50% chance that the action is successful.
- The litigation costs approximately $165,000 and takes approximately two years to complete.

The present value of the potential recovery (assuming a 10% interest rate) will be approximately $81,000.

However, given our experience of such matters we would expect that the more likely outcome would be that the costs of running such an action would likely outweigh any recoveries made.

8.2 Unfair Preferences (Section 588FA)

Further to our comments in the last report to creditors, we have conducted a comprehensive review of all payments made by the company in the preceding six months to our appointment. In determining the amount of potential preference payments, we have taken into account the elements that a Liquidator would have to prove to be successful in recovering such payments, including but not limited to, the date of insolvency of the company.

Our investigations into the company's books and records indicate that there have been potential preference payments made to eight (8) creditors totalling $421,752.

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We note that the largest recipient of an alleged preference payment is Secant Technology Inc, a US supplier of software for the OSS business. Secant received a payment from the company of $US170,000 being payment of a royalty.

Notwithstanding the above, creditors must be aware that there are statutory defenses available to creditors in receipt of such alleged payments. Accordingly, should a Liquidator choose to commence recovery proceedings, he may be forced to settle for a lesser sum than that identified.

In a best-case scenario we estimate that approximately 30% or $127,000 may be recoverable in liquidation.

8.3 Uncommercial Transactions (Section 588FB)

As mentioned previously, large write offs of work in progress were required in May and June 2002 in relation to projects being undertaken for COMindico and LG respectively. These write offs were required as a result of the settlement of disputes concerning a combination of project over runs and delays and the company's accounting policies of recognising revenue as a percentage completion method (which if the stage of completion of a contract is over estimated can lead to an over estimation of revenue that is capable of being billed).

Given our dealings with these parties during the course of the administration and the current status of projects, we consider that the likelihood of the company or a liquidator successfully litigating for the recovery of these amounts to be extremely remote.

8.4 Report to Australian Securities & Investments Commission

Pursuant to Section 438D of the Act, we have lodged a copy of our reports to creditors under Section 439A of the Act with the ASIC for their information and action.

9. PROPOSED DEED OF COMPANY ARRANGEMENT

The board of directors have forwarded a proposal to my office for a Deed. Detailed below is an extract from a letter issued by the board of directors on 22 October 2002 detailing this proposal:

- *"Subject to the terms of this proposal, control of the Company is to be returned to the Directors immediately upon execution of the Deed of Company Arrangement.*

- *The Company will continue to trade.*

- *The Administrator shall have the discretion to extend any payment deadline by up to 90 days from the dates specified in the proposal. However, if any instalment shall be overdue by more than 90 days, then the Administrator may call a meeting of creditors to consider whether the Deed of Company Arrangement should be varied.*

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- *The Administrator is to create a fund called "The Employee Fund" into which the Company shall pay the following amounts:*

  a. *the sum of $790,000 on 31 August 2003; and*

  b. *the sum of $790,000 on 31 December 2003.*

- *The claims which shall be admissible under the Employee Fund shall include all rights and entitlements of any employee which, if the company were being wound up, that employee would be entitled to receive pursuant to section 556 and 560 of the Corporations Act 2001, subject to the following.*

  a. *The claims of Continuing Employees that shall be admissible under the Employee Fund shall be limited to claims for wages and superannuation owing as at the commencement date of the voluntary administration. The Company will meet all other employee entitlements of the Continuing Employees as and when they become due and payable. A Continuing Employee is an employee who continues to be employed by the company on or after 28 October 2002.*

  b. *All claims admissible under the Employee Fund shall rank equally in a distribution from the Fund.*

- *The Administrator is to create a fund called "The Unsecured Creditor Fund" into which the Company shall pay the following amounts:*

  a. *the sum of $500,000 on 30 June 2004; and*

  b. *the sum of $500,000 on 30 June 2005*

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- *The Company will be at liberty to make early payment to the Administrator of any instalment due under this proposal.*

- *All costs fees and expenses of the Voluntary Administrator and the Administrator of the Deed are to be met by the Company.*

- *The admitted claims of employees and unsecured creditors are to be respectively met from the corresponding fund.*

- *Subject to the terms of this proposal, all creditors are to accept their entitlements under the proposal in full and final settlement of all claims they had or may have had against the Company as at the date upon which the administration commenced.*

- *The position of the secured creditor is to be expressly reserved in all respects."*

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10. COMPARISON OF RETURNS TO CREDITORS UNDER DIFFERENT SCENARIOS

Detailed below is a summary of the expected returns to creditors under both the liquidation and Deed scenarios.

SUMMARY OF EXPECTED RETURNS TO CREDITORS						
Details	**Liquidation**			**DCA**		
	Claims	**ERV**	**c in $**	**Claims**	**ERV**	**c in $**
Assets subject to fixed charge						
Amount Due to Secured Creditor		2,800				
Less: ERV Property Plant and Equipment		780				
Shortfall to be extinguished by Floating Charge Assets		2,020			N/A	
Assets subject to floating charge						
Net assets available from Voluntary Administration		1,996				
Estimated Legal Recoveries by Liquidator						
Insolvent Trading Recoveries		81				
Preference Recoveries		127				
Liquidation costs & legal fees		(500)				
Total Assets available for distribution		1,703			N/A	
Distribution of assets in accordance with Section 556 of the Act						
1. Priority Creditors						
a. Outstanding Wages and Superannuation						
Terminated Employees	911	826	$0.91	911	392	$0.43
Current Employees	968	877	$0.91	1,020	439	$0.43
Total Outstanding Wages and Superannuation	1,878	1,703	$0.91	1,931	830	$0.43
b. Accrued Annual Leave, Long Service Leave Payable						
Terminated Employees	490		$0.00	490	211	$0.43
Current Employees	880		$0.00			
Total Leave Accrued	1,370		$0.00	490	211	$0.43
c. Termination and other Payments						
Terminated Employees	1,254		$0.00	1,254	539	$0.43
Current Employees	2,303		$0.00			
Total Termination Payments	3,557		$0.00	1,254	539	$0.43
d. Total Priority Creditor Claims						
Terminated Employees	2,655	826	$0.31	2,655	1,141	$0.43
Current Employees	4,150	877	$0.21	1,020	439	$0.43
Total Priority Creditor Claims and/or Distributions	6,805	1,703	$0.25	3,675	1,580	$0.43
2. Unsecured Claims						
Balance of Secured Creditor Claim	2,020		$0.00			
Trade Creditors	2,484		$0.00	2,484	505	$0.20
Taxation Office	2,432		$0.00	2,432	495	$0.20
Related Party Claims	277		$0.00			
Contingent Claims	1,224		$0.00			
Total Unsecured Claims	8,437		$0.00	4,916	1,000	$0.20
Total Claims and/or distributions	15,242	1,703	$0.11	8,592	2,580	$0.30

10.1 Liquidation Scenario

Creditors will note that assets available in liquidation have been split between fixed and floating. We note that the charge held by Macquarie Bank is both fixed and floating and accordingly, at first instance, a distribution must be made to the Bank from all fixed charge assets, being the property, plant and equipment. Such a distribution would likely leave the secured creditor with a shortfall of some $2 million to be satisfied from floating charge assets.

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As mentioned earlier in this report, the net asset position of the company after the voluntary administration period is some $2 million. These assets and potential recoveries available to a liquidator will be distributed in accordance with Section 556 of the Act.

We have made comment on the potential recoveries only available to a Liquidator earlier in this report. However we reiterate that we have included these recoveries on the basis of our opinion of "best case" scenario and therefore this summation under liquidation may be subject to further discounting.

Pursuant to Section 561 of the Act, employees' claims will rank before the secured creditor's floating charge. As noted above we estimate that in liquidation, the employees of the company would receive the following distributions:

Class of Creditor	**Cents in $**
"Terminated Employees"	$0.31
"Current Employees"	$0.21

Due to the likely termination of all employees in liquidation and the corresponding crystallisation of notice and retrenchment claims, a significant shortfall exists to employees from estimated asset realisations (approximately $5.1 million)

Unsecured creditors will receive no distribution in a winding up.

10.2 Deed Scenario

The directors Deed proposes the payment of lump sums into a fund that we estimate will result in the distributions to creditors as noted above.

In summary, the distributions are as follows:

Class of Creditor	**Cents in $**
"Terminated Employees"	$0.43
"Current Employees"	$0.43
Unsecured Creditors	$0.20

In relation to current employees' distributions above, under the Deed proposal, we interpret the claims for wages and superannuation owing as at the commencement of the administration to mean the claims as against the company including any wages and superannuation accruing during any stand-down period at the start of the administration for continuing employees.

In addition to the distributions from the Deed fund, continuing employees will be entitled to be paid their leave entitlement in the ordinary course of the ongoing business.

It is proposed that the payments into the Deed fund by the company are to be met out of cash flow. The directors have provided us with a draft forecast for the 14 months ended December 2003 based on the current position of negotiations with customers.

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Projected Cash Flow Statement															
For the Month Ending $000's	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	TOTAL
Cash Inflows:															
Existing Businesses	1,902	1,048	534	2,503	525	550	1,531	1,278	382	1,530	376	376	1,001	1,950	15,481
New Businesses	0	100	0	100	0	250	65	165	65	1,420	465	735	665	165	4,195
Total Inflows	1,902	1,148	534	2,603	525	800	1,596	1,443	447	2,950	841	1,111	1,666	2,115	19,676
Cash Outflows															
Operational															
Staff Costs	938	879	1,099	803	803	803	1,004	803	803	1,004	803	1,004	803	803	12,356
Other Operating Expenses	301	251	277	484	369	279	560	291	301	534	306	319	528	306	5,109
Operational Outflows	1,239	1,130	1,376	1,288	1,173	1,083	1,565	1,095	1,105	1,538	1,110	1,323	1,331	1,110	17,465
Net Operational Cashflow	662	17	(841)	1,315	(648)	(283)	31	348	(658)	1,411	(269)	(213)	335	1,005	2,212
Non-operational															
DCA Payments	0	0	0	0	0	0	0	0	0	790	0	0	0	790	1,580
Other	150	0	425	0	180	0	0	75	0	0	0	0	0	0	830
Non- Operational Outflows	150	0	425	0	180	0	0	75	0	790	0	0	0	790	2,410
Net Cash Inflow/(Outflow)	512	17	(1,266)	1,315	(828)	(283)	31	273	(658)	621	(269)	(213)	335	215	(198)
Opening Cash	2,200														
Cumulative Cash Inflow/(Outflow)	2,712	2,729	1,463	2,778	1,950	1,667	1,697	1,970	1,312	1,934	1,665	1,452	1,787	2,002	(198)

We note the following in relation to the directors' forecast.

- Existing and new business revenues reflect the directors' view of work currently or in the process of being contracted with customers.

- Monthly operational expenses are in line with those incurred during the course of the administration.

- Deed payments to the employee fund of $1.58 million have been included in the forecast.

- The closing cash balance of approximately $2 million will be required by the company to meet working capital requirements, the exercise of the put and call option of $1 million for the Siemens intellectual property (likely to be extended to January 2004, previously January 2003) and a Deed payment of $500,000 for unsecured creditors proposed for June 2004.

Whilst not specifically contained in the directors' proposal, it is envisaged that there will be a Chief Operating Officer change in the composition of the Board of Open Tel and the appointment of a Chief Financial Officer as part of the restructure of the group.

In comparing the returns available under liquidation or the proposed Deed, the Deed will provide all creditors with a greater return. Additionally we believe that qualitative reasons support the proposed Deed, including

- Continued employment of staff
- Continued existence of company
- Continued ability for suppliers to trade with Open Tel in the future.

11. VOLUNTARY ADMINISTRATORS' RECOMMENDATIONS

Pursuant to Section 439A of the Act, an Administrator must provide a statement setting out his opinion about each of the following options:

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11.1 Whether it would be in the creditors' interest for the company to execute a Deed; or
11.2 Whether the company should be wound up; or
11.3 Whether it would be in the creditors' best interest for the administration to end and control of the company to be returned to the directors;

and to state his or her reasons for those opinions.

We comment as follows:

11.1 *Deed of Company Arrangement*

As noted above, the proposed Deed would provide a greater return to the creditors than a liquidation would provide. Accordingly, it is our opinion that creditors best interests are served by approving the proposed Deed and allowing the company to trade into the future.

11.2 *Company to be wound up*

As detailed above, under the liquidation scenario all categories of creditors are likely to receive a lesser return than that proposed under the Deed. Accordingly it is our opinion that creditors do not resolve to wind up the company.

11.3 *Administration to End*

Open Tel is clearly insolvent and unable to pay its debts as and when they fall due. Accordingly, it would not be in the interests of creditors to have control of the company in its current state returned to the directors.

12. VOLUNTARY ADMINISTRATORS' FEES

At the meeting, creditors will be asked to approve the Administrators' fees as set out in the notice of meeting.

Our remuneration is calculated on a time basis in accordance with the Deloitte Touche Tohmatsu scale of fees plus GST ordinarily used by Deloitte Touche Tohmatsu for engagements of this nature.

The remuneration that we request creditors approve has been incurred by this firm as a result of exercising the following non exhaustive list of functions and duties:

1. Continued meetings with key staff members for trading purposes such as assessment on-going contracts, compiling trading information on an ongoing basis.
2. Discussions with staff for investigation purposes.
3. Meetings with directors to discuss Deed proposal and the ongoing future of the company.
4. Convening and holding of second meeting of creditors in both Sydney and Melbourne.
5. Convening and holding of Committee of Creditors meeting in Sydney
6. Drafting this report to creditors
7. Continued meetings with Secured Creditor

8. Compilation of necessary documentation for Court application
9. Continued review of company books and records for compliance with Section 286 of the Act.
10. Further investigation into company affairs including further analysis of transactions over the last six months, review of dealings with customers, assessment of legal actions, review of recoverable transactions of a Liquidator.
11. Compliance with statutory requirements under the Act.
12. Meetings with insurance broker re ongoing insurance arrangements
13. Continued discussions and meetings with major customers re continuation of contracts.
14. Telephone discussions and handling queries from creditors, employees and shareholders.
15. Attendance to lodgement of required documentation with the ASIC.
16. Trading on of company including budgeting, payments and correspondence.
17. Administrative duties including typing, mailing and filing

13. MEETING OF CREDITORS

Pursuant to Section 439A(3) of the Act, we previously forwarded a notice reconvening the second meeting of creditors to be held on Monday 28 October 2002 at the offices of Deloitte Touche Tohmatsu, Level 10, 190 George Street, Sydney at 10.30 a.m.

Creditors may attend and vote in person, by proxy or by attorney. The appointment of a proxy must be made in accordance with Form 532 (copy attached to the notice of meeting). A specific proxy can be lodged showing approval or rejection of each proposal. Proxy forms or facsimiles thereof must be lodged with the Administrators prior to the commencement of the meeting. Where a facsimile copy of a proxy is sent, the original must be lodged with us within 72 hours after receipt of the facsimile. An attorney of the creditor must show the instrument by which he or she is appointed to the Chairman of the meeting, prior to the commencement of the meeting.

As was the case with the prior meetings of creditors, telephone conference facilities will be established at the Melbourne offices of Deloitte Touche Tohmatsu, Level 21, 505 Bourke Street, Melbourne. Should you wish to attend this facility and vote at this meeting **you must ensure** that you have forwarded a proxy form noting your attendance.

Should you have any further enquiries with respect to this report, please contact Andrew Needham on (02) 9322 7138 or Marcus Ayres on (02) 9322 5572.

Yours faithfully

R W Whitton for
R W Whitton & P G Yates
Joint and Several Administrators