

23 December 2011

Circular to Creditors

Dear Sir/Madam

Palandri Limited (In Liquidation) (PL)

PWPL ACN – 085 042 879 Ltd (formerly Palandri Wine Production Ltd) (PWPL)

PWL ACN – 084 252 488 Ltd (formerly Palandri Wines Ltd) (PWL)

PIML ACN – 091 709 769 Ltd (formerly Palandri Investment Management Ltd) (PIML)

MRWIPL ACN – 112 505 692 Pty Ltd (formerly Margaret River Wine Investments Pty Ltd) (MRWIPL)

PFL ACN – 090 580 500 Ltd (formerly Palandri Finance Ltd) (PFL)

All in Liquidation, (Collectively “the Group”)

As you may be aware, John Greig, Neil Cussen and Gary Doran were appointed joint and several administrators (**Administrators**) of companies in the Palandri Group on 15, 26 and 27 February 2008 and subsequently appointed joint and several liquidators (**Liquidators**) on 7 October 2008.

The purpose of this circular is to provide you with an update on the progress of the liquidation of the Group and to inform you that we will not be convening an annual general meeting of the creditors.

In addition to this report, we refer creditors to our previous circulars which can be accessed from our website at www.deloitte.com.au by selecting Services → Corporate reorganisation services → Businesses under administration.

This report provides an update on the following matters:

1. Possible unfair preference claims
2. GST and Wine Equalisation Tax (WET) refund
3. Possible claims against directors
4. Possible claims against the Group’s auditor
5. Insurance
6. Liquidators’ remuneration.

1 Possible unfair preference claims

In our last report to creditors, we identified a payment of \$576,820 to one supplier as being a possible unfair preference. We commenced legal proceedings to recover this payment in the Supreme Court of Western Australia on 14 February 2011 and filed a statement of claim on 29 March 2011. The status of the proceedings is that we are currently in discovery, wherein each party to the action assembles documentary evidence to be shared with the other parties. The Group's books and records are voluminous and were incomplete when the voluntary administration began. Accordingly, compiling the information for discovery has been time consuming.

The court trial for this legal action is expected to occur in mid-2012.

2 GST and Wine Equalisation Tax (WET) refund

This issue relates to the recovery of GST and WET paid by the Group in error in relation to two managed investment schemes. We estimate that such payments total approximately \$7.6m.

Following three mediation hearings with the Australian Taxation Office, and in consultation with our legal advisors, we accepted an in-principle settlement offer in December 2011 which is subject to creditor approval. The details of the settlement are currently confidential. We believe that settlement is in creditors' best interests because of:

- new evidence that may compromise our ability to recover GST and WET paid prior to 2004. If the GST and WET paid before 2004 cannot be recovered, our claim against the ATO would be reduced significantly
- litigation risk if the matter goes to trial. Whilst we believe that our technical arguments are strongly supportable, there is always a risk that the Court may interpret our arguments differently and this could have a significant impact on the trial's outcome.

The settlement is subject to creditor approval, as it results in compromising a debt in excess of \$100,000. We are convening a meeting of PWL's Committee of Inspection for this purpose and expect to hold the meeting early in 2012.

We expect the settlement monies to be used to pay the Liquidators' remuneration (refer Section 6), outstanding legal fees, outstanding consultants' fees and a distribution to the Group's secured creditor.

3 Possible claims against directors

As reported previously, we believe that the Group may be able to make a claim against its directors for damages arising as a result of:

- breaches of fiduciary duties including the duty to act with care and diligence and the duty to prevent insolvent trading
- issuing misleading financial statements.

We have been unable to progress our investigation into these possible claims, because of inadequate funding. We will investigate the availability of funding from the Australian Securities and Investments Commission (ASIC), the Group's creditors and third party litigation funders.

4 Possible claims against the Group's auditor

We reported previously our belief that claims exist against the Group's auditor in relation to its opinions on the financial statements of the Palandri entities for the 2006 and 2007 financial years and possibly earlier years as well. In our last report, we indicated our intention to obtain and review the work papers of the Group's auditor. Access to the work papers was secured in June 2011 and our review of this information is underway.

Depending on the findings of our review, we may seek to publicly examine the auditor to obtain further evidence. The total body of evidence gathered will then be considered and the merit of possible claims will be evaluated. Legal proceedings against the auditor may then be progressed.

Funding for a public examination and Court action is not currently available. We may approach ASIC, creditors and third party litigation funders for financial assistance.

5 Insurance

The insurance issue for the Group related to claims made by investors in the Group's managed investment schemes in relation to alleged damages caused as a result of the Group's management of those schemes. We informed the insurer of these claims and sought to determine whether the Group's managed investment scheme insurance policy would respond. The insurer rejected our claim, because the directors allegedly failed to disclose the Group's financial difficulties at the time the policy was arranged in February 2008. Having reviewed the evidence and correspondence at the time the policy was put in place, and based on legal advice, we concluded that disputing the insurer's determination would likely fail. We therefore recovered the premium of \$123,205.50 paid in July 2008 and directed those funds toward other liquidation activities.

6 Liquidators' remuneration

We will seek approval for the following amounts at meetings of the Committees of Inspection for PL, PWL and PWPL. We expect to convene the meetings early in 2012.

Period		Entity			Totals
From	To	PL	PWPL	PWL	
01-Mar-09	16-Dec-11	-	-	\$541,368.44	\$541,368.44
01-Jul-10	16-Dec-11	\$118,905.50	\$1,537.50	-	\$120,443.00
Totals		\$118,905.50	\$1,537.50	\$541,368.44	\$661,811.44

We also have approval for \$635,456 relating to previous periods, which the Group did not previously have sufficient funds to pay. Legal fees incurred in winding up the Schemes and conducting our investigation, as well as other consultants' fees are also outstanding. We expect that these fees plus all other liquidation expenses will be paid from the settlement monies obtained from the GST and WET legal action.

Conclusion

The main issues that remain to be dealt with in the Group's liquidation are:

- a) recovering preferential payments totalling \$576,820
- b) obtaining approval of PWL's Committee of Inspection to accept the ATO's offer of settlement of the GST and WET action and execution of relevant settlement documents
- c) further investigations into the directors' involvement in the Group's failure and obtaining funding that will allow for this continued investigation
- d) reviewing the Group's auditor's work papers. Subject to available funding and evidence obtained, we may then publicly examine the auditor and consider whether a Court action should be progressed against them.

Completion of the liquidation

The timing of when the winding up of the Group will be complete depends on the resolution of the matters explained above. We do not expect the liquidation to finish during the 2012 calendar year.

Annual General Meeting

Pursuant to Section 508(4) of the Corporations Act 2001, the Liquidators have decided not to convene annual general meetings of the companies in the Group under subparagraph (1)(b)(i); and have:

- a) prepared this report under subparagraph (1)(b)(ii) and sent it to the creditors of the Group's entities; and
- b) lodged a copy of this report with ASIC.

You may access a copy of this report from our website at www.deloitte.com.au by selecting Services → corporate reorganisation services → businesses under administration → Palandri Limited. If you would like us to send you copies of any of these reports, please contact Nicholas Fiori of this office on (08) 9365 7275.

Yours sincerely

Dermott J. McVeigh

Partner, Deloitte Touche Tohmatsu
For and on behalf of Gary Doran
Joint and Several Liquidator