

17 January 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 I 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, I 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, dated 5 January 2010, reference was made to one party receiving a series of payments totalling up to \$1m. We have reviewed these payments in greater detail and concluded that they are not preferential, based on the criteria for unfair preferences set out in the Corporations Act 2001 (the Act).

Payments totalling \$507,000 to five creditors have also been analysed. Our investigations revealed that these payments are also not preferential, because the creditors did not suspect that the Group was insolvent, and evidence of suspicion of insolvency is a requirement when considering whether a creditor was treated preferentially. We understand that suppliers that enquired as to the status of their outstanding invoices were told by management that the Group was raising money on the Australian Stock Exchange through an initial public offering. This comment would have removed any suspicions held by the supplier that the Group was insolvent.

The payments that appear to be preferences at the date of this report total \$576,820 and were paid to one supplier. We issued a formal demand against this supplier on 11 January 2011. If the preferential payments of \$576,820 are not paid to us by 25 January 2011, we will initiate legal proceedings.

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.

During the past year, we obtained advice from our solicitors (Sceales & Co) that favoured the technical merits of our claim. We therefore initiated legal proceedings in the Federal Court of Australia against the ATO to overturn its decision to reject our refund application. We are currently in the discovery phase of the proceedings, during which evidence and supporting affidavits are exchanged between us and the ATO. The discovery process has led to additional evidence being uncovered that further supports our arguments. The discovery phase will end in March 2011 when a directions hearing is scheduled to occur.

A favourable decision by the Court or capitulation by the ATO on the technical merits of our claim may confirm our entitlement to the refund of GST and WET paid, but will not automatically result in the payment of \$7.6m to the Group. We will have to substantiate the GST and WET payments by the Group and their underlying calculations. Significant work has already been done in this regard, and this will assist us in our discussions with the ATO as to which GST and WET amounts should be refunded. Whilst we are hopeful that a positive result will be achieved, numerous uncertainties remain and we can give no assurances that all or any of the \$7.6m in question will be recovered.

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.

Statutory declarations were obtained two years ago from the Group's directors, which indicated that they did not own any material assets to make a claim against them commercially feasible. We believe it is in the creditors' interest to continue our investigations and publicly examine the directors. A public examination will help us understand certain transactions the Group entered into, whether the directors breached any of their duties and their current financial capacity to compensate the Group in the event a damages claim is made against them.

We hope to fund these investigations and public examinations from monies recovered from the Australian Taxation Office (ATO) (refer Section 3 below). Other potential sources of funding include the Australian Securities and Investments Commission (ASIC), the Group's creditors and third party litigation funders. These sources will be investigated if our action against the ATO is unsuccessful.

4 Possible claims against the Group's auditor

In our last report, we indicated our intention to request financial assistance from ASIC to enable us to investigate the claims that we believe exist against the Group's auditor in relation to its opinions on the financial statements for the 2006 and 2007 financial years and possibly earlier years. We have instead been able to secure funding from one of the secured creditors of PFL which is sufficient to enable us to commence proceedings to obtain access and review the auditor's work papers and other evidence supporting the audit opinions. This action is being conducted under the public examination provisions of the Act, and we expect to commence proceedings by mid-February 2011.

Access to the auditor's work papers will enable us to further investigate the claims we believe exist against the auditor. Depending on the evidence found, we may then 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 initiated.

The funding provided from the secured creditor relates only to securing access to the auditor's work papers. Funding for a public examination and Court action is not currently available. We hope to fund these activities with the refunded GST and WET monies discussed above. Absent the GST and WET refund, we may approach ASIC, creditors and third party litigation funders for financial assistance.

5 Insurance

The insurance issue for the Group relates 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. At the time of our last report, we were corresponding with the insurer and assisting them with their information requirements. The insurer informed us in January 2010 that it was rejecting our claim, because the directors allegedly failed to disclose the Group's financial difficulties at the time that the policy was arranged.

We have sought legal advice regarding the insurer's response and are considering our options as to how best to proceed. The relevant legal principles are complex and the matter is complicated further by the insurer's actions before and after the policy was put in place. We look forward to providing creditors with an update on this issue in our next report.

6 Liquidators' remuneration

The Group does not currently have sufficient funds to pay the majority of our outstanding remuneration and certain legal expenses that have been incurred in winding up the Schemes and conducting our investigation. This remuneration will be paid if we recover sufficient funds to do so. Notwithstanding the Group's lack of funds available, we have continued to incur fees to investigate the Group's failure in the knowledge that there is significant risk associated with the collection of this remuneration.

Even though there are currently insufficient funds to pay the majority of our fees, on 25 August 2010 we sought approval from the committees of inspection on our fees to date so that they can be paid if funds become available. At the Committee meeting we gained approval for the remuneration as summarised below:

Period		Entity			Total
From	To	PL	PWPL	PWL	
1 March 2009	30 June 2009	\$45,320.50	\$41,573.00	\$56,815.00	\$143,708.50
1 July 2009	31 December 2009	59,971.50	62,605.60	105,802.00	228,379.10
1 January 2010	31 March 2010	-	-	104,085.00	104,085.00
1 April 2010	30 June 2010	-	-	95,149.00	95,149.00
Totals		\$105,292.00	\$104,178.60	\$361,851.00	\$571,321.60

Conclusion

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

- a) recovery of preferential payments totalling \$576,820 paid to a creditor shortly before the Group went into voluntary administration
- b) continuing our action against the ATO in respect of GST and WET paid by the Group in error
- c) further investigations into the directors' involvement in the Group's failure and obtaining funding that will allow for this continued investigation
- d) accessing and 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 initiated against them
- e) determining whether the relevant insurance policy should respond to damages claims made by investors
- f) obtaining funding that will allow us to continue our investigations.

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 2011 calendar year.

Annual General Meeting

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

- a) prepared a report under subparagraph (1)(b)(ii); and
- b) lodged a copy of the report with ASIC.

You may access a copy of our 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 Cherie Cooper 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