

4 January 2010

TO CREDITORS AS ADDRESSED

Dear Sir/Madam

Palandri Limited (In Liquidation)

PWPL ACN – 085 042 879 Ltd (In Liquidation) Formerly Palandri Wine Production Ltd

PWL ACN – 084 252 488 Ltd (In Liquidation) Formerly Palandri Wines Ltd

PIML ACN – 091 709 769 Ltd (In Liquidation) Formerly Palandri Investment Management Ltd

MRWIPL ACN – 112 505 692 Pty Ltd (In Liquidation) Formerly Margaret River Wine Investments Pty Ltd

**PFL ACN – 090 580 500 Ltd (In Liquidation) Formerly Palandri Finance Ltd
(Collectively “the Palandri Group”)**

The purpose of this circular is to provide you with an update on the progress of the liquidation of the Palandri Group.

As you are aware in September 2008, the Supreme Court of Western Australia ordered that the Palandri Group’s managed investment schemes be wound up. As part of the winding up process it was necessary for us to terminate the lease and management agreements (**LMA’s**) between the Palandri Group and growers. We wrote to growers on 19 March 2009 advising of the termination of these LMA’s.

Following the termination of the LMA’s, we proceeded to sell the Palandri Group’s remaining vineyards. These sales were finalised after we conducted a robust marketing campaign for the properties in order to achieve the best possible outcome for the Group’s creditors. Settlement of the sale of the remaining properties occurred in August 2009.

Remaining wine assets

We have continued our efforts to sell the Palandri Group’s remaining wine stocks. This includes arranging adequate storage of packaged and bulk wine stock, marketing, employing some of the Group’s sales staff to help facilitate distribution of the wine and arrange appropriate liquor licensing. Funds realised from the sale of these stocks has been used to:

- a) make a final distribution to the Public Trustee of Queensland (**PTQ**) in respect of the security which was granted over certain wine stocks to investors who invested in the wine bond issued by the Margaret River Wine Business Trust. The final distribution to the PTQ of \$90,000 represents a total return of 100 cents in the dollar on the principal amount owed in relation to the wine bond (\$1,241,000)
- b) pay remaining liabilities of the liquidation.

Investigation

In our report to creditors dated 26 September 2008 (**Report**), we identified the following issues that required further investigation:

- 1) Preference payments
- 2) Claims against directors
- 3) Goods and Services Tax (**GST**) and Wine Equalisations Tax (**WET**) refund.

1 Preference payments

In our Report we identified payments totalling approximately \$1.5m that may represent preference payments and may be recoverable by a liquidator. We are continuing to investigate these payments. Additionally, we have identified a series of payments to one party for up to \$1m that may be recoverable as a preference payment. Further investigations are required in this respect and we are commencing negotiations with the party to determine whether a commercial settlement is possible or whether we need to commence legal action. If we successfully recover any funds from this action, this will assist to fund further investigations into the Palandri Group's activities and other potential recoveries.

2 Claims against directors

After further investigation, we believe that the Palandri Group may be able to make a claim against 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 obtained statutory declarations from the Group's directors which indicate that they do not own any material assets to make a claim of this nature commercially feasible. We intend to apply to the Australian Securities and Investments Commission (ASIC) for financial assistance to investigate these issues further. In this situation, ASIC may consider providing such funding where it may lead to successful prosecution of directors for breach of duties.

3 GST and WET refund

We have continued our investigation into the Palandri Group's entitlement to a refund of GST and WET that was paid by the Group in error. In our report we estimated that this refund could be up to \$7m.

We have submitted a claim to the Australian Taxation Office (ATO) for a portion of the total refund amount that relates to the Palandri Group's 1999 scheme in order to test the validity of the overall claim. The ATO has indicated that they intend to exercise discretion in this instance to reject this claim. We are currently discussing the claim with our GST advisors and lawyers to assess the feasibility of commencing legal action against the ATO for recovery of the amounts claimed.

We are pursuing this claim vigorously and will continue to press for a resolution that is in the best interests of creditors.

4 Possible claims against the Palandri Group's auditors

We believe that a valid claim exists against the Palandri Group's auditors in relation to their opinion on the 2006 and 2007 financial statements. We have met with the auditors and formally requested copies of their files for these years however they have refused to cooperate with these enquiries as they believe that there is no valid claim against them.

We have reported our concerns regarding the auditor's conduct to ASIC and we are now going to submit a claim to ASIC for financial assistance to investigate this matter further as we believe that it may result in a successful prosecution for breach of their duties and may also result in recovery for the Palandri Group's creditors.

Insurance

We have received a number of claims from investors in the Group's managed investment schemes in relation to damages caused as a result of the Group's management of those schemes. We are engaged with the Palandri Group's insurers to assist them to determine whether any of the Palandri Group's insurance policies will respond to these claims.

The Group's insurer's have required a large amount of information in order to assess the claims that have been submitted and we have been assisting them to obtain the required information where possible. Once we have resolved this matter, we will provide an update to investors that may benefit from the policy.

Conclusion

The main issues that remain to be dealt with in this liquidation relate to:

- a) further investigation of certain parties involvement in the Palandri Group's failure and obtaining funding that will allow for this continued investigation
- b) the Group's claim against the ATO for recovery of GST and WET paid in error by the Group
- c) claims from investors in the Group's managed investment schemes and liaising with the Group's insurer in relation to these claims
- d) obtaining funding that will allow for this continued investigation.

We are continuing to explore avenues which may result in funding for this purpose, however if we are unsuccessful in obtaining further funding, then it is possible that no further investigation may be conducted. If any creditor may be willing to provide funding to the liquidators to facilitate the continued investigation, please contact Dermott McVeigh of this office to discuss the matter as soon as possible.

Annual General Meeting

Pursuant to Section 508(4) of the *Corporations Act 2001 (Cth)* (**Act**), the Liquidators have decided not to convene an annual general meeting of the creditors 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.

If a creditor requests the Liquidators to give the creditor a copy of the report free of charge, the Liquidators will comply with the request. You may also access a copy of our report from our website at www.deloitte.com.au. From our website home page please select Services – Corporate Reorganisation Services – Businesses under administration – Palandri Limited.

If you have any queries or if you would like to discuss anything further, please call Sarah Marshall of this office on (08) 9365 7369.

Yours sincerely



Dermott J. McVeigh

Partner

For Gary Doran

Joint and Several Liquidator